



Your Key to Real Estate Services

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APARTMENTS

Fourth Quarter 2006 figures indicate Greater Houston apartment occupancy remains on the decline. Over the course of the year, overall occupancy has slid 3.28 points to its current level at 88.46%. Of all the classes, Class C occupancy has been the hardest hit, dropping 4.39 points over the year from 90.44% to 86.05%. Class B has also experienced a significant negative decline in occupancy, dropping from 92.66% in the fourth quarter of 2005 to 89.47% in the fourth quarter of 2006. Comparatively, the Class A market remains in relatively good shape with occupancy at 90.48%, though it has dropped 2.52 points since last year. While the winter months are typically slower months for the apartment market, much of the decline in occupancy, particularly in the Class B and C markets, is due to the expiration of FEMA rental benefits. And with all FEMA rental benefits set to expire at the end of February, we expect the trend of declining occupancy to continue over the next couple of months.

According to the O'Connor & Associates **Fourth Quarter 2006 Houston Apartment Data Program**, overall **occupancy** for Houston area apartments projects is **88.46%** (Class A = 90.48%; Class B = 89.47%; Class C = 86.05%; Class D = 83.40%). Occupancy is down 1.40 points from the third quarter and down 3.28 points over the past year. The overall monthly **rental rate** is **\$0.831 per square foot** (Class A = \$1.099; Class B = \$0.812; Class C = \$0.688; Class D = \$0.594). Overall rents are up \$0.003 from the third quarter of 2006 and \$0.014 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).*

- **Poag & McEwen** (901-761-7604), the developer of **Promenade Shops at Shadow Creek (SOU 327)**, a lifestyle center currently under-construction in Pearland (573W), announced plans to add 350 apartment units (**16918**) to the project. The residential units will be a mix of flats and two- and three-story units, with the majority of the units being built atop ground floor retail. Rental rate and final unit mix information is not yet available. In addition to the 350 apartment units, the mixed-use project will also contain a movie theater, 614,000 square feet of retail space, and a 100,000-square-foot **Hilton Hotel**. A 130,000-square-foot **Bass Pro Shop** will anchor the development, which is expected to be completed by the fall of 2009.

- **Live Oak Capital** (713-993-1300) arranged \$26 million in construction financing on behalf of **Long Reach Associates, Ltd.** for the first phase of **Fairmont Museum District (17497)**, a 236-unit development that will be located at the southwest corner of Dunlavy St. and Richmond Ave. in the Museum District (492Z). The property will feature gourmet kitchen islands with granite countertops, custom wood cabinetry, a resort-style swimming pool, and outdoor living areas with fireplaces. **Jim Kirkpatrick** of Live Oak arranged the loan with funds provided by **Guardian Life Insurance Company of America**. Construction of the first phase is expected to be completed in late 2007 or early 2008. Details regarding the second phase have yet to be finalized.
- **LMI Capital** (281-363-4920) arranged refinancing for two Houston area properties, **Cinnamon Ridge (3847)** and **Summercrest (1732)**. Cinnamon Ridge is a 29-year-old Class B complex located at 6565 Spencer Highway in Pasadena (538W). The 440-unit property is 92% occupied with average rents at \$0.82 per square foot. **Ken Lawrence** of LMI arranged the loan on behalf of **Surya Chakara, LP** with funds provided by **Column Financial**. Summercrest is a 27-year-old Class D complex located at 3950 Hollister Dr. in the Spring Branch area (450M). The 588-unit property is 77% occupied with average rents at \$0.62 per square foot. **Jamie Mullin** of LMI arranged the loan on behalf of **New Rahda Krisha Properties of Houston, LLC** with funds provided by **Greystone**. LMI Capital also arranged acquisition financing on behalf of **ESU Investments, Inc.** for **One Camden Court (1398)**, a 136-unit Class C complex located at 12411 Antoine Rd. in the Champions area (371L). The 21-year-old complex is 90% occupied with average rents at \$0.73 per square foot. **Jamie Mullin** and **Brandon Brown** of LMI arranged the loan with funds provided by **Lehman Brothers**.
- The **Houston Housing Authority** announced that they plan to reopen the waiting list for the **Housing Choice Voucher Program** to new applicants. The program, which provides a rental subsidy for families based on federal income guidelines, last accepted waiting list applications in December of 2001 when more than 20,000 applications were submitted.
- The **City of Houston**, in partnership with the **Houston Housing and Community Development Department**, the **Housing Authority of the City of Houston**, and the **Houston Housing Finance Corp.** announced a new program initiative to renovate older apartment complexes located in the Fondren/Southwest area and in the area just north of Hobby Airport. Both areas of town were chosen because of their high concentration of older apartment projects in need of renovation. Apartment owners in these designated areas that apply for the program and are selected will be given 15-year 0% performance based loans to renovate their properties.

The following chart illustrates historical apartment occupancy.



SMC Management Corp. (617-923-8933) purchased **Lighthouse at Willobrook (17151)**, a 336-unit Class A complex located at 12330 N. Gessner Rd. in northwest Houston (370N), from **Catalina Development Co.** The 1-year-old complex is 94% occupied with average rents at \$1.03 per square foot. **Alliance Communities** will continue to lease and manage the property. The buyer used in-house representation, while **David Mitchell** of **Apartment Realty Advisors** represented the seller.

Willmax Capital Inc. (214-346-0075) purchased two Houston area income-restricted properties, **Lakecrest Village (4467)** and **Wood Forest Chase (4471)**. Lakecrest is an 8-year-old Class B complex located at 9393 Tidwell Rd. in northeast Houston (456A). The 224-unit property is 90% occupied with average rents at \$0.57 per square foot. Wood Forest is a 9-year-old Class B complex located at 12411 Wood Forest Dr. in east Houston (496C). The 204-unit property is 97% occupied with average rents at \$0.64 per square foot. **Armand Tiberio** of **Marcus & Millichap's** Seattle office represented both the buyer and sellers involved in the transactions.

Insite Commercial Real Estate (713-339-1300) purchased two Galleria area properties, **Water Mill (2268)** and **Times Square (2267)**, from **1775 Partners Ltd.** Water Mill is a 192-unit Class B complex located at 6506 Westheimer Rd. (490V). The 38-year-old property is 90% occupied with average rents at \$0.91 per square foot. Times Square is a 130-unit Class B complex located at 2525 S. Voss St. (490V). The 41-year-old property is 99% occupied with average rents at \$0.89 per square foot. The buyer used in-house representation, while **Chip Nash** of **Hendricks & Partners** represented the seller.

2810 Beauchamp, LP purchased **Beucahmp Apartments (17088)**, a 46-unit Class U complex located at 2807 and 2810 Beauchamp in the Heights area (493B), from **Castle One Properties**. The 42-year-old complex is 85% occupied with average rents at \$0.70 per square foot. **Brian Janak** of **Marcus & Millichap** represented both the buyer and seller.

Victor & Maribel Alonso purchased **South Main Apartments (3719)**, a 32-unit Class U complex located at 1004 S. Main in Pasadena (536L), from **1004 S. Main Pasadena, LLC**. The 51-year-old all bills paid property is 94% occupied with average rents at \$0.70 per square foot. The property features pitched roofs. **Tony Brundage** of **Goodwill Brokers, Inc.** represented the buyer, while **Robert Su** and **Gannon Baird** of **Marcus & Millichap** represented the seller.

SINGLE-FAMILY HOUSING

MLS home sales decreased in November, as 5,299 used homes were sold, down from the 5,600 homes sold in October, according to the **Houston Association of Realtors (HAR)**. Sales for November 2006 were down 12.2% from November 2005. The median price of a used single-family home sold in November was \$147,000, up 1.4% from November of last year, while the average home price was \$194,317, up 0.7% from the November 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 6% in November to 2,034 from 2,154 in October, and are down 19% from November 2005. Realtor co-op sales represented 63% of gross sales, up from 57% in November 2005. Traffic decreased 2% from last year to 24,488 in November 2006. The inventory of completed speculative homes (2,156) is up 10% from last year. There are 4,376 spec homes under construction, which is up 8% from 2005. Overall, the 6,532 specs (both completed and under construction) represent a 9% 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 increased in November to a seasonally adjusted annual rate of 1,047,000, 3.4% above the revised October sales rate of 1,013,000, but 15.3% below the revised November 2005 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$251,700. Privately owned housing starts were at a seasonally adjusted annual rate of 1,588,000 in November 2006, 25.5% below the November 2005 figure. Privately owned housing completions were at a seasonally adjusted annual rate of 1,915,000 in November 2006, 0.3% above the November 2005 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, decreased 1 point in December to 32 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 remained unchanged at 33, the index measuring sales expectations for the coming six months increased 3 points to 48, while the index measuring the traffic of prospective buyers decreased 3 points to 23.

According to the **National Association of Realtors (NAR)**, 472,000 existing homes were sold in November 2006, down 8.7% from the 517,000 sold in October. The median sale price was \$218,000, a 3.1% decrease from sale prices a year ago.

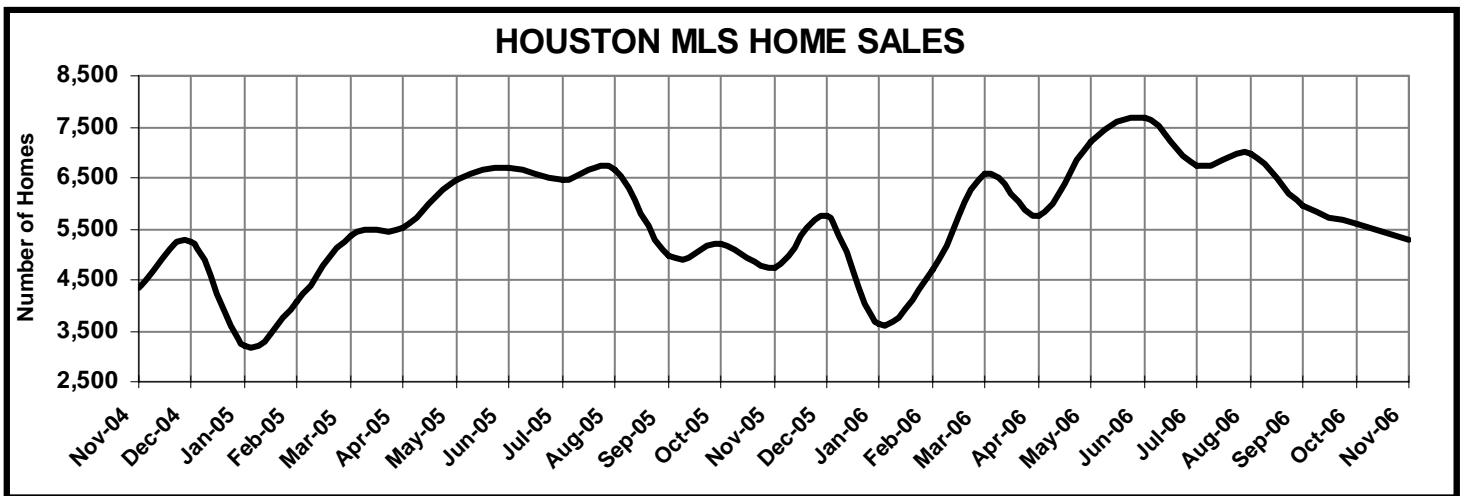
The findings in a recently released report by the **Center for Responsible Lending (CRL)** indicate that there will be a dramatic increase in the number of foreclosures on homeowners with subprime mortgages over the next few years. These foreclosures are expected to cost delinquent homeowners as much as \$164 billion.

The **Tax Increment Reinvestment Zone (TIRZ)** board of St. George Place, Houston's only zoned-neighborhood located near the Richmond Ave. and Chimney Rock Rd. intersection just west of the Galleria area (491X), rejected a request by **Rohe & Wright Builders** to change the zoning designation for a three-acre vacant site in the neighborhood. The developer had plans to build 24 townhomes and 12 patio homes on the site. Rohe & Wright plan to resubmit the request at a later date.

The **Houston Association of Realtors (HAR)** entered into a partnership with **Google** to display home listings from the **Multiple Listing Service** on **Google Base**. Google Base is a database of user-supplied content that contains a search feature.

Houston was named as the 10th best market for real estate investing in 2006 by **HomeVestors of America, Inc.** HomeVestors, a nationwide realty services firm that was established in 1989, is primarily known for their "We Buy Ugly Houses" billboards. According to their findings, Gary, IN ranked as the best city for real estate investing, with Fort Worth coming in at 2nd, Dallas at 5th, and San Antonio at 8th.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

CityHomes, a division of **Centex Homes** (281-448-2323), plans to build two townhome developments; one will be located just east of downtown on a 1.48-acre block bounded by Polk, Paige, Clay, and Delano (493V), while the second development will be located on a 10.2-acre site near Highway 249 and Louetta Rd. in northwest Houston (329U). In the area just east of downtown, CityHomes will build 32 three-story townhomes, which will range in price from \$250,000 to \$290,000. The first homes are expected to be delivered in October 2007. On the tract in northwest Houston, CityHomes plans to construct 115

Mediterranean-style townhomes in a gated community. The homes will range in size from 2,000 to 2,900 square feet and in price from the high \$200,000s to the low \$400,000s. Construction is slated to begin in May 2007. These mark Centex's first two townhome developments in the Houston area.

Libby Commercial Realty, LLC (214-239-9100) plans to develop **Cove View Townhomes**, a community of 100 high-end Mediterranean-style townhomes on the West End in Galveston (808E). The homes will range in size from 1,940 to 2,540 square feet and in price from \$450,000 to \$550,000. The community is located near two golf courses and will feature separate family and adult swimming pools. Construction is slated to begin in February 2007, with full completion expected by Spring 2008.

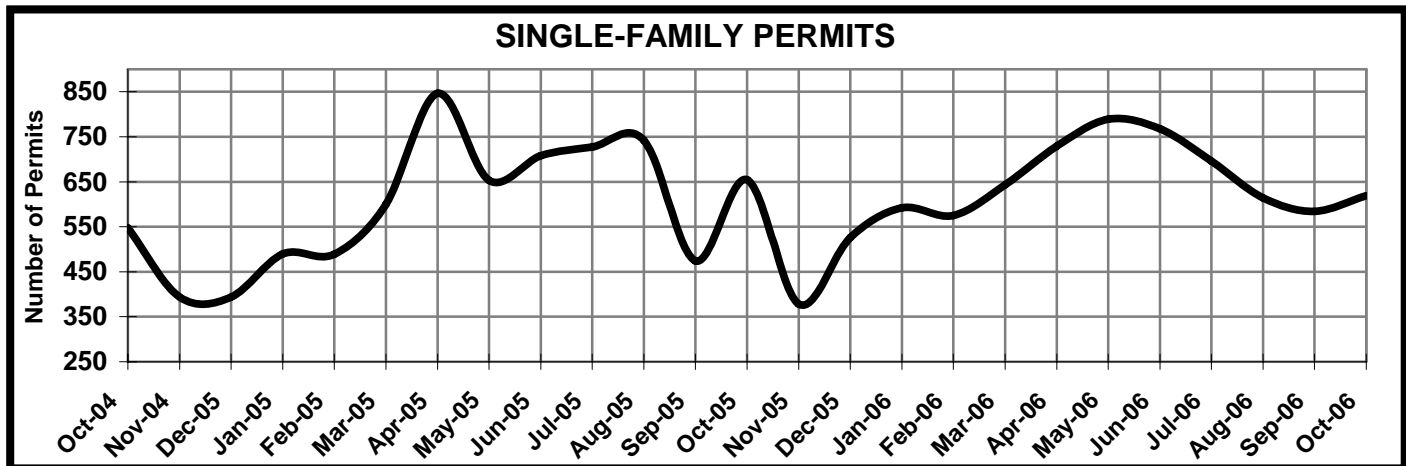
PERMIT ISSUANCE

The **City of Houston** issued permits to build 503 private single-family houses and 65 private multifamily buildings in November. Demolition permits were issued for 167 private single-family houses. In addition, 237 permits were issued for privately owned non-residential construction totaling \$120,069,437 and 8 permits were issued for public non-residential construction totaling \$595,000. Additions, alterations, and conversions totaled \$72,616,629 for the private sector and \$5,354,083 for the public sector.

Cost of Construction*

	2004	2005	2006
Month of November	\$389,048,264	\$404,089,921	\$344,282,616
Year-to-Date	\$2,999,725,442	\$3,436,311,976	\$4,730,156,017

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



OFFICE BUILDINGS

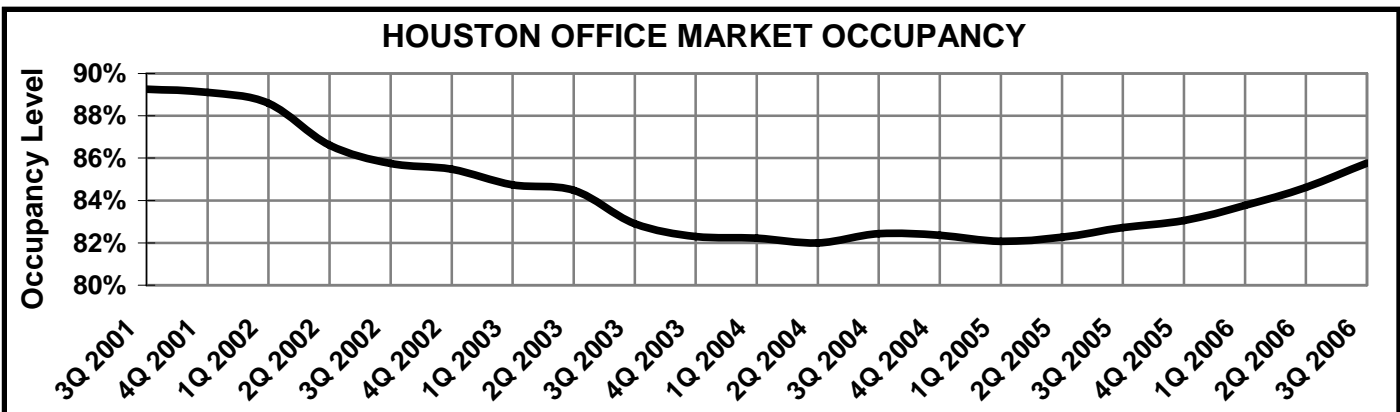
Overall absorption during the third quarter of 2006 was a robust 2,026,655 SF. The Class A market accounted for all of the positive absorption over the quarter, as Classes B, C, and D each posted negative figures. Absorption at Class A properties was 2,250,700 SF, the highest quarterly figure on record. Within the Class A market, the Central Business District posted the greatest demand by far, as **Chevron's** lease of Four Allen Center accounted for much of the sector's quarterly absorption of over 1.67 million SF. Quarterly absorption in the Class B market was -166,732 SF, Class C absorption was -29,722 SF, while Class D absorption was -27,591 SF.

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).

- **Myers, Crow & Saviers, Ltd.** (713-465-8600) plans to develop **Oak Park Office Center Buildings III & IV (SW1 080)**, a two-building 307,200-square-foot office facility near Beltway 8 and the Westpark Tollway in southwest Houston (529G). Building III will contain 150,000 square feet of office space, while building IV will contain 157,200 square feet of office space. Quoted rental rates are \$15.50 per square foot. Construction on the buildings is expected to begin during the first quarter of 2007, with completion slated for late 2007.
- **Cypress Fairbanks Medical Center Hospital** (281-890-4285) has broken ground on **Cy-Fair Professional Building (NOW 051)**, a 60,000-square-foot medical office building located at the corner of FM 1960 and Steepletop Dr. in northwest Houston (369P). The new building will be adjacent to **Cypress Fairbanks Medical Center**, a 160-bed acute care hospital, and will house primary and specialty care physicians' offices. The property is 58% pre-leased with quoted average rents at \$24.00 per square foot. Completion of the property is slated for August 2007. **Lee Anne Harrington** of **PM Realty Group** is handling leasing.
- **Pacific Financial, Inc.** (713-582-4644) is developing **22730 Gosling Rd. (NOW 060)**, a 32,000-square-foot office building located near the intersection of Spring Stuebner Rd. and Gosling Rd. in northwest Houston (290M). Quoted rental rates are \$15.75 per square foot. Construction is expected to be completed by April 2007. **Corey Ferguson** of **Pacific Financial** is handling leasing.

The following chart illustrates historical office occupancy.



Behringer Harvard (214-655-1600) purchased **One and Two Eldridge Place (KFW 057 & KFW 059)**, both Class A properties located along N. Eldridge Parkway in Houston's Energy Corridor (488G), from **KBS Realty**. The 532,000-square-foot One Eldridge Place is 97% occupied with average rents at \$29.00 per square foot, while the 291,000-square-foot Two Eldridge Place is 88% occupied with average rents at \$29.00 per square foot. The buyer used in-house representation, while **Ken Page, David Chuoke, and Scott Myers** of **Cushman & Wakefield** represented the seller. **Kristin Rabel** of **CB Richard Ellis** will handle leasing at the two properties.

Falcon Real Estate Investment (972-934-2300) and **Strategic Real Estate Advisors, Ltd.** purchased **Three Westlake Park (KFW 050)**, a 420,000-square-foot Class A office building located at 550 Westlake Park Blvd in west Houston (488B), from a partnership between **Crescent Real Estate Equities Co.** and **General Electric Pension Trust**. The 24-year-old building is fully occupied. The buyers used in-house representation, while **Richard Rudd** of **CB Richard Ellis** represented the sellers.

Acron USA (918-587-9901) purchased **The Reserve at Westchase (WES 121)**, a 198,000-square-foot Class A office building located at 3250 Briarpark Dr. in the Westchase area (489Z), from a joint venture between **Simmons Vedder & Co.** and **INVESCO Real Estate**. The 7-year-old building is fully occupied with average rents at \$23.82 per square foot. The buyer used in-house representation, while **Rudy Hubbard** and **Leah Gallagher** of **Transwestern Commercial Services** represented the seller.

Roshan Towers, LLC (714-639-6969) purchased **5225 Katy Plaza (NNW 492G)**, a 113,000-square-foot Class B office building located inside the West Loop (492G), from **Asset Plus Corporation**. The 24-year-old building is 93% occupied with average rents at \$17.00 per square foot. **Payman Roshan** of Roshan Towers represented the buyer, while **Rusty Tamlyn, Dan Miller, Ralph Tullier, Martin Hogan, and Mike Parker** of **Trammel Crow Co.** represented the seller.

JMA Properties (281-821-1575) purchased **7660 Woodway (FOG 033)**, a 111,000-square-foot Class B office building in the Fountainview/Gessner area (490 R), from **First Reliance Marketing**. The 25-year-old building is 88% occupied with average rents at \$17.00 per square foot. In-house principals **Bill Janice** and **Jack Area** represented the buyer, while **Rusty Tamlyn, Ralph Tullier, Danny Miller, Mike Parker, and Marty Hogan** of **Trammell Crow Co.** represented the seller.

Archway Properties (713-273-8989) purchased **6161 Rothway (NNW 182)**, a 103,000-square-foot Class B office building located along on the Northwest Freeway corridor (410X), from **CenterPoint Energy**. The 23-year-old building is vacant and available for lease. **Don Dennis** of Archway represented the buyer, while **David Cook, Jeff Peden, Marshall Davidson Jr., and Graham Horton** of **Cushman & Wakefield** represented the seller.

CNC Investment, Ltd. (281-444-1585) purchased **Parkwood II (TWC 029)**, a 100,000-square-foot Class B office building located at 10055 Grogans Mill Rd. in The Woodlands (251G), from **Triple Net Properties, LLC**. The 13-year-old building is fully occupied. **Sara Moren** of CNC represented the buyer, while **Darrell Betts** of **Grubb & Ellis** represented the seller.

Reliant Energy Retail Services leased 101,000 square feet in **Total Plaza (CBD 061)**, an 880,000-square-foot Class A office building located at 1201 Louisiana St. in the Central Business District (493Q), from **RS Investment Management** (415-591-2700). The 35-year-old building is 89% occupied with average rents at \$23.50 per square foot. **Stewart Robinson** of **Binswanger, Conine, & Robinson** represented the tenant, while **Robert Cromwell** of **Moody Rabin** represented the landlord.

MXenergy leased 20,000 square feet in **Pennzoil Place (CBD 058)**, a 1.8-million-square-foot Class A office building located at 711 Louisiana St. in the Central Business District (493L), from **Sunbelt Management Co.** (561-265-1300). The 31-year-old building is 88% occupied with average rents at \$22.50 per square foot. **Tim Relyea** of **Cushman & Wakefield** represented the tenant, while **Ben Quinton** of **Hines** represented the landlord.

Amica Mutual Insurance Co. leased 13,000 square feet in **Sugar Land Town Square Building B (SFC 053)**, a 150,000-square-foot Class A office building located at 2277 Plaza Dr. in Sugar Land (568X), from **Planned Community Developers** (281-242-2000). The year-old building is 74% occupied with average rents at \$26.25 per square foot. **Don Wenig** of **Blackacre Advisors** and **Randy Wilhelm** and **Mary Dadura** of **NAI Houston** represented the tenant, while **R. Donald Janssen Jr.** of **Planned Community** represented the landlord.

TFL USA/Canada leased 12,465 square feet in **8301 New Trails Dr. (TWC 070)**, a 38,000-square-foot Class A office building in The Woodlands (251B), from **The Woodlands Operating Co.** (281-719-6243). The 11-year-old building is 77% occupied with average rents at \$17.50 per square foot. **Peyton Lumpkin** of **Zann Commercial Brokerage** represented the tenant, while **Dennis Conine** of **Binswanger, Conine, & Robinson** represented the landlord.

RETAIL CENTERS

According to **ComScore Networks, Inc.**, online sales for the day after Thanksgiving totaled \$434 million, a 42% increase over same-day sales in 2005. Despite the impressive gains in sales figures, online sales represented only an estimated 5% of total Friday sales. Comscore predicts total online sales of \$24.3 billion for the entire holiday period, which represents a 24% gain over last year's online sales during the timeframe. An increase in online sales might be the lone bright spot this holiday season, as many of the major retailers are expecting only minimal gains in sales over last year's figures. Overall, the **National Retail Federation** predicts that total sales during the 2006 holiday season will increase 5% from last year to \$457.4 billion.

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).

- **NewQuest Properties** (281-477-4300) has broken ground on the second phase of **Brazos Town Center (FSW 325)**, which will include 700,000-square-foot of retail space. The development is located at the southwest corner of the Southwest Freeway and FM 762/Reading Rd. in Rosenberg (605V). A 103,000-square-foot **J.C. Penney** and an 84,000-square-foot **Academy Sports & Outdoors** will anchor the project, which is expected to be completed by the fall of 2007.
- **Harold Wiesenthal**, owner of **Harolds in the Heights**, an upscale clothing store located at 350 W. 19th St., announced that he will officially retire in November of 2007. Harold's son, **Michael Wiesenthal**, who has worked at the store since 1981, will take over the family-owned business.
- In a survey conducted by **ForeSee Results** and **FGI Research**, the popularity of the websites of several major brick and mortar stores has increased this holiday season. Though online retailers **Netflix** and **Amazon.com** topped the survey, which was based on the responses of 10,500 households that ranked the sites based on overall experience, merchandise, brand, and price, significant gains were made by **Sears**, **J.C. Penney**, **Old Navy** and **Target**. Brick and mortar retailers that remained flat or lost ground include **Pottery Barn**, **Banana Republic**, **Costco**, **L.L. Bean**, **Wal-Mart**, and **Williams Sonoma**.

The following chart illustrates historical retail occupancy.



Trammel Crow Co. (713-781-5775) is in negotiations to purchase the **Hart Antique Gallery (NRW 301)**, a 51,000-square-foot property located at 2301 S. Voss Rd. in west Houston (490V), from **Jerry Hart**. The Hart Antique Gallery filed for Chapter 11 bankruptcy in August 2006 and is currently holding a liquidation sale. Preliminary plans by Trammel Crow call for the building of apartment units (**17494**) on the site.

Castle Furniture (832-201-1000) purchased **11210 North Freeway (FNO 140)**, a 44,000-square-foot store in north Houston (372Z), from **Toys R' Us, Inc.** The site has been empty since Toys R' Us vacated over a year ago. **Mark Lehman** of **Grubb & Ellis** represented the buyer, while **Matt Strange** of **The Staubach Co.** represented the seller.

Formosa Property Management (936-788-1364) purchased **Sheldon Square Shopping Center (NSE 201)**, a 36,000-square-foot property located at 777 Sheldon Rd. in Channelview (498B), from **WMF Investments**. The 36-year-old property is fully occupied with average rents at \$0.98 per square foot. **Michael Yu** of **Marcus & Millichap** represented the buyer, while **Don Stringham** and **Riley Sharman** of **Marcus & Millichap** represented the seller.

Houston Chimney Rock Partners, GPLLC purchased **Chimney Rock Central (NSW 074)**, a 30,000-square-foot center located at 5700 Chimney Rock Rd. in southwest Houston (531B), from **Houston Equity Partnership**. The 11-year-old property is 83% occupied with average rents at \$1.23 per square foot. **Jerry Goldstein** of **Marcus & Millichap** represented both the buyer and seller.

Palm Highland, LLC purchased **Main More Shopping Center (NSE 101)**, a 15,000-square-foot property located at 1207 S. Main in Pasadena (536Q), from **MBM Commercial properties, LLC**. The 45-year-old retail building is 85% occupied with average rents at \$1.46 per square foot. An associate with **Marcus & Millichap's** California office represented the buyer, while **Jerry Goldstein** of **Marcus & Millichap's** Houston office represented the seller.

Marshalls leased 28,000 square feet in the 61st St. and Stewart Rd. center (**FSW 092**) in Galveston (774W), from **Harold A Clark & Co.** (713-722-9934). The 37-year-old center, which was formerly anchored by a K-Mart, is in the process of being renovated. Other future tenants include **Ross Dress for Less** and **Shoe Show**. The entire center is 73% leased with average rents at \$1.33 per square foot. **Culver Stedman** of **Page Partners** represented the buyer, while **Matt Reed** and **H. Dean Lane** of **NewQuest Properties** represented the landlord.

Ulta leased 10,000 square feet in **Conroe Marketplace (FNO 263)**, a recently completed 380,000-square-foot center in Conroe (157L), from **Gulf Coast Commercial Group** (713-532-0977). The property is 93% occupied with average rents at \$1.92 per square foot. Tenants include **TJ Maxx**, **PetsMart**, and **Bed, Bath & Beyond**. **H. Dean Lane** and **Matt Reed** of **NewQuest Properties** represented the tenant, while **Debbie Adams** of **Gulf Coast** represented the landlord.

Dollar General Corp. renewed a 10,000-square-foot lease at **Crossroads Shopping Center (FNO 109)**, a 75,000-square-foot center located at 3103-3211 FM 1960 in Humble (333K), from **Zemcor Inc.** (713-932-7872). The 27-year-old property is 76% occupied with average rents at \$0.60 per square foot. Tenants include **Sherwin Williams**, **Pizza Hut**, and **Cash America Pawn**. The tenant used in-house representation, while **Shawn Ackerman** of **Henry S. Miller Commercial** represented the landlord.

INDUSTRIAL FACILITIES

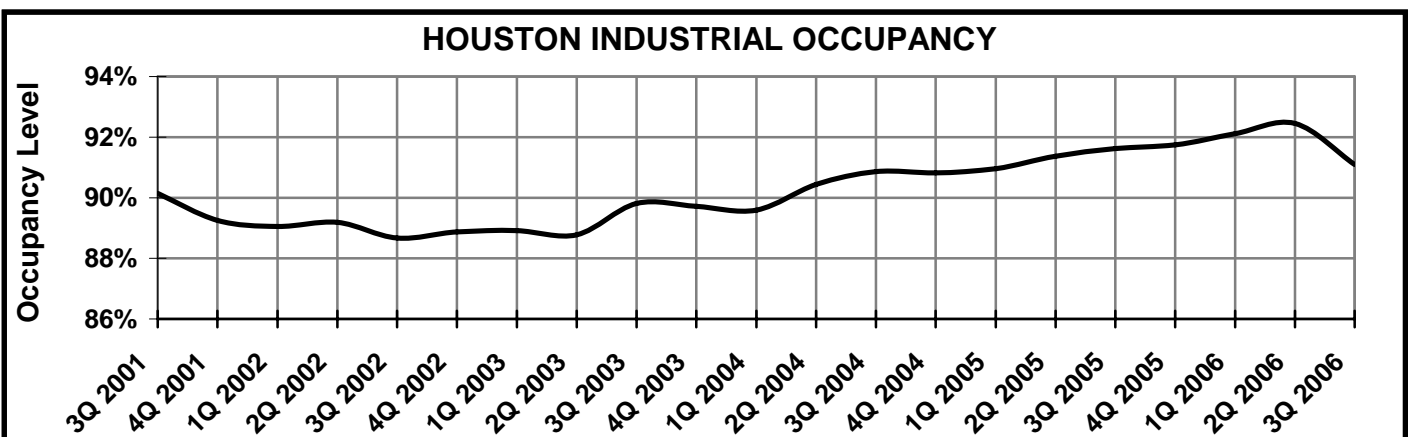
Rising land prices and construction costs have eased the rate of development of industrial properties across the country, including here in Houston. In 2006, only 16 properties containing roughly 2.5-million square feet of industrial space were delivered the Greater Houston area. This is considerably less than in 2005 when 30 properties containing approximately 6.3-million square feet were built, and is the lowest figure in terms of square footage in over ten years. Construction of warehouse facilities, which constitute the majority of industrial development in the Houston area, have also slowed. After hitting a peak in 2003 when 48 warehouse properties containing 2.3-million square feet were constructed, construction has since slowed as only 10 properties containing 1.4-million square feet were delivered in 2006. The decreased rate of construction and expectations that construction will remain slow due to continued cost constraints are the reasons why many analysts are now saying that industrial properties, particularly warehouse facilities, are sound investments.

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).

- **Pacific Financial, Inc.** (713-582-4644) plans to develop **Park Row Office Complex (1024N)**, a three-building 61,400-square-foot office/warehouse facility near the intersection of Tully Rd. and Park Row in west Houston (446W). Building one will contain 15,600 square feet and will feature 18-foot clearance with grade-level loading; building two will contain 30,000 square feet and will feature 24-foot clearance with dock-level loading; while building three will contain 15,800 square feet and will feature 18-foot clearance with grade-level loading. Construction on the first building is slated to begin in January 2007, with completion expected by July 2007. **Corey Ferguson** of Pacific Financial will handle leasing.
- The opening of the new \$1.2-billion Bayport container terminal at the **Port of Houston** has been pushed back yet again. The terminal, which was originally expected to open during the summer of 2006, and then rescheduled to open in December 2006, is now expected to begin operations sometime in January 2007.
- **Live Oak Capital** (713-993-1300) arranged acquisition and renovation financing for the **A-Alamo Alameda** self-storage facility located at 7017 Alameda Rd. near the Texas Medical Center (533J) on behalf of **PMSV Alameda, LP**. The 528-unit self-storage facility was built in 1996 and features climate-controlled units and RV parking. **David Aaronson** of Live Oak arranged the loan with funds provided by **John Hancock Real Estate Finance, Inc.**

The following chart illustrates historical industrial occupancy.



Northwest Warehouse, LLC purchased **Northwest Place 1 (1334A)**, a 119,000-square-foot office/warehouse facility located at 7250 W. 43rd St. in northwest Houston (450H), from the **Trammel Crow Co.** The 10-year-old property features 24-clearance with dock-level loading. The facility is fully occupied with average rents at \$0.33 per square foot. The buyer used in-house representation, while **Rusty Tamlyn** and **Ralph Tullier** of the **Trammel Crow Co.** represented the seller.

LRL Holdings (713-923-6111) purchased **2900 Patio Dr. (4747)**, a 108,000-square-foot manufacturing/distribution facility in southeast Houston (536S), from **Metals USA Building Products**. The 47-year-old property will be fully occupied by the new owner. **Josh Larocca** of **Mohr Partners** represented the buyer, while **David Cook**, **Jeff Peden**, **Marshall Davidson**, and **Graham Horton** of **Cushman & Wakefield** represented the seller.

Liberty Property Trust (281-955-2000) purchased **1250 Hall Ct. (4838S)**, a 74,000-square-foot warehouse facility in Deer Park (538J), from **Dresser, Inc.** The 3-year-old property will remain fully occupied by Dresser Inc. In-house principal **Joe Trinkle** represented the buyer, while **Rusty Tamlyn**, **Ralph Tullier**, and **Mike Parker** of **Trammell Crow Co.** represented the seller.

VF, LLC (406-585-1289) purchased **Interbelt North Business Center (0430G)**, a 23,000-square-foot office/warehouse facility located at 14331 W. Interdrive in North Houston (374Y), from **JADL 525, LTD.** The 15-year-old property is fully occupied with average rents at \$0.50 per square foot. **Danny Markowitz** of **Coldwell Banker** represented the tenant, while **Monte Lowery** and **Preston Shatto** of **Marcus & Millichap** represented the landlord.

MSP Building, LLC purchased **4917 Leeland (3437)**, a 15,000-square-foot warehouse facility in southeast Houston (494X), from **Rodolfo Argueta**. The 31-year-old property will be fully occupied by the new owner. The buyer used in-house representation, while **Scott Fikes** of **Grubb & Ellis** represented the seller.

Spectrum Medical (281-443-2900) purchased **18211 Chisholm Trail (0311)**, a 15,000-square-foot office/warehouse facility in north Houston (373J), from **Denso, Inc.** The 26-year-old property is 50% occupied with average rents at \$0.55 per square foot. The property features 16-foot clearance with semi-dock level loading. **Dan Wiel** of **Wiel Commercial** represented the buyer, while **Mike Spears** and **Steve Adkisson** of **The National Realty Group** represented the seller.

International Maywood Metals leased a 22,000-square-foot office/warehouse facility located at **12390 FM 249 (0774D)** in northwest Houston (411B), from **MLT Investments**. Average rents at the 26-year-old property, which features 22-foot clearance with grade-level loading, are \$0.50 per square foot. **Michael Biggs** of **Ultima Real Estate** represented the tenant, while **Travis Land** and **John Ferruzzo** of **NAI Houston** represented the landlord.

Electrical Automation Controls & Industrial Control Manufacturing leased a 17,000-square-foot office/warehouse facility located at **27331 Robinson Rd. (0025A)** in Conroe (252K), from **Kamran Aiinehaszian (281-296-8521)**. Electrical Automation will fully occupy the 5-year-old property. **Karyn Stephens** of **J. Beard Real Estate Company** represented the landlord.

Technologies Alliance renewed a 13,000-square-foot lease at **Northgreen (0370)**, a four-building 113,000-square-foot office/warehouse facility located at 1400-1412 North Belt Drive E. in north Houston (373U), from **Teachers Insurance and Annuity Associations of America (212-490-9000)**. The 25-year-old facility is 95% occupied with average rents at \$0.50 per square foot. The property features 12- to 18-foot clearances with semi-dock level loading. **Joe Brockman** of **Cypressbrook Company** represented the tenant, while **Jon Michael** of **Holt Lunsford Commercial** represented the tenant.

American Woodmark leased 13,000 square feet in **Bondesen Business Park (0595)**, a three-building, 119,000-square-foot office/warehouse facility located on W. Little York Rd. in northwest Houston (409U), from **Vantage Companies (713-780-4300)**. The business park features 16- to 24-foot clearances with dock-level loading. The 5-year-old facility is 78% occupied with average rents at \$0.63 per square foot. **Darren O'Connor** of **NAI Houston** represented the tenant, while **Walter Menuet** of Vantage represented the landlord.

Furniture Basix leased 10,000 square feet in **West Loop Business Park II (1738)**, a 77,000-square-foot office/warehouse facility located at 1224 N. Post Oak Rd., from **EGP Houston Partners, Ltd.** (601-948-4091). The property features 16- to 18-foot clearances with dock-level loading. Rents at the fully occupied facility average \$0.45 per square foot. **Darren O'Connor** of **NAI Houston** represented the tenant, while **Clay Reichenbach** of **Insite Commercial Realty** represented the landlord.

VACANT LAND

Crow Holdings (214-661-8000) in partnership with **The Verandah Cos.** (713-365-0100) purchased 26.0 acres of waterfront land in the League City area (619X) along the south side of Clear Lake. The tract is located within **South Shore Harbour**, a 2,200-acre master-planned community that features multiple neighborhoods, marina access, a 27-hole golf course, 300,000 square feet of office space, 115,000-square-feet of retail space, and the **South Shore Harbour Resort & Conference Center**. Plans for the site have yet to be finalized.

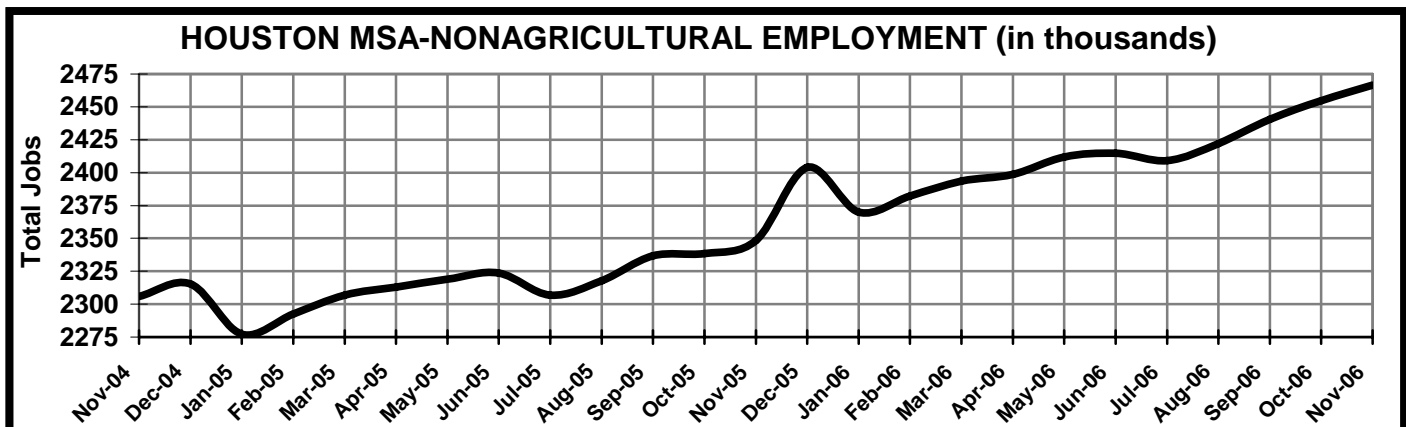
JEC Texas, LTD (281-427-7990) purchased 14.0 acres of land located at the corner of Decker Dr. and Bayway Dr. in Baytown (500F) for \$477,500 from a partnership between **Tercar Theatre Co.** and **Josey Partnership, LTD.** **Wayne Landin** of **BCD Venture** represented the buyer, while **Marshall Clinkscales** of **MSC Properties** represented the seller.

Millennium State Bank of Texas (972-241-8200) purchased 1.1 acres of land located at the southeast corner of Beltway 8 and Beechnut St. in southwest Houston (529R) for \$1.3 million from **HD Asia Investment, LP.** **Marshall Clinkscales** of **MSC Properties** represented the buyer, while **Max Yeh** of **Intex Realty** represented the seller.

ECONOMIC & FINANCIAL NEWS

The total number of wage and salary jobs in the ten-county Houston area increased by 11,900 jobs to 2,466,600 in November 2006, according to the **Texas Workforce Commission**. This month's total is 75,000 jobs more than the 2,391,600 jobs at this time last year. Of nonagricultural employers, the Trade, Transportation, & Utilities sector posted the largest gain over the month at 8,300 jobs, followed by the Manufacturing sector, with 2,000 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 November 2006 were \$368.9 billion, an increase of 1.0% from the previous month, and up 5.6% from November 2005. Retail trade sales were up 1.1% from October, and were 5.3% above last year's level.

Personal income increased \$33.8 billion, or 0.3%, and Disposable Personal Income (DPI) increased \$27.0 billion, or 0.3%, in November 2006, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$50.5 billion, or 0.5% in November 2006. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers was unchanged in November 2006, and is 2.0% higher than November 2005. Housing, medical care, recreation, and other goods and services posted the largest increases in price during November 2006.

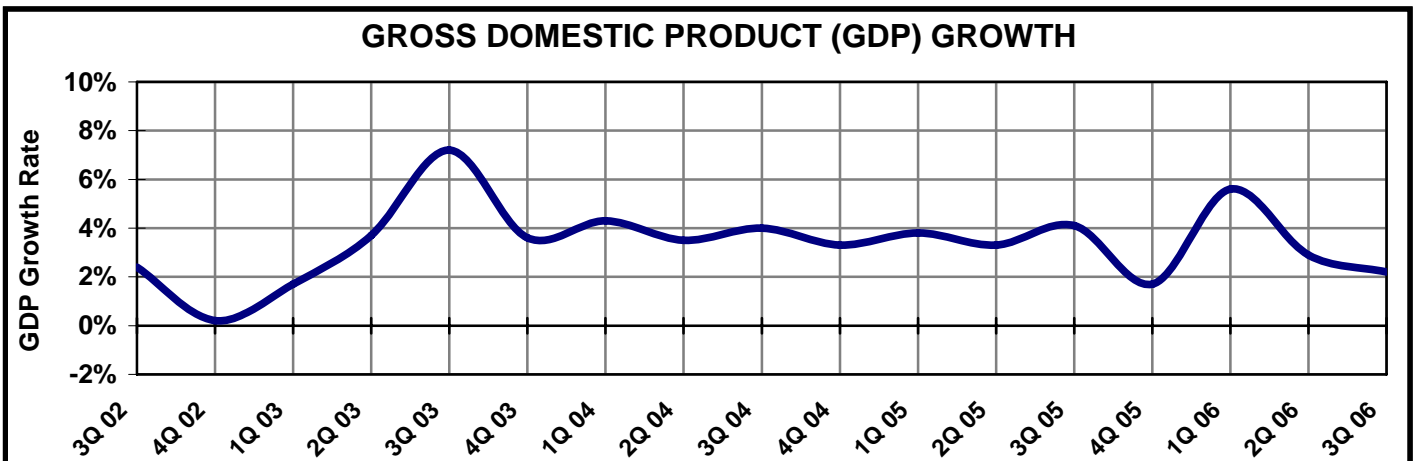
The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** increased to 109.0 in December 2006, up 3.7 points from 105.3, in November. The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** increased 0.1% in November to 138.2. 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 November, and is 3.8% higher than the November 2005 level. Output in the manufacturing sector increased 0.3% in November, output of utilities declined 0.1% over the month, while output at mines decreased by 0.2%. The rate of industrial capacity utilization was 81.8% in November, which was unchanged from the previous month, and is 2.4 points above the previous year's level.

Freddie Mac reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.24% in November 2006, which is down 0.12 points from October 2005, and is down 0.09 points from one year ago. The average for the **15-year FRM** was 5.96% in November 2006, which is 0.09 points below the October 2006 level, but is 0.10 points higher than it was in November 2005.

The **Federal Reserve** left the federal funds rate unchanged at 5.25% at their December session, marking the fourth consecutive meeting where the rate has gone unmoved. The funds rate is the interest that banks charge each other for overnight loans and is the Federal Reserve's most potent tool for influencing the economy.

The **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 November 2006 was estimated at a seasonally adjusted annual rate of \$1,184.1 billion, 0.2% below the revised October 2006 estimate. The November figure is 0.1% above the November 2005 estimate of \$1,183.1 billion. Private residential construction was at a seasonally adjusted annual rate of \$589.3 billion in November, 1.6% below the revised October estimate of \$599.0 billion, and 11.1% below the November 2005 estimate of \$663.1 billion.

The **Baker Hughes** count of active domestic rotary rigs is down from 1,522 in November to 1,484 in December. The rig count in December is down 2.0% from the December 2005 figure of 1,494 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

METRO announced at their December board meeting that the proposed light rail line on Richmond Ave. through the Afton Oaks neighborhood would not be built. Instead, METRO is considering three alternative routes for the western section of the line, which would begin at the Wheeler Station on the already existing Main Street line. Option one is to divert the line to Westpark at Greenway Plaza; option two diverts the line to Westpark at Cummins St.; while option three diverts the line south at Montrose St. to the Southwest Freeway and then on to Westpark. All three options would end at the Hillcroft Transit Center. METRO will announce their final decision on the location of the new light rail line once environmental impact studies are completed, which is expected in the late spring of 2007.

The **Uptown Houston District** officially opened **Hidalgo Park** to the public. Hidalgo Park is a three-acre park located at the corner of Hidalgo St. and Post Oak Blvd. in the Galleria area (491V). The park, which contains over 5,000 trees, 6,500 shrubs, and 15,000 other plants, was made possible by a \$3.5 million grant from the **Texas Department of Transportation**.

AAA has named 15 Houston area hotels and nine Houston area restaurants to its list of recipients of the **2007 Four Diamond Award**, which recognizes superior establishments with excellent customer service and amenities. The recognized Houston hotels include **Hilton Americas-Houston, Hilton Post Oak, Hotel Galvez, Hotel Icon, The Houstonian Hotel Club & Spa, InterContinental Houston, Moody Gardens Hotel & Spa, Omni Houston Hotel, Omni Houston Westside, Renaissance Houston Hotel, The San Luis Resort Spa & Conference Center, The Tremont House, The Westin Galleria, The Westin Oaks, and The Woodlands Waterway Marriott Hotel & Convention Center**. The recognized Houston restaurants include **Bank Jean-Georges, Brennan's of Houston, Noé Restaurant & Bar, Rouge, Shearn's Restaurant, The Steakhouse, The Remington Restaurant, Tony's, and Quattro**.

A recently released report by the **Center for Women's Business Research** and **OPEN** indicated that from 1997 to 2006 the number of majority women-owned firms grew at nearly twice the rate of other firms, 42% compared to 23%, and that the performance of majority women-owned firms outpaced the economy as a whole. Texas, with 776,283 privately held majority women-owned firms, ranks as the third best state for women-owned firms behind California and New York. The rank is based on the total number of majority women-owned firms, sales figures, and number of employees. In regards to top metropolitan areas for majority women-owned firms, Houston ties for sixth place with Boston, while Dallas comes in at tenth.

The **Galveston City Council** is set to vote on the **Moody Foundation's** proposal to take possession of the **Galveston Isle Municipal Golf Course**. The agreement calls for Moody to operate and manage the facility. After the golf course has been open for one year, Moody will then begin paying the city a yearly fee. If approved, the golf course will close operations at the end of January and undergo a \$2-million renovation. Moody plans to reopen the golf course to the public by January of 2008.

The opening of the **Roger Clemens Rocket Sports Grill** planned for the redeveloped former Mervyn's site at **Memorial City Mall** has been delayed. The restaurant, which will display memorabilia from Roger Clemens' career, was originally planned to open in May 2007, but is now expected to open in July 2007.

According to **PKF Consulting**, Houston hotel occupancy in the month of October was 71.4%, while the average daily room rate was \$104.81. From the ten-month period beginning January 2006 through October 2006, overall hotel occupancy is at 70.4%, while the average room rate is \$99.57. Compared to the same ten-month timeframe in 2005, occupancy is up 1.5 points and room rates are up 6.7%.

In a report released by the **Homeland Security Department**, Houston ranks as the highest metropolitan area in the state regarding emergency agencies' ability to communicate during a disaster. Houston received a well-developed rating for operating procedures and use of communications systems, and an intermediate grade in the city's effectiveness in coordination among local governments.

Rep. Michael Villareel, D-San Antonio, will introduce **House Bill 133**, or the Sales Information Act, at the start of the next legislative session. The bill would require the disclosure of sales prices on all property transactions. The sales data would then be used by the appraisal districts to assess property values and property taxes. Currently, the appraisal districts only have access to residential sales data through third-party sources and have no information on commercial property sales data. The passage of this bill would likely result in an increase in property tax collections, particularly from commercial properties, as they are most likely undervalued at the current time. Villareel unsuccessfully proposed a similar bill in 2005.

The **National Association of Real Estate Investment Trusts (NAREIT)**, which tracks performances of 185 real estate investment trusts (REITs) based in the U.S., reported that REITs generated returns of nearly 34% in 2006. Office REITs outperformed all other property sectors, with a 44% rate of return.

Global Real Analytics, a commercial real estate research firm, reports that the overall sales volume of commercial real estate properties in the third quarter of 2006 was down 18% in comparison to third quarter 2005 figures. The retail and apartment sectors experienced the sharpest decline, with sales volumes down 38% and 30%, respectively, when compared to third quarter 2005 figures. In terms of sales values, third quarter values were 10.7% higher than last year's figures. Forecasters at Global Real Analytics expect to see a moderating of commercial real estate values in 2007.

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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