



Your Key to Real Estate Services

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APARTMENTS

The Houston multifamily market rounded out 2006 by recording a fourth straight quarter of negative absorption, absorbing -4,706 units during the fourth quarter of 2006. Annual absorption stands at a dismal -10,070 units. The Class A market was once again the only class to post positive quarterly absorption, absorbing 74 units. Class A is also the only class to record positive annual absorption, at 1,048 units. Class B absorption was well into negative territory for the second straight quarter, at -2,042 units; annual Class B absorption stands at -4,606 units. Quarterly demand for Class C units was the weakest of any class once again, as the market absorbed -2,474 units over the quarter. Class C Absorption over the past year stands at -6,197 units, the weakest annual figure of all classes. The Class D market absorbed -264 units over the quarter, bringing 12-month absorption to -315 units. The submarkets that recorded the weakest absorption over the quarter included **Gulf Freeway** and **Champions – East**, where -598 and -481 units were absorbed. Over the year, the submarkets that experienced the weakest absorption were **Sharpstown/Westwood**, with -1,496 units absorbed, and **Alief**, with absorption of -991 units.

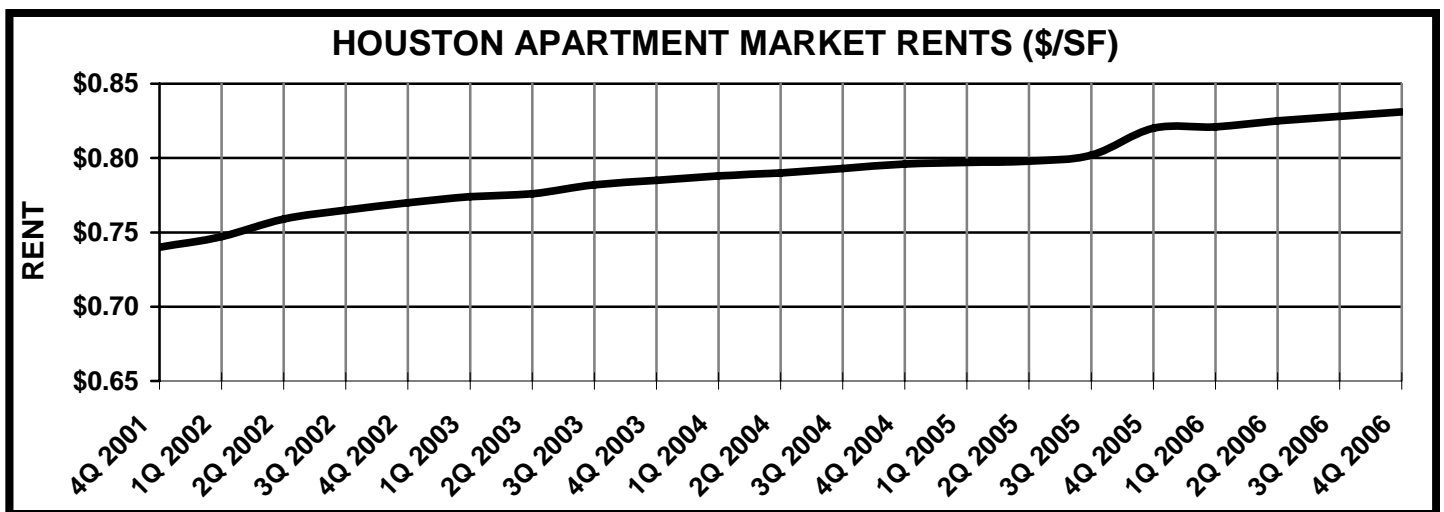
According to www.oconnordata.com, O'Connor & Associates' online apartment data program, **Fourth Quarter 2006** overall **occupancy** for Houston area apartments projects is **88.46%** (Class A = 90.48%; Class B = 89.47%; Class C = 86.05%; Class D = 83.40%). Occupancy is down 1.40 points from the third 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).*

- **Trammell Crow Residential** (713-781-5775) announced plans to develop **Alexan Sterling Ridge (17506)**, a 310-unit luxury complex to be located at 10850 Terramont Dr. in the **Village of Sterling Ridge** community in The Woodlands (215T). The units will contain one-, two-, and three-bedrooms and will range in size from 700 to 1,400 square feet. Construction is scheduled to begin in April 2007, with completion expected by August 2008.

- **General Investment & Development Corp. (GID)** (713-524-0514) announced plans to demolish the **Allen House Apartments (2467)**, a nine-building, 896-unit, Class B complex located at 3601 Allen Parkway (492M). GID plans to replace the 43-year-old complex, which sits on a 24-acre site, into a large-scale mixed-use development. The project will be built in phases. Planned for the first phase are a 740-unit apartment complex, **Regents Square (17504)**, 230,000 square feet of retail space (**INL 519**), 60,000 square feet of office space (**MAP 145**), and a boutique hotel. Approximately 600 of the property's 896 units will be demolished to make way for the first phase, which is expected to start construction in September 2007. Completion of the first phase is slated for 2010. Later phases are expected to add another 100,000 square feet of retail space and another 1,000 residential units.
- **Michael Stevens Interests, Inc.** (281-496-4141) will develop **The Lakes at Cypresswood (17504)**, a 324-unit luxury complex that will be located near the intersection of S.H. 249 and Cypresswood Dr. in northwest Houston (369C). Amenities at the property will include picnic areas, media room, fitness center, business center, golf simulator, and swimming pool. Construction on the project is slated to begin this February.
- **Easterling Development Co.** (713-960-0101) plans to build **Plantation Apartments (17505)**, a 312-unit Class A complex located near the intersection of Windsor Hills Dr. and College Park Dr. in The Woodlands (217Q). The 14.6-acre site was recently purchased from **The Woodlands Development Co.** Specific plans for the property have yet to be released.

The following chart illustrates historical apartment rental rates.



A partnership between **KT Terraza-TX1**, **FJLC-TX1** and **Bethany Holdings** (949-660-0677) purchased eight Houston area apartments from **GSS Lone Star, LP**. The properties include **Sendera Memorial (2101)**, a 39-year-old, 192-unit, Class B complex located at 600 Nottingham Oaks in west Houston (488G); **Sendera Park (2150)**, a 32-year-old, 169-unit, Class C complex located at 1000 Country Place Dr. in west Houston (489A); **Sendera Woodbridge (2948)**, a 23-year-old, 752-unit, Class B complex located at 14500 Empanada Dr. in the Alief area (528J); **Sendera Champions Forest (1417)**, a 39-year-old, 200-unit, Class B complex located at 12801 Champion Forest Dr. in northwest Houston (370D); **Wyndham Oaks (2181)**, a 27-year-old, 279-unit, Class B complex located at 2410 S. Kirkwood Rd. in west Houston (489S); **Sendera Westway (1702)**, a 36-year-old, 316-unit, Class B complex located at 10580 Hammerly Blvd. in the Spring Branch area (449R); **Sendera Briargrove (2348)**, a 42-year-old, 643-unit, Class B complex located at 6263 Westheimer Rd. in the Galleria area (491S); and **Sendera Sugar Ridge I**, a 22-year-old, 74-unit, Class B complex located at 12903 Sugar Ridge Blvd. in Stafford (569H). The buyer used in-house representation, while **James Hearn**, **Ed Cummins**, and **Ryan Terrell** of **Hendricks & Partners** along with **David Oelfke** of **Apartment Realty Advisors** represented the seller.

Lenora C. Winston purchased **Le Montreal Apartments (3694)**, a 52-unit Class C complex located at 4015 Broadway St. in south Houston (535P), from **Charles Jester**. The 42-year-old complex is 92% occupied with average rents at \$0.73 per square foot. The property features flat roofs and is separately metered for electricity. **Brian Janak** of **Marcus & Millichap** represented both the buyer and seller.

Kasif, Inc. purchased **Suncrest Village Townhomes (3018)**, a 118-unit Class B complex located at 10901 Village Bend Ln. in the Alief area (529L), from **Ryder Stilwell, Inc.** The 22-year-old complex is 70% occupied with average rents at \$0.59 per square foot. The property features pitched roofs and is separately metered for electricity.

SINGLE-FAMILY HOUSING

MLS home sales increased in December, as 5,884 used homes were sold, up from the 5,299 homes sold in November, according to the **Houston Association of Realtors (HAR)**. Sales for December 2006 were up 2.0% from December 2005. The median price of a used single-family home sold in December was \$150,000, up 1% from December of last year, while the average home price was \$206,228, up 5% from the December 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 December to a seasonally adjusted annual rate of 1,120,000, 4.8% above the revised November sales rate of 1,069,000, but 11.0% below the December 2005 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$235,000. Privately owned housing starts were at a seasonally adjusted annual rate of 1,642,000 in December 2006, 18.0% below the December 2005 figure. Privately owned housing completions were at a seasonally adjusted annual rate of 1,900,000 in December 2006, 2.7% below the December 2005 figure.

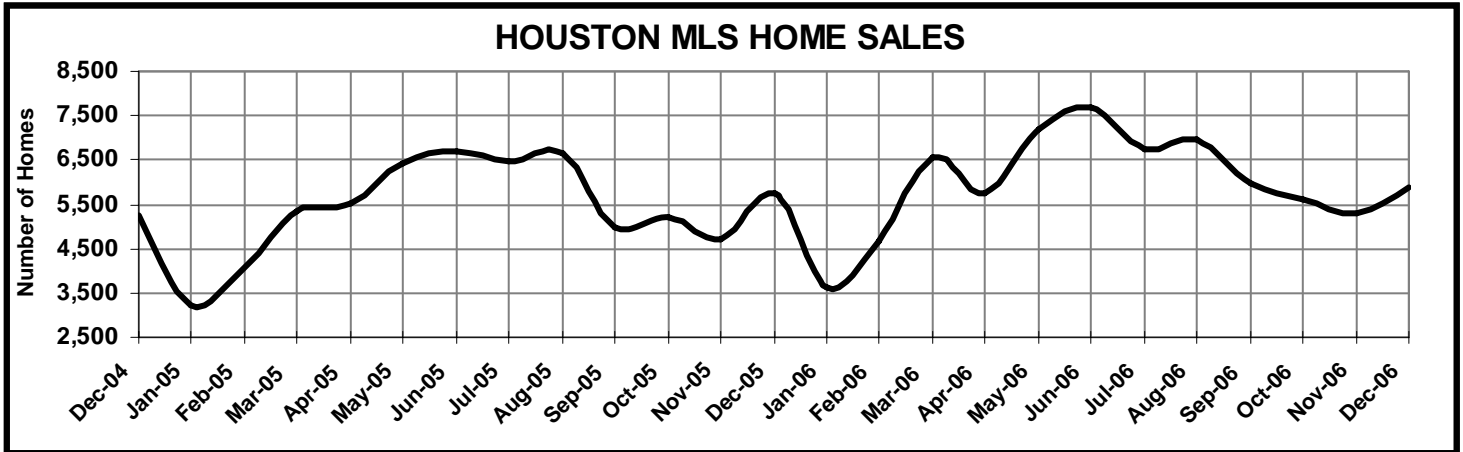
The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, increased 2 points in January to 35 on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring current sales of new single-family homes increased by 3 points to 36, the index measuring sales expectations for the coming six months remained unchanged at 49, while the index measuring the traffic of prospective buyers increased 3 points to 26.

According to the **National Association of Realtors (NAR)**, 470,000 existing homes were sold in December 2006, down 0.4% from the 472,000 sold in November 2006, and down 10.8% from the 527,000 homes sold in December 2005. The median sale price was \$269,000, a 0.4% increase from sale prices a year ago.

The governor's task force submitted recommendations for **Texas' tax appraisal system**. The recommendations included the placement caps on local governments from collecting revenue greater than 5% above the previous year's budget, unless voter approval is received. The other recommendation was to require the disclosure of the sales price or fair market value of purchased property. The task force also recommended two state constitutional amendments related to the tax system. One, was to calculate property taxes based on a five-year rolling average of the property's appraised value. The other, was to reduce the cap on residential appraisal increases from the current 10% to 5% for cities and counties, double the property tax homestead exemption from \$3,000 to \$6,000, and to allow local governments to levy a half-cent countywide sales tax.

RealtyTrac, Inc. reported nationwide foreclosure filings in 2006 totaled over 1.2 million, which represents a 42% increase over foreclosure filings in 2005. On a state-by-state basis, foreclosures in 2006 in Texas totaled 156,876, the highest aggregate total of all states. Texas ranked fourth in the overall foreclosure filing rate, with one in every 51 households having their home filed for foreclosure. Colorado registered the highest rate, as one in every 33 households had their homes filed for foreclosure in 2006. In terms of MSA rankings, Fort Worth/Arlington ranked sixth, with a one in 27 foreclosure filing rate; San Antonio was 12th, with a one in 37 foreclosure filing rate; Austin-Round Rock was 16th, with a one in 43 foreclosure rate; while Houston-Baytown-Sugar Land was 18th, with a one in 43 foreclosure rate.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

The Verandah Companies (713-365-0100) announced plans to develop **Lighthouse Island**, a residential community on a recently purchased 61-acre site in League City (619Y) 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**. Verandah plans to build up to 800 residences, which will be a mix of luxury mid- and high-rise condominiums, estate homes, townhomes, and patio homes. Construction is slated to begin this February.

Crosswinds National, LLC (248-522-4460) plans to develop a 700-acre master-planned residential community off of Riley Fuzzel Rd. just east of the Hardy Toll Road in Spring (292M). Crosswinds expects to build between 1,000 and 1,200 single-family residences in the community. Construction is slated to begin in 2008, with the first homes coming to market in 2009.

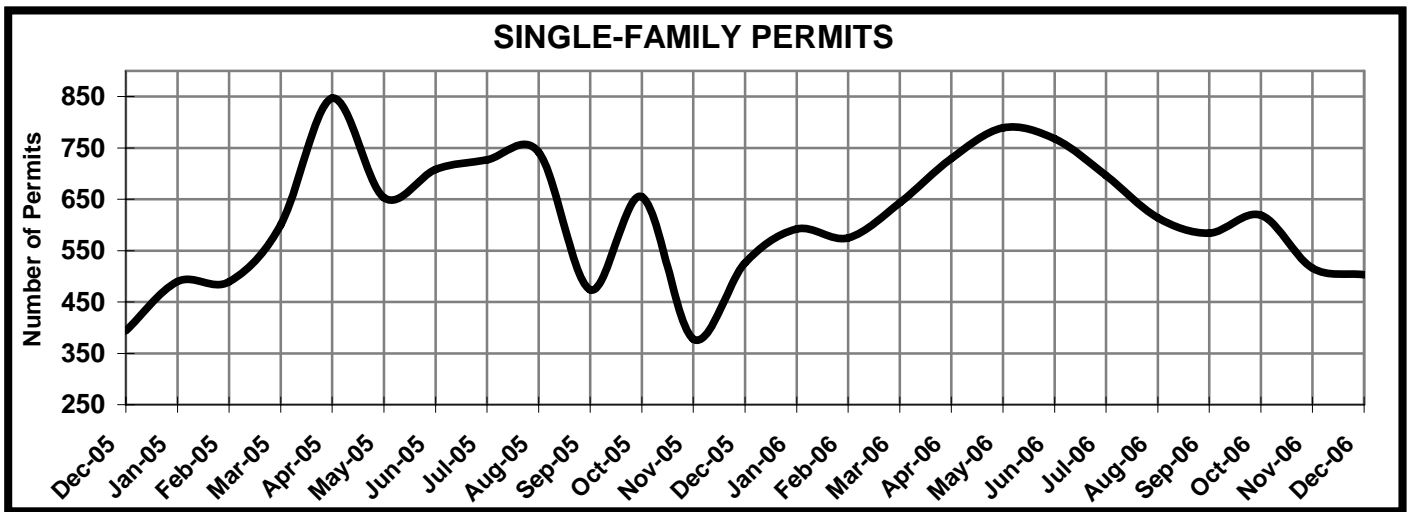
PERMIT ISSUANCE

The **City of Houston** issued permits to build 503 private single-family houses and 65 private multifamily buildings in December. 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 December	\$389,048,264	\$372,052,601	\$344,282,616
Year-to-Date	\$2,999,725,442	\$4,118,136,568	\$4,730,156,017

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



OFFICE BUILDINGS

The Houston office market gained considerable strength in 2006. Fourth quarter figures indicate that overall occupancy is now up to 86.21%, the highest level since the second quarter of 2002. Current overall occupancy is a full 3.26 points higher than it was one year ago. A strong Class A market has been the main driver of increasing health in the office market. Class A occupancy has gained 5.72 points since the fourth quarter of 2005 and is once again above the 90% mark, at 90.24%. Absorption figures for 2006 also indicate increasing strength. Overall absorption of 832,566 square feet in the fourth quarter brought annual absorption up to nearly 6.2 million square feet. The majority of the absorption can be attributed to the Class A market, where approximately 4.8 million square feet was absorbed over the year. Additionally, rental rates improved significantly in 2006. Overall average rents increased from \$18.37 per square foot in the fourth quarter of 2005 to their current level at \$19.66 per square foot. Not surprisingly, Class A rents registered the largest gains during the timeframe, increasing \$1.90 to \$23.23 per square foot.

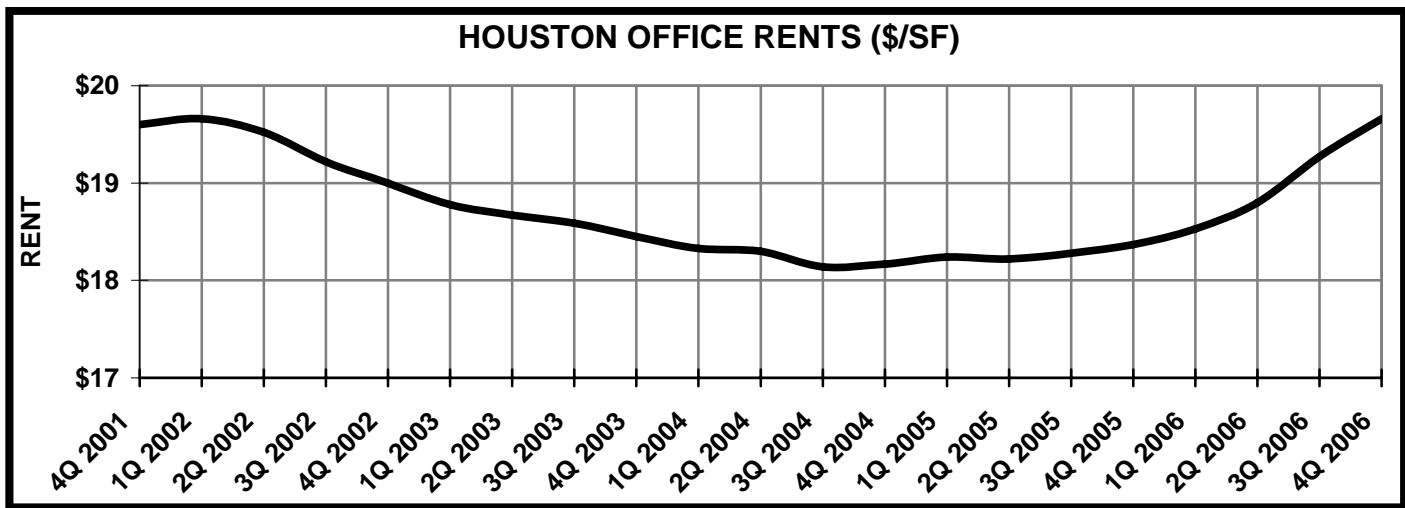
According to the O'Connor & Associates **Fourth Quarter 2006 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **86.21%** (Class A = 90.24%; Class B = 83.75%; Class C = 82.00%; Class D = 78.36%). The citywide annual multi-tenant office **rental rate** is **\$19.66 per square foot** (Class A = \$23.23; Class B = \$17.66; Class C = \$14.23; Class D = \$11.60).

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).

- **Dienna Nelson Augustine Co.** (713-686-1222) has broken ground on **11210 Equity Dr. (NNW 225)**, a 144,000-square-foot office building in the **Westway Business Park** at the northeast corner of Beltway 8 and Equity Dr. (449H). The property is 50% pre-leased. Construction is expected to be completed by November 2007. **Wrightwood Capital** (312-324-5900) provided \$22.3 million in construction financing to Dienna Nelson Augustine Co.
- **Genesis Capital Advisors** (972-671-9120) will break ground on **Four Chasewood (CPQ 139)**, a 106,000-square-foot office building to be located in the **Chasewood Technology Park** at 4 Chasewood Dr. in northwest Houston (329Z), during the second quarter of 2007. Rents are quoted at \$27.50 per square foot. Construction is slated for completion in early 2008. **David Lee** and **Todd King** of **Transwestern** will handle leasing.

- **Kolkhorst & Kolkhorst** (281-477-9100) plans to develop a 41,000-square-foot office building (**NOW 061**) off of Beltway 8 between Little Branch Dr. and Big Branch Dr. in the Jersey Village area (409D). Kolkhorst plans to occupy 10,000 square feet of the property. Average rents for the remaining space are quoted at \$20.88 per square foot. Construction is expected to begin by April 2007, with completion expected by December 2007.
- **Transwestern** (713-270-7700) has taken over management responsibilities at **Marathon Oil Tower (GAL 081)**, a 1.25-million-square-foot Class A office building located at 5555 San Felipe St. in the Galleria area (491Q). The property, owned by **Tower Associates, LP**, is 82% occupied with average rents at \$21.50 per square foot. **Pat Grimes, Heather McMillion, and Robert Lazzari** of Transwestern are handling the management duties.

The following chart illustrates historical office rental rates.



Walton Street Capital (312-915-2800) purchased **One Westchase Center (WES 066)**, a 560,000-square-foot Class A office building located at 10777 Westheimer Rd. in the Westchase area (489U), from **Granite Properties**. The 25-year-old property is fully occupied with average rents at \$24.50 per square foot. The buyer used in-house representation, while **Robert Williams** and **Jeff Hollinden** of **HFF** and **Paul Bennett** of Granite represented the seller.

Metro Properties, LLC (310-829-1223) purchased **Two Corporate Plaza (CLC 068)** and **Gemini Plaza (CLC 013)**, both Class A properties located in the Clear Lake area (618L & 618Q), from **G Reit, Inc.** Two Corporate Plaza is a 19-year-old 163,000-square-foot building located at 2625 Bay Area Blvd. The property is 97% occupied with average rents at \$21.00 per square foot. **Alan Pekarcik** and **Dan Vittone** of **Voit Commercial Brokerage** represented both the buyer and seller of Two Corporate Plaza. Gemini Plaza is a 24-year-old 162,000-square-foot building located at 1150 Gemini St. The property is fully occupied. **Darrell Betts** and **Scot Farber** of **Grubb & Ellis Co.** represented both the buyer and seller of Gemini Plaza.

55 Waugh, LP purchased **55 Waugh Dr. (MAP 045)**, a 267,000-square-foot Class A office building located in the Midtown/Allen Parkway area (492M), from **Parkway Investments Texas, Inc.** The 24-year-old property is 96% occupied with average rents at \$23.00 per square foot. Both the buyer and seller used in-house representation. **Cameron Cureton** of **HFF** (713-852-3500) arranged \$20.7 million in acquisition financing, with funds provided by **JP Morgan Real Estate**.

Lila Construction (713-741-9900) purchased **6400 Southwest Freeway (SWF 118)**, a 59,000-square-foot Class C office building located near the intersection of Westpark Dr. and Hillcroft St. in southwest Houston (531A), from **John Beeson**. The 40-year-old property is 97% occupied with average rents at \$10.63 per square foot. The buyer used in-house representation, while **Jerry Goldstein** of **Marcus & Millichap** represented the seller.

Fluor Enterprises sub-leased 191,000 square feet in **One Sugar Creek Place (SFC 011)**, a 533,000-square-foot Class A office building located at 14141 Southwest Freeway in Sugar Land (568R), from **Chevron Corp.** **Unilev Management** (713-850-7878) owns the 25-year-old property, which is fully occupied. **Chris Oliver** of **Cushman & Wakefield** represented Fluor, while **Sanford Criner**, **Steve Hesse**, **Michael Sieger**, and **Mark Pillsbury** of **CB Richard Ellis** represented Chevron.

Chicago Bridge & Iron Co. leased 115,000 square feet in **Two Riverway (GAL 071)**, a 406,000-square-foot Class A office building located at 2 Riverway Dr. in the Galleria area (491L), from **Coventry Investment Group** (713-896-9999). The 26-year-old building is 78% occupied with average rents at \$22.75 per square foot. **Scott Wegmann** and **Justin Leighton** of **Cushman & Wakefield** represented the tenant, while **David Lee** and **Brad Sinclair** of **Transwestern** represented the landlord.

BP leased 67,000 square feet in **Three Westlake Park (KFW 050)**, a 42,000-square-foot Class A office building located at 550 Westlake Park Blvd. in west Houston (488B), from **Falcon Real Estate Investments** (972-934-2300). The 24-year-old building is fully occupied with average rents at \$20.00 per square foot. **Louis Rosenthal** and **Mary Stanton** of **Jones Lang LaSalle** represented the tenant, while **Bill Schnedieu** of **Falcon** represented the landlord.

Bentley Nevada leased **1300 Executive Dr. (SFC 226)**, a 53,000-square-foot Class A office building located in Sugar Land (569J), from **Midway Companies** (713-629-5200). Bentley Nevada will occupy the entire 12-year-old building. **Robert Parsley** and **Jay Kyle** of **Colliers International** represented the tenant, while **Bo Sanford** and **Eric Mayfield** of **Midway Companies** represented the landlord.

BP Alternative Energy leased 25,000 square feet in the **Bank of America Center (CBD 071)**, a 1.5-million-square-foot Class A office building located at 700 Louisiana St. in the Central Business District (493L), from **Hines** (713-223-1312). The 24-year-old building is 96% occupied with average rents at \$19.00 per square foot. **Louis Rosenthal** and **Mary Stanton** of **Jones Lang LaSalle** represented the tenant, while **Crissy Wilson** of **Hines** represented the landlord.

Simdesk leased 22,000 square feet in the **Baker-Hughes Building (GPL 017)**, a 249,000-square-foot Class B office building located at 3900 Essex Ln. in the Greenway Plaza area (492S), from **Linbeck Corporation** (713-621-2350). The 24-year-old building is 47% occupied with average rents at \$20.50 per square foot. **Julie King** of **CRESA Partners** represented the tenant, while **Stewart Smith** and **Richard Barbles** of **Fuller Realty Partners** represented the landlord.

Andrews Kurth leased 19,000 square feet in **801 Travis (CBD 083)**, a 438,000-square-foot Class B office building in the Central Business District (493L), from **RS Investment Management** (415-591-2700). The 26-year-old building is 47% occupied with average rents at \$18.75 per square foot. **Charles Gordon** and **Lance McCarthy** of **CB Richard Ellis** represented the tenant, while **Bob Cromwell** and **Kevin Nolan** of **Moody Rabin Interests** represented the landlord.

Exponents leased 12,000 square feet in **10850 Richmond Ave. (WES 050)**, a 96,000-square-foot Class C office building in the Westchase area (489Y), from **Zenith Real Estate Services, Inc.** (713-784-1592). The 24-year-old building is 81% occupied with average rents at \$16.50 per square foot. **Sandra Harris** of **Cushman & Wakefield** represented the tenant, while **Jay Kyle** and **Nelson Udstuen** of **Colliers International** represented the landlord.

RETAIL CENTERS

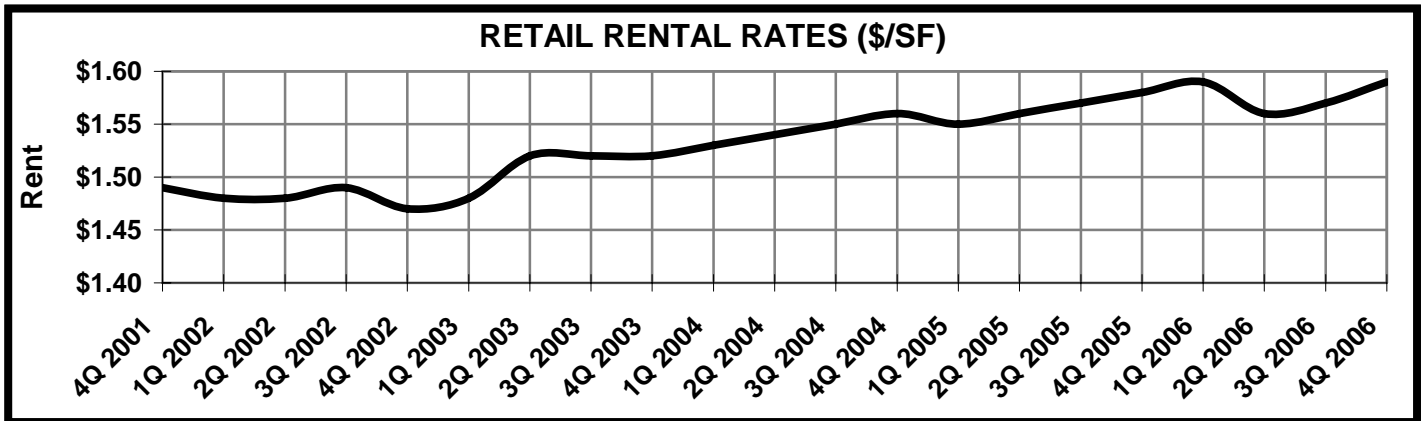
Most of those in the retail market would conclude that although 2006 wasn't necessarily bad, it most definitely wasn't stellar, either. Overall retail occupancy declined over the year from 86.44% to 85.75%. High ongoing construction levels, nearly 2.3 million square feet of space came to market in 2006, kept occupancy depressed throughout the year. In addition, overall rents were flat over the year, increasing just \$0.01 per square foot (psf) to \$1.59 psf. A bright spot in 2006 was demand, as absorption remained relatively robust with over 1.7 million square feet absorbed. Among the four retail categories, Community Centers turned in the best performance in 2006, as over 1 million square feet was absorbed, despite a slight drop in occupancy. Community Center rents also gained \$0.04 psf over the year. Neighborhood Centers and Strip Centers also fared decently well, with positive annual absorption figures, increases in average rental rates, and minimal declines in occupancy. Regional Malls, however, had a rough year as occupancy declined 2.63% to 86.16%, rental rates fell \$0.01 psf to \$2.97 psf, and absorption was in the red, as -614,624 square feet was absorbed.

According to the O'Connor & Associates **Fourth Quarter 2006 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **85.75%** (Regional = 86.16%; Community = 86.77%; Neighborhood = 85.34%; Strip = 84.20%). Occupancy is up 0.20 points over the last quarter, but down 0.69 points over in the past 12 months. The citywide monthly multi-tenant retail **rental rate** is **\$1.59 per square foot** (Regional = \$2.97; Community = \$1.55; Neighborhood = \$1.16; Strip = \$1.14). Overall rents are up \$0.02 from the last quarter, and up \$0.01 from last year's figure.

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).

- **KM Realty** (713-690-2700) announced plans to build three new retail developments in the Houston area. One proposed property (**FNO 356**) will contain 52,800 square feet and will be located near the intersection of Highway 249 and Spring Cypress Rd. in Tomball (329P). This development is scheduled to begin construction in March 2007, with completion expected by summer 2007. Another development containing 34,000 square feet (**FSW 364**) will be located off of the Southwest Freeway in the **Greatwood** subdivision in Sugar Land (607J). This development, which will contain a mix of retail and office space, is expected to break ground in the fall of 2007. Completion is tentatively slated for spring 2008. The third development is a 24,000-square-foot center (**FNW 675**) located near the intersection of Highway 6 and Timbercreek Place in northwest Houston (408W). Construction is expected to begin in March 2007, with completion expected during the summer of 2007. **Patrick Manchi** of KM Realty will handle leasing and management duties at all three properties.
- **Hunington Properties** (713-623-6944) has broken ground on **Shops at Terramont (FNO 357)**, a 15,000-square-foot center located at 10110 Woodlands Parkway in The Woodlands (215T). The property is 32% pre-leased, with quoted average rents at \$2.05 per square foot. Construction is expected to be completed by April 2007. **Gigi Smith** of Hunington will handle leasing duties.
- **CBL Properties** (423-855-0001) purchased an additional 8.5 acres of land located at the southwest corner of Highway 288 and FM 518 in Pearland (613N) for the development of **Pearland Town Center (SOU 333)**, a 700,000-square-foot mixed-use development. CBL already owns 110 acres at the site where they are currently constructing the center. Anchor tenants include a 155,000-square-foot **Dillard's**, a 150,000-square-foot **Foley's**, and a 29,000-square-foot **Barnes & Noble**.
- In the midst of bankruptcy, **Mills Corp.** (713-526-5000) agreed to be bought out by **Brookfield Asset Management** (212-417-7000) for \$1.35 billion. The buyout must still be approved by the shareholders for it to be official. Mills Corp. owns 38 malls across the country, including **Katy Mills Mall (FWE 164)** located at 5000 Katy Mills Circle in Katy (484C). The 8-year-old 1.2-million-square-foot mall is 94% occupied with average rents at \$2.08 per square foot. Tenants include **Bass Pro Shop**, **AMC Theaters**, and **Burlington Coat Factory**.

The following chart illustrates historical retail rental rates.



Hobby Lobby leased 59,000 square feet in **Shadow Creek Ranch Town Center (SOU 336)**, a 610,000-square-foot center currently under-construction near the intersection Highway 288 and FM 518 in Pearland (613N), from **Fox Properties** (713-993-0123). The property, which is slated for completion in September 2007, is 67% pre-leased with quoted rents at \$2.42 per square foot. A 150,000-square-foot **HEB** will anchor the development. **Scott Shillings** of **The Staubach Co.** represented the tenant, while **Will Deane** of **Transwestern** represented the landlord.

Salvation Army leased 21,000 square feet in **Beechnut Village Shopping Center (FSW 030)**, a 63,000-square-foot center located at 8145 S. Highway 6 in southwest Houston (528J), from **Beechnut & Highway 6, LP**. The 22-year-old property is 91% occupied with average rents at \$1.00 per square foot. **Bob Watson** of **Robert C. Watson Associates** represented the tenant, while **Peggy Rougeou** and **Eric Drymalla** of **Tarantino Properties** represented the landlord.

NewQuest Properties (281-477-4300) signed on two new tenants at **Willowbrook Pavillion (FNW 676)**, a 118,000-square-foot center located at the southwest corner of Highway 249 and Mills Rd. in northwest Houston (370P). The new tenants include **Movie Tavern**, which leased 43,000 square feet, and **It's Entertainment**, which leased 69,000 square feet. The recently converted 118,000-square-foot center is 88% occupied with average rents at \$1.83 per square foot. In-house brokers **Steve Alvis** and **Jay Sears** represented NewQuest.

Petco Animal Supplies leased 15,000 square feet in **Atascocita Commons (NEA 313)**, a 488,000-square-foot center located off of FM 1960 E. in Humble (337Y), from **Trammell Crow Co.** (713-963-1000). The newly opened center is 89% occupied with average rents at \$1.67 per square foot. Tenants include **SuperTarget**, **Palais Royal**, **TJ Maxx**, and **Office Depot**. **Matt Reed** of **NewQuest** represented the tenant, while **Matt Keener** of **CB Richard Ellis** represented the landlord.

INDUSTRIAL FACILITIES

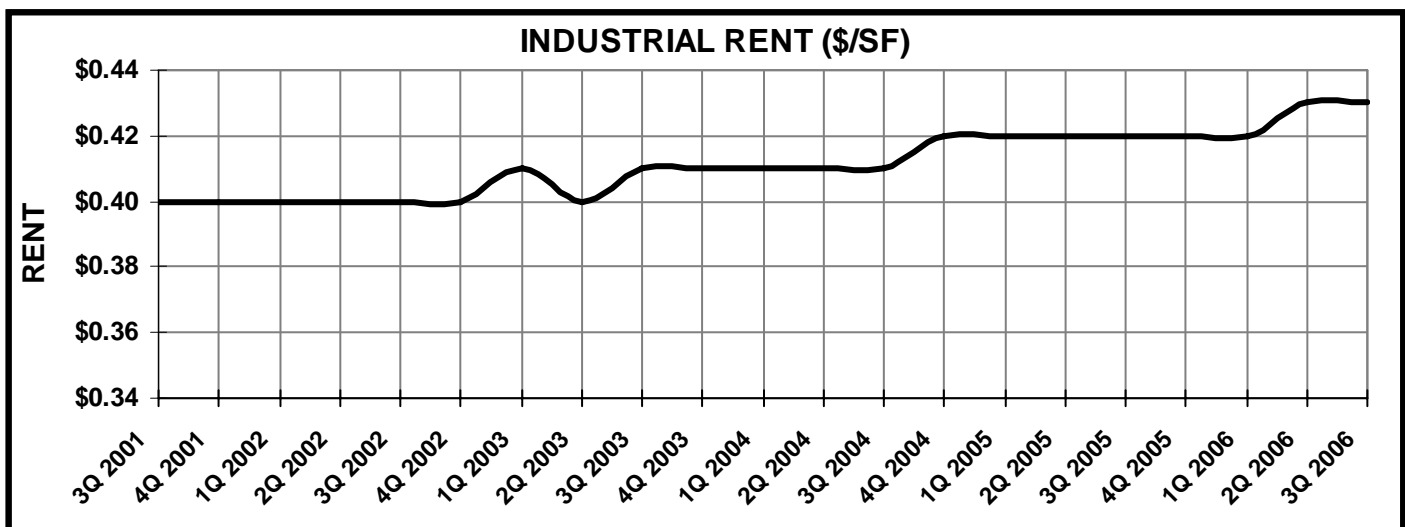
As more and more properties are being built with environmental concerns in mind, it is not surprising that industrial facilities are now jumping on the bandwagon. **Hunton Energy** (713-266-3900), part of the Houston-based **Hunton Group**, plans to build **Lockwood Road**, an energy efficient and economically friendly power plant that will be located near Smithers Lake in Fort Bend County (647F). The proposed \$2.4 billion plant will produce low greenhouse gas emissions and operate using petroleum coke, an affordable refining byproduct that is similar to coal but produces more heat per pound. **Valero Energy** has partnered with Hunton to provide the plant with its petroleum coke supply over the long term. Plans are to utilize carbon sequestration technology, which involves the injection of carbon dioxide emissions into the ground. The emissions into the ground help improve the recovery of oil in older wells in the area. Hunton Energy remains in negotiations for financing of the project and with Fort Bend County officials over possible tax breaks and incentives for the environmentally friendly plant.

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).

- **ProLogis** (713-613-6934) plans to build **ProLogis North Park (0110A)**, a two-building 219,000-square-foot distribution facility located near the intersection of Airtex Dr. and Richey Rd. in north Houston (332Y). The buildings will contain 139,000 and 80,000 square feet, respectively, and will feature 28-foot clearances. Construction is expected to begin by June 2007.
- **Catalyst Services, Inc.** (281-471-5522) plans to develop a 60,000-square-foot office/warehouse facility (**4798C**) in the **Seaco Business Park** at the intersection of Seaco Dr. and Seaco Ave. in Deer Park (537G). Construction of the property, which will be fully occupied by Catalyst, is slated to begin in early 2007, with completion expected by December 2007.
- **The Port of Houston Authority** (713-670-2400) announced that the **Port of Houston** reported all-time highs in operating revenue, container volume, and tonnage in 2006. Executive Director **H. Thomas Kornegay** indicated that preliminary estimates of earnings in 2006 increased by \$10 million to \$164.7 million.

The following chart illustrates historical industrial rental rates.



CalTex Holdings (909-737-9032) purchased the former **Abitibi Paper Mill (1003A)**, a 610,000-square-foot warehouse facility located at 18511 Highway 90 in northeast Houston (418V), from **Abitibi-Consolidated Corp.** CalTex plans to redevelop the 40-year-old property into multi-tenant warehouse space. **Doyle Touns** and **Rob Stillwell** of **Grubb & Ellis** represented both the buyer and seller.

Pelec Development (713-515-0034) purchased **Central City Industrial Park (3450X)**, a 245,000-square-foot warehouse facility located at 5301-54235 Polk St. in southeast Houston (494Y), from **Baker Hughes**. The 96-year-old facility, which was renovated in 1994, features 15- to 30-foot clearances and dock-level loading. The property is 43% occupied with average rents at \$0.28 per square foot. **Don Zoch** of **Boyd Commercial** represented the buyer, while **Conrad Bernard** of **Boyd Commercial** represented the seller. **Rob LaRue** of **Live Oak Capital** arranged acquisition financing on behalf of Pelec with funds provided by **Legg Mason Real Estate Investors, Inc.**

Seatex (713-868-1461) purchased **445 Highway 36 (5268N)**, a 120,000-square-foot office/warehouse facility located in Rosenberg (604K), from **Albis Plastics**. Seatex will fully occupy the 20-year-old property, which features 24-foot clearance and dock-level loading. **Chris Caudill** and **Joel Michael** of **NAI Houston** represented the buyer, while **Kip Collins** of **Binswanger, Conine, & Robinson**.

Pacific Longview, LLC purchased **104 Longview Dr. (0002L)**, a 45,000-square-foot warehouse facility located in Conroe (158Y), from **Henry Brooks**. The 8-year-old facility, which features dock-level loading, is fully occupied. **Monte Lowery** and **Preston Shatto** of **Marcus & Millichap** represented both the buyer and seller.

Doyles Valves (361-289-5150) purchased **McAulty Warehouse (0317K)**, a two-building 26,400-square-foot warehouse facility located at 2034 & 2038 McAulty Rd. in north Houston (373L), from 16435 **Alidine Westfield, LP**. The property, which contains two 13,200-square-foot buildings, was completed in 2006 and features grade-level loading. Doyles Valves will occupy one building and lease the other building, with average quoted rents at \$0.53 per square foot. **Mike Spears** of **The National Realty Group** represented both the buyer and seller. **Daniel Henderson** of Doyles Valves will handle leasing and management duties.

GSL Investments (713-772-1393) purchased **5535 Brystone Dr. (1063P)**, a 23,500-square-foot office/warehouse facility in northwest Houston (449B), from **DMJ Partnership**. The 9-year-old property features 20-foot clearance and grade-level loading. The building is fully occupied with average rents at \$0.65 per square foot. **Alexander Reiley** of **Boyd Commercial** represented the buyer, while **Dan Zoch** of Boyd represented the seller.

MEK Floors (713-462-2095) purchased **5510 Brittmore Rd. (1074T)**, a 14,000-square-foot distribution center located in the **Tanner Freeport Business Park** in northwest Houston (449C), from **Stewart Builders**. MEK Floors will fully occupy the property, which features 18-foot clearance and grade- and dock-level loading. **Joyce Hendley** of **Keller Williams** represented the buyer, while **Stephen Kuper** of **TNRG** represented the seller.

Suliba Investment, LP purchased **12626-A Dairy Ashford (4180U)**, a 12,000-square-foot service center located in Sugar Land (568H), from **Sugar Land Telephone Co.** Suliba plans to fully occupy the 22-year-old facility. **Norman Munoz** and **Coy Davidson** of **Colliers International** represented the buyer, while **Jennifer Raymond** of **Indermuehle & Co.** represented the seller.

Spartan Real Estate purchased **1000 Jackson Blvd. (2928)**, an 11,000-square-foot warehouse facility in southwest Houston (493N), from **Ron Scott, Inc.** Spartan will fully occupy the 45-year-old property. The buyer used in-house representation, while **Trish Ricklefsen** of **Keller Williams** represented the seller.

RoomStore, Inc. leased **11711 Clay Rd. (1084D)**, a 275,000-square-foot office/warehouse facility located in the **Claymoore Business Park** in west Houston (449L), from **Lutheran Brotherhood** (612-340-5795). RoomStore will fully occupy the 9-year-old property, which features 24-foot clearance. **Jeff Everist** of **CB Richard Ellis** represented the tenant, while **Brian Gammill** of **Transwestern** represented the landlord.

Smart Rags Recyclers leased 75,000 square feet in the **Market-McCarty Distribution Center (3502A)**, a 355,000-square-foot distribution facility located at 8000 Market St. in southeast Houston (495E), from **Teachers Insurance & Annuity Association** (212-490-9000). The property features 22-foot clearance with dock-level loading. The 30-year-old facility is 64% occupied with average rents at \$0.26 per square foot. **Clay Peeples** and **Andy Sowell** of **Boyd Commercial** represented the tenant, while **Edward Bane** and **Jon Michael** of **Holt Lunsford** represented the landlord.

Dupuy Storage Houston leased 75,000 square feet in **7100 Mykawa Rd. (4555)**, a 277,000-square-foot warehouse facility located in south Houston (534T), from **St. Paul Properties** (612-310-8449). The property features 22-foot clearance with grade-level loading. The 36-year-old facility is 81% occupied. **David Boyd** of **Boyd Commercial** represented the tenant, while **Darryl Noon** of **Transwestern** represented the landlord.

Johnson Matthey leased **4106 New West Rd. (5234F)**, a 16,000-square-foot office/warehouse facility in the **Bayport Industrial Park** located in southeast Houston (579E), from **GSL Industrial Partners** (713-952-7000). Johnson Matthey will fully occupy the 5-year-old property, which leases for an average of \$1.00 per square foot. **Doug Bates** and **Mark Wood** of **Henry S. Commercial** represented the tenant, while **Welcome Wilson, Jr.** and **Ryan Wasaff** of the **Wilson Wasaff Group, Inc.** represented the landlord.

VACANT LAND

Herbert Mouton purchased 6.9 acres of land located at 10902 Homestead Rd. in northeast Houston (414V) from **MetroBank**. The new purchase brings Mouton's total holdings at the site to 10 acres. **Mai Lan Ly Trinh** of **Sunterra Realty & Investments** represented the buyer, while **Andrew Lockwood** and **Sam Sheff** of **Grubb & Ellis** represented the seller.

RRB Investments Fund (281-873-4444) purchased 6.7 acres of land located in the 1300 block of Will Clayton Parkway in northeast Houston (376C) from **Orleans Venture**. RRB plans to sell off parcels for an office development. **Mark Wimberly** of the **Betz Companies** represented both the buyer and seller.

Ledgeston Park, LLC (713-539-6685) purchased 5.5 acres of land located on Canterbury Forest Dr., north of Louetta Rd. in northwest Houston (329T), from **6 Acre NW Houston Investment**. A broker with **Prudential Texas Realty** in Austin represented the buyer, while **Keith Edwards** of **Caldwell Watson Real Estate Group** represented the seller.

Concord Houston RI Hotel (919-455-2900) purchased 4.6 acres of land located near Bush Intercontinental Airport at 15836 JFK Boulevard in north Houston (374P) from **Park N' Fly of Texas, Inc.** Concord is in negotiations to build two **Marriot** hotels on the site. **Ron Marshall** of **Mac Haik Realty** represented the buyer, while **Mark Wimberly** of **Betz Companies** represented the seller.

JFC Development, Ltd. purchased 3.3 acres of land located near the southwest corner of Loop 610 and the Southwest Freeway at 4932 Glenmont Dr. (531C) from **Virginia Elverson**. JFC plans to develop townhomes on the site. The buyer used in-house representation, while **Bill Burge** and **Mark Lehman** of **Grubb & Ellis** represented the seller.

Sovran Acquisition purchased 2.6 acres of land on Cartwright Rd. at Colonial Lakes in Missouri City (609B) from **Cartwright Road Meadows**. Sovran, which owns the adjoining lot, plans to expand their mini-storage facility onto the site. The buyer used in-house representation, while **R. Conrad Bernard** and **Andrew Sowell** of **Boyd Commercial** represented the seller.

Dilip M. Amin and **Singh Hargurmat Mann** (832-287-1188) purchased 2.2 acres of land located near the intersection of Jones Rd. and Cypress N. Houston in northwest Houston (369J) from **Thomas Jack** and **Carol Lynn Iorio**. The buyers plan to build an office building on the property. **Jatin Desai** of **Samra Realty, LLC** represented the buyer, while **Keith Edwards** of **Caldwell Watson Real Estate Group** represented the seller.

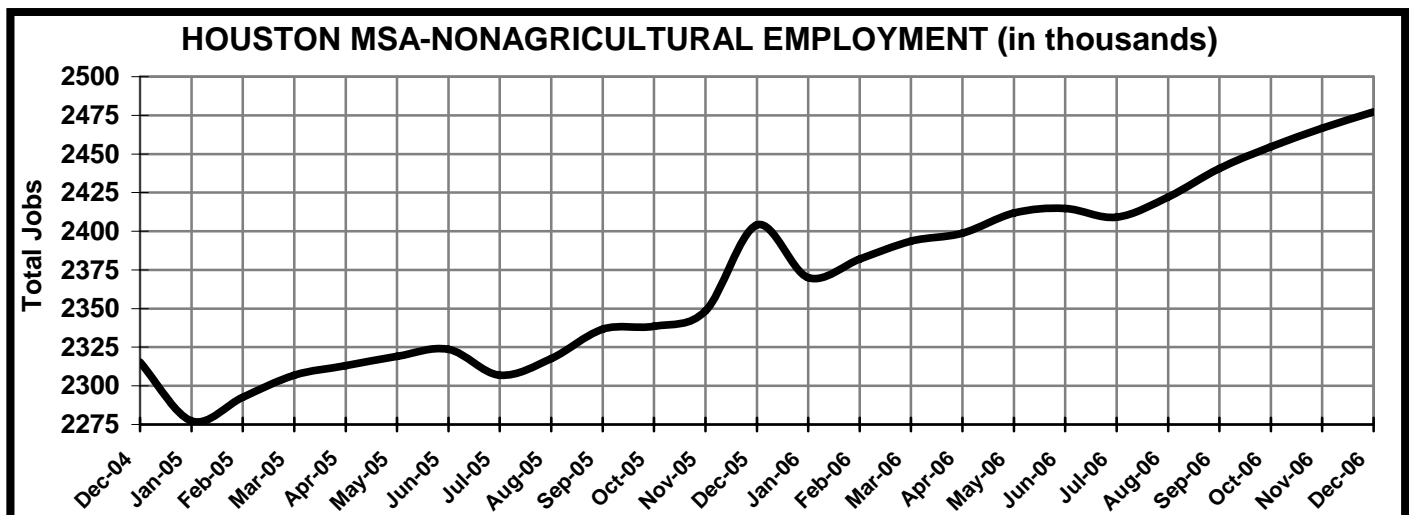
Fastenal Corp. (507-454-5374) purchased 1.9 acres of land located at 919 E Main St. in Tomball (289E) from **Manual Diaz**. **Michael Taetz** and **Cody Christoph** of **Colliers International** represented the buyer, while **Art Depue** of **Free & Associates** represented the seller.

Flaminia Investments (713-355-2800) purchased 1.2 acres of land located at 31 Briar Hollow Ln. in the Post Oak Park area (491R) from **Percy Don Williams**. Flaminia has yet to finalize plans for the site, however, the company is considering building townhomes on the property. The buyer used in-house representation, while **Bill Heavin** and **Matthew Herring** of **Grubb & Ellis** represented the seller.

ECONOMIC & FINANCIAL NEWS

The total number of wage and salary jobs in the ten-county Houston area increased by 8,900 jobs to 2,477,200 in December 2006, according to the **Texas Workforce Commission**. This month's total is 73,100 jobs more than the 2,404,100 jobs at this time last year. Of nonagricultural employers, the Trade, Transportation, & Utilities sector posted the largest gain over the month at 8,200 jobs, followed by the Leisure & Hospitality sector, with 1,400 jobs gained. Over the year, the Professional & Business Services sector has had the largest increase in employment, adding 17,600 jobs, followed by the Natural Resources, Mining, & Construction, which added 16,300 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 December 2006 were \$369.9 billion, an increase of 0.9% from the previous month, and up 5.4% from December 2005. Retail trade sales were up 0.7% from November, and were 4.9% above last year's level.

Personal income increased \$60.6 billion, or 0.5%, and Disposable Personal Income (DPI) increased \$50.8 billion, or 0.5%, in December 2006, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$67.1 billion, or 0.7% in December 2006. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.1% in December 2006, and is 2.5% higher than in December 2005. Energy, Transportation, other goods and services, and apparel posted the largest increases in price during December 2006.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** increased to 110.3 in January 2007, up 0.3 points from 110.0, in December. 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 0.3% in December to 138.0. 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 0.4% in December, and is 3.0% higher than the December 2005 level. Output in the manufacturing sector increased 0.7% in December, output of utilities declined 2.6% over the month, while output at mines increased by 0.8%. The rate of industrial capacity utilization was 81.8% in December, which reflected an increase of 0.2 points from the previous month, and a 2.4-point increase above the previous year's level.

Freddie Mac reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.14% in December 2006, which is down 0.10 points from November, and is down 0.13 points from one year ago. The average for the **15-year FRM** was 5.88% in December 2006, which is 0.08 points below last month's level, but is 0.06 points higher than it was in December 2005.

The **Federal Reserve** left the federal funds rate unchanged at 5.25% at their January session, marking the fifth 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.

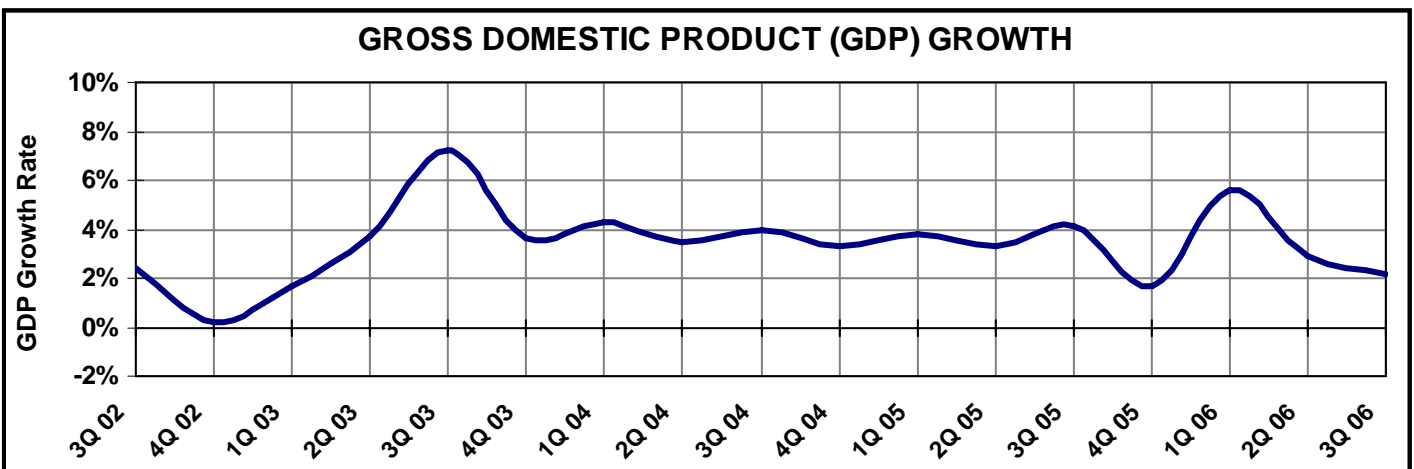
The **U.S. Department of Commerce** reports that real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 3.5% in the fourth quarter of 2006, up from the 2.0% growth rate recorded in the third quarter of 2006. The increase in GDP during the fourth quarter was attributed to positive contributions from personal consumption expenditures, exports, state and local government spending, and federal government spending.

The **U.S. Department of Commerce** reports that construction spending during December 2006 was estimated at a seasonally adjusted annual rate of \$1,177.7 billion, 0.4% below the revised November 2006 estimate. The December figure is 1.4% below the December 2005 estimate of \$1,194.5 billion. Private residential construction was at a seasonally adjusted annual rate of \$582.3 billion in December, 1.6% below the revised November estimate of \$592.1 billion, and 12.5% below the December 2005 estimate of \$665.6 billion.

The **Baker Hughes** count of active domestic rotary rigs stands at 1,699 during the week ending January 26, 2007. The rig count in December is up 14.3% from last year's figure of 1,487 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 U.S.

The **U.S. Department of Commerce** reported that the personal savings rate for all of 2006 registered -1%, a decline from last year's -0.4% savings rate. This marks the lowest annual savings rate since 1933 during the Great Depression, when the personal savings rate was -1.5%. The negative savings rate indicates that most households spent all of their annual income, plus dipped into savings or borrowed additional money on credit for further spending.

The **Federal Reserve Bank of Dallas** reported that the economy in Texas, northern Louisiana and southern New Mexico slowed during the last few months of 2006. The report indicated that though the energy sector remains strong, it is beginning to slow. Manufacturing activity and retail sales also softened during this time frame.



Source: Department of Commerce

POTPOURRI

Starwood Hotels & Resorts Worldwide, Inc. (914-640-8100) announced plans to open three hotels in the west Houston area. Adjacent to **MetroNational's Memorial City Mall (NRW 003)** at 303 Memorial City Dr. (490A), Starwood will build an upscale 250-room **Westin Hotel**. The hotel will also include 65 condominium units on the top floors. At the southeast corner of Interstate 10 and Beltway 8 (489D), Starwood plans to convert the 170-room **Radisson Suite Hotel Houston** into a **Four Points by Sheraton Houston**. The rebranded hotel is expected to open in the summer of 2007. And finally, on Beltway 8 near Hammerly Blvd. (449R), Starwood plans to build a 155-room **Sheraton Houston**.

The Carlyle Group (202-729-5626), in a joint venture with **Davidson Hotel Co.** (901-761-4664), have purchased the **Houston Sofitel Hotel**, a 334-room hotel located at 425 N. Sam Houston Parkway E. in north Houston (373S), from **Accor Worldwide**. The buyers plan to rename the hotel the **Crown Plaza Houston North Greenspoint**, an **Intercontinental Hotels** brand, and fully renovate the property. Amenities at the hotel include a full-service restaurant, swimming pool, fitness center, lounge, and 15,000 square feet of meeting space.

The **Memorial City Management District** voted on December 31, 2006 to expand their boundaries from 314 acres to 813 acres. The expansion will allow the management district to increase its overall taxable value, as there is now \$809 million worth of property located in the district's boundaries. The district is primarily in charge of area beautification projects, security, and promotional and marketing materials. Several major business owners within the confines of the district boundaries, including **Moody Rambin Interests**, **Midway Cos.**, **Trammell Crow Residential**, the **Taste of Texas Restaurant**, and **Mac Haik**, opted out of joining the district.

The Metropolitan Transit Authority (713-652-7992) has begun negotiations with Boise, ID-based **Washington Group International** (208-386-5000) to design and build Phase 2 of their Metro Solutions plan. Phase 2 calls for the building of a major intermodal transfer hub and the construction of four new light rail lines. Provided the negotiations are successful, Washington Group plans to begin pre-construction work in March 2007.

Four Houston area companies were named to **Fortune** magazine's list of "100 Best Companies to Work For". The companies include **Methodist Hospital System** at 9th, **David Weekley Homes** at 12th, **EKG Resources** ranked at 83rd, and **Men's Wearhouse** at 90th. Overall, the best company to work for was **Google, Inc.**, located in Mountainview, CA.

A Texas statewide study conducted by **Ray Perryman** for the **Independent Insurance Agents of Texas** reported that if a Hurricane the size of Katrina hit the Texas Gulf Coast, the state's entire economy would be devastated. The Gulf Coast area accounts for 30% of the state's annual economic output, 44% of the state's total income is tied to the area, and 40% of the state's jobs are tied to production along the Texas coast. In another report on the area, geologists from **Louisiana State University** warned that the Texas Gulf Coast is slowly sinking into the Gulf of Mexico. The report indicates that areas of Houston are sinking up to an estimated half-inch annually, and that there are certain areas of Houston that are fully ten feet lower than they were a half-century ago.

Six Flags Corporation is selling seven amusement parks across the country, including the **SplashTown** water park in Houston located at 21300 N. Interstate 45 in Spring (292T), to **PARC 7F-Operations Corp.** (904-992-9750) out of Florida. PARC plans to then resell the properties to CNL Income Properties, a Real Estate Investment Trust (REIT), and then leaseback the properties. PARC will continue to operate SplashTown and the other six properties, which include **Six Flags Darien Lake** in Buffalo, NY; **Six Flags Elitch Gardens** in Denver, CO; **Frontier City** and **White Water Bay** in Oklahoma City, OK; **Waterworld USA** in Concord, CA; and **Wild Waves** and **Enchanted Village** in Seattle, WA.

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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