



Houston Real Estate Trends

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APARTMENTS

First quarter 2007 numbers are in, and it appears that the worst may be over for the Houston apartment market. While occupancy posted another decline, the decrease was slight. It appears the move-outs of Katrina evacuees have subsided, as first quarter demand was strong; the market absorbed 2,539 units over the quarter, the strongest quarterly figure in over a year. Construction levels continue to be high, helping trigger the drop in occupancy despite the strong demand. Adding to the positive news, average rental rates increased once again over the first quarter. Furthermore, demand is likely to ramp up as Houston's economy continues to be strong and the influx of new residents for Houston-area jobs continues. The remainder of 2007 is looking relatively good for the apartment market in Houston.

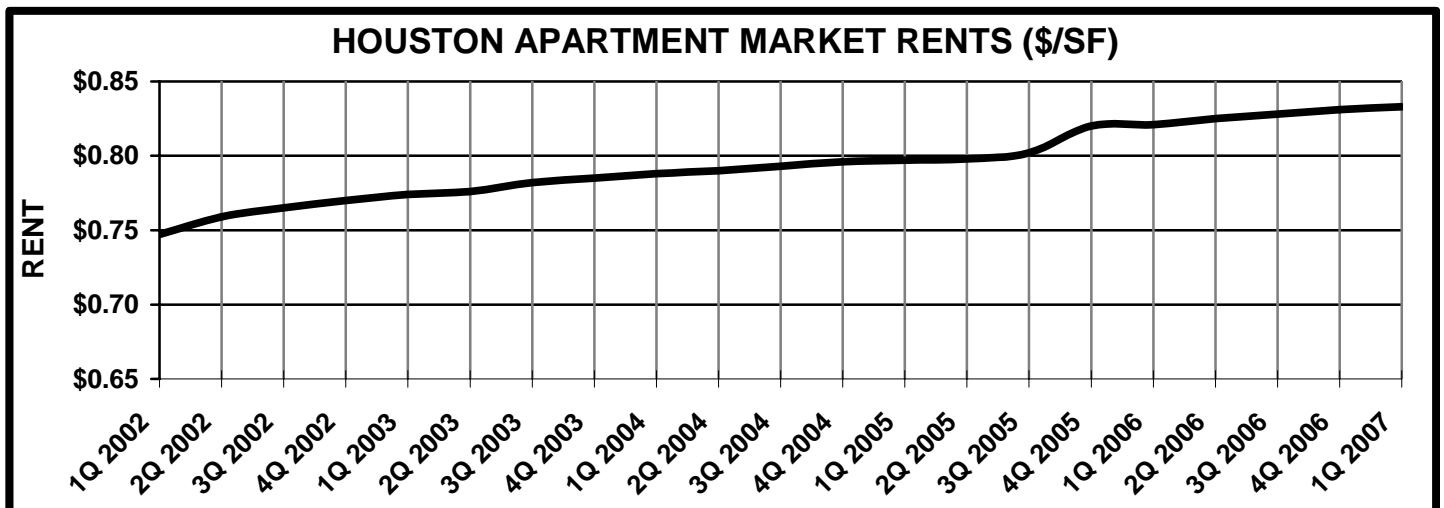
According to www.oconnordata.com, O'Connor & Associates' online apartment data program, **First Quarter 2007** overall **occupancy** for Houston area apartment projects is **88.49%** (Class A = 90.96%; Class B = 89.58%; Class C = 85.54%; Class D = 83.81%). Occupancy is down 0.04 points from the fourth quarter and down 2.59 points over the past year. The overall monthly **rental rate** is **\$0.833 per square foot** (Class A = \$1.097; Class B = \$0.814; Class C = \$0.691; Class D = \$0.597). Overall rents are up \$0.002 from the fourth quarter of 2006 and \$0.012 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).*

- A partnership between **Grayco Partners** (713-426-2004) and **Camden Property Trust** (713-354-2500) is planning to develop two apartment complexes. **The Belle Meade at River Oaks (17539)** will be a 119-unit project located at 2929 Westheimer in the Upper Kirby area (492T), while **Braeswood Place (17540)** will be a 340-unit project located at 3838 N. Braeswood Blvd. in southwest Houston (532K). Construction on The Belle Meade is slated to begin in July, with completion scheduled for December 2008. Construction on Braeswood Place is under way, with completion expected in December 2008.

- **The Morgan Group** (713-361-7200) is developing **Washington Point (17544)**, a 326-unit complex located at the northwest corner of Washington Ave. and Yale St. just west of downtown (492H). The complex will feature industrial-themed construction. Rents at the complex will average \$1.45 per square foot. Construction is under way, with completion expected in August 2008.
- **The Dinerstein Cos.** (713-977-4844) has begun construction on **The Millennium (17395)**, a 309-unit complex located at 4020-4040 Southwest Fwy. in the Greenway Plaza area (492W). Units will range from 709 square feet to 1,202 square feet in size, with rents averaging \$1.60 per square foot. Amenities will include stained concrete and hardwood flooring, track lighting, computer desks, and 42-inch plasma televisions in some units. Construction is expected to wrap up in March 2009.
- **Newport on the Lake, LP**, a partnership between **Cambridge Development** (713-961-1336) and **Atticus Real Estate Development**, is planning to develop **Newport on the Lake (17548)**, a 234-unit complex located along Barker Cypress Rd. between Saums and South Parkview in west Houston (447W). Units in the development, which will include one-, two-, and three-bedroom units, will range from 762 square feet to 1,454 square feet in size. Unit amenities will include built-in desks, granite countertops, crown molding, fireplaces, washer and dryer units, and attached garages. The complex will include a great room, business center, conference room, and fitness center. Construction is scheduled to begin within the next two months, with completion slated for May 2008. **John Fenoglio** and **Kelvin Wascom** of **Live Oak Capital** (713-993-1300) arranged financing for the project, with funds provided by **Key Bank**.

The following chart illustrates historical apartment rents.



Bascom Group (949-955-0888) purchased **Chestnut Park (1298)**, a 484-unit Class B complex located at 505 Cypress Station Dr. in north Houston (332F), from **Alex Brown Realty, Inc.** The 31-year-old complex, which is currently under renovation, is 70% occupied with average rents at \$0.80 per square foot. The buyer was represented in-house by **Ryan Akins, Jerry Hess, and James Dargenio**, while **Dirk Goris** and **Todd Marix** of **CB Richard Ellis** represented the seller.

GF Properties Group, LLC (970-764-6453) purchased **The Retreat at Westchase (4420)**, a 162-unit Class A complex located at 2921 Briarpark Dr. in the Westchase District (489Z), from **Briarpark Apartments, Ltd.** The 7-year-old complex is 98% occupied with average rents at \$1.20 per square foot. The buyer was self-represented in the transaction, while **Ed Cummins, Jim Hearn, Tom Warren,** and **Ryan Terrell** of **Hendricks & Partners** represented the seller.

SINGLE-FAMILY HOUSING

MLS home sales increased in February, as 4,868 used homes were sold, up from the 4,017 homes sold in January, according to the **Houston Association of Realtors (HAR)**. Sales for February 2007 were up 3.8% from February 2006. The median price of a used single-family home sold in February was \$146,000, up 2.5% from February of last year, while the average home price was \$195,561, up 2.6% from the February 2006 level. *Note: MLS sales include primarily used home sales throughout the Houston region. Historical comparisons are offered solely for informational purposes and may not truly reflect growth in sales.*

According to **American MetroStudy**, net sales of new homes increased 25% in January to 2,292 from 1,775 in December, and are down 17% from January 2006. Realtor co-op sales represented 57% of gross sales, down from 59% in January 2006. Traffic decreased 12% from last year to 25,630 in January 2007. The inventory of completed speculative homes (2,261) is up 7% from last year. There are 3,371 spec homes under construction, which is down 16% from 2006. Overall, the 5,632 specs (both completed and under construction) represent an 8% decrease from 2006. *Note: the 24 homebuilders in this survey account for approximately 65% of housing starts in Houston.*

Nationwide sales of new single-family homes decreased in January to a seasonally adjusted annual rate of 848,000, 3.9% below the revised January sales rate of 882,000, and 18.3% below the February 2006 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$250,000. Privately owned housing starts were at a seasonally adjusted annual rate of 1,525,000 in February 2007, 28.5% below the February 2006 figure. Privately owned housing completions were at a seasonally adjusted annual rate of 1,664,000 in February 2007, 18.4% below the February 2006 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, decreased 3 points in March to 36 on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring current sales of new single-family homes decreased by 3 points to 37, the index measuring sales expectations for the coming six months declined 3 points to 50, while the index measuring the traffic of prospective buyers decreased 1 point to 28.

According to the **National Association of Realtors (NAR)**, 387,000 existing homes were sold in February 2007, up 6.9% from the 362,000 sold in January, and down 3.7% from the 402,000 homes sold in February 2006. The median sale price was \$212,800, a 1.3% decrease from sale prices a year ago.

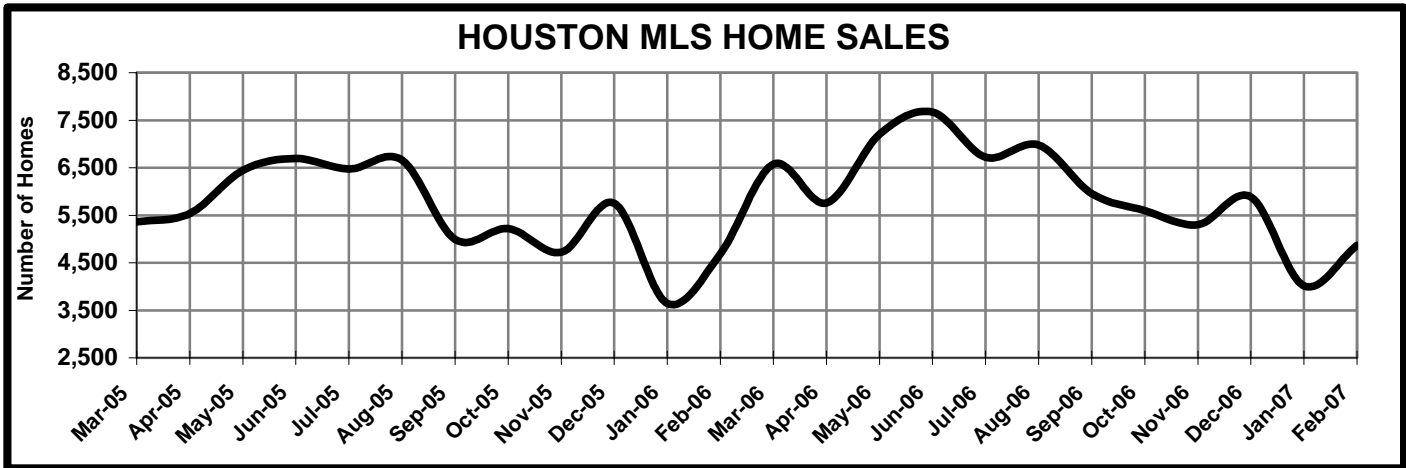
A recent study by **Bizjournals** ranked the Houston-Sugar Land-Baytown area as one of the most affordable housing markets in the country. The study found that, with a median home value of \$123,400, residents spend 22.7% of their monthly income on housing, and have a median monthly payment of \$885, including taxes. The area was ranked 31st in the survey. Augusta, GA came in as the most affordable area, while San Francisco-Oakland was ranked the least affordable, followed by four other areas in California: Los Angeles, San Diego, Oxnard-Thousand Oaks, and San Jose.

According to a report by the **Mortgage Bankers Association**, the percentage of mortgage payments that were 30 days or more past due reached a three-year high in the fourth quarter of 2006. Approximately 4.95% of mortgages were 30 days or more past due, up from 4.67% in the third quarter. The percentage of mortgages that began the foreclosure process reached a record high of 0.54% in the fourth quarter, while the late payment rate for subprime loans increased to a four-year high of 13.33% in the fourth quarter from 12.56% in the third quarter. The rate of subprime loans entering the foreclosure process reached a three-year high as well in the fourth quarter, at 2%.

According to the most recent report by **RealtyTrac**, over 130,000 homes nationwide entered foreclosure in February, the second highest figure since the company began collecting data in January 2005. However, the number of foreclosures declined 3.9% from January. Foreclosures in the Houston area numbered 3,396 in February, 18% lower than in February 2006. The company estimates that one in every 884 households nationwide entered the foreclosure process in February.

Three Houston-area communities were recognized on **RCLCO's** annual list of the top-selling master-planned communities. **The Woodlands** was ranked as the nation's third-best-selling community, with 1,409 sales in 2006. **Cinco Ranch** in west Houston came in fourth on the list, with 943 sales last year. **Eagle Springs** in northeast Houston was 10th on the list, with 509 sales in 2006. The nation's top-selling community last year, according to the list, was **Poinciana**, a community in central Florida.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

InnerLoopCondos.com (713-840-8400) is developing **Serento Condominium**, a 44-unit condominium project located at 2203 Dorrington St. near the Texas Medical Center (532G). Units will range from 819 to 1,445 square feet in size, with prices from the low \$200,000s to the high \$300,000s. Units will feature 9- or 10-foot ceilings, crown molding, recessed lighting, stainless steel appliances, granite countertops, and wine coolers. Community amenities will include a fitness center and common terrace. Construction is under way, with completion slated for February 2008. **iCap Realty Advisors** (713-888-4227) arranged \$7.1 million in financing for the project; financing was arranged by **Paul Gardaphe**, with funds provided by **Amegy Mortgage**.

Ryko Development (713-952-0200) is developing **Lakes of Bella Terra**, a 1,600-home community on 670 acres along Bellaire Blvd. west of the Grand Parkway in west Houston (525L). The community will feature a recreation and fitness center, pool, sand volleyball court, and tennis courts. Homes will range in size from approximately 1,600 square feet to 4,000 square feet, with prices between \$160,000 and \$1 million. Construction is under way, with completion expected in the summer of 2008.

Arete Real Estate Development (281-272-6134) is planning to develop **Southlake**, a 1,300-home community located south of FM 646, west of FM 3436, and north of FM 517 in Texas City (660U), on 418 acres recently purchased from **Marlin Atlantis White**. Homes in the community will range in price from \$110,000 to \$500,000. Construction is expected to begin in September, with the first homes scheduled for completion in April 2008. In the land sale, the buyer was represented in-house by **Joe Fogerty**, while **Kirk Laguarda** of **Land Advisors Organization-Houston** represented the seller.

K. Hovnanian Homes (713-460-0264) is developing **Park at Meadow Hills**, a community featuring approximately 500 homes on 93 acres along Spring Stuebner Rd. west of Falvel Rd. in north Houston (291Q), on land recently purchased from **Raymond Ulrich** and the late **Lillian Ulrich**. Homes in the community will range from 915 square feet to 2,080 square feet, with prices between \$92,990 and \$143,990. Construction is under way, with full build-out scheduled for 2011. In the land sale, the buyer was represented in-house by **Tim Early**, while **Kirk Laguarda** of **Land Advisors Organization-Houston** represented the seller.

Perry Properties (281-313-7000) is developing **Southern Colony**, a community located along FM 521 in Rosharon (727Y) that will feature 281 homes at completion. Perry recently purchased 66 acres from **Elan Development**, on which **Trophy Homes** will build 166 homes to add to the 115 that have already been completed in the community. The community will feature a park and a recreational facility. Prices for the homes begin at \$115,000, with sizes between 1,600 and 1,700 square feet. Construction is under way, with completion expected during the 3rd quarter of 2007.

Oakmont Group, Inc. (713-681-5566) is developing **Walden on Lake Houston Homes**, a 112-home community located at Nehoc Ln. and Farmingham Rd. in northeast Houston (337Z), on a 22.6-acre tract recently purchased from **Paul and Michele McCluney**. Home prices in the community will start at \$180,000, with home sizes between 2,000 and 3,000 square feet. Homes in the community will be built by **David Weekley Homes**. Construction is under way, with completion expected in October 2007. In the land sale, the buyer was represented in-house by **Jack Lee** and **Bill Burney**, while **Mark Wimberly** of **The Betz Companies** represented the seller.

Hahnfield Witmer Davis (713-840-1001) is developing **Kensington Park**, a 27-home community located at the intersection of Lake Pointe Pkwy. and Creekbend in Sugar Land (568X), near **Lake Pointe Town Center**. The homes will range from 2,450 square feet to 4,300 square feet in size, with prices between \$424,000 and \$577,000. Construction is under way on the community, in which 8 homes have been sold; completion is expected in two years.

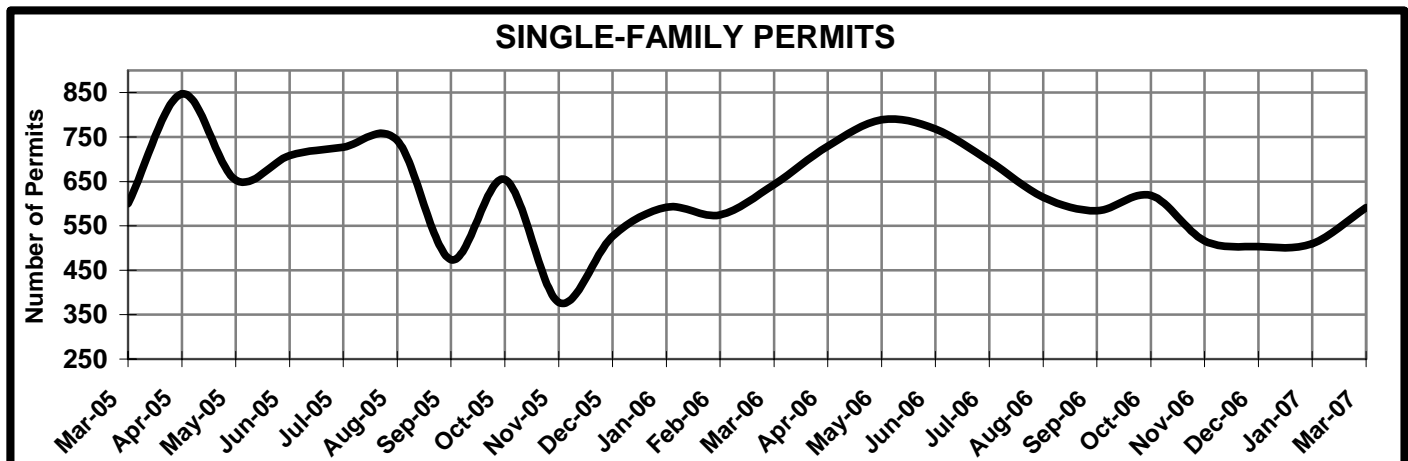
PERMIT ISSUANCE

The **City of Houston** issued permits to build 591 private single-family houses and 113 private multifamily buildings in March. Demolition permits were issued for 175 private single-family houses. In addition, 274 permits were issued for privately owned non-residential construction totaling \$107,962,913 and 20 permits were issued for public non-residential construction totaling \$1,088,500. Additions, alterations, and conversions totaled \$96,365,966 for the private sector and \$1,625,200 for the public sector.

Cost of Construction*

	2005	2006	2007
Month of March	\$312,550,714	\$471,838,693	\$511,299,707
Year-to-Date	\$530,712,245	\$1,107,909,958	\$1,354,238,735

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



OFFICE BUILDINGS

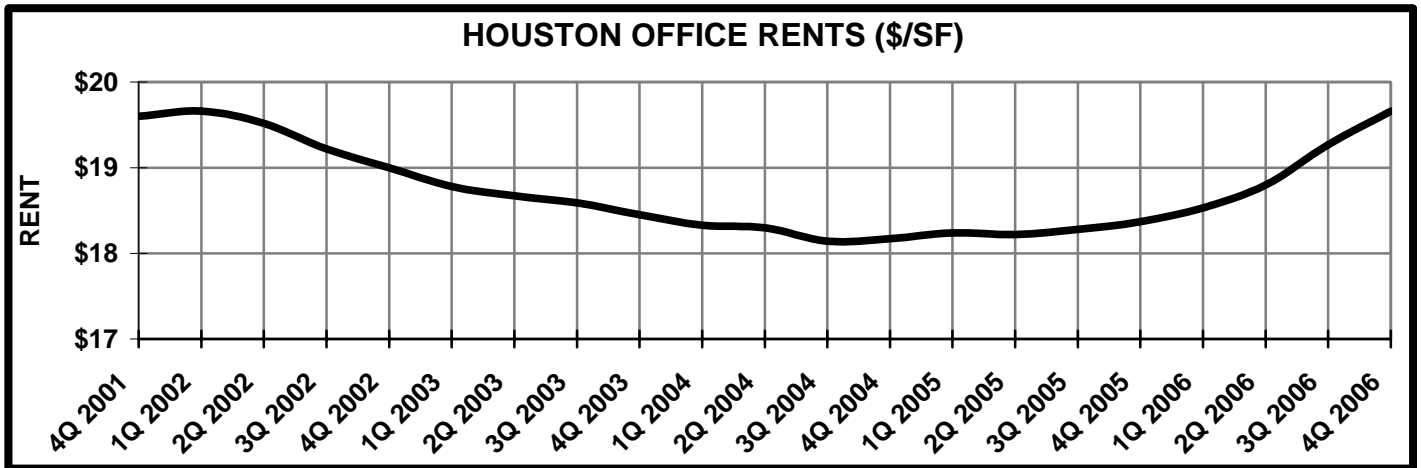
Over the past decade or so, suburban office buildings have become much more popular. Companies originally found them attractive because employees' short commutes helped keep them happy. However, the Houston office market resurgence has been led by the intown market, particularly the Central Business District. Large blocks of space in the CBD are becoming harder to come by every day, and the rumors about new development have started flying. Several major office developers have land holdings in the downtown area, and while just one building has been announced, speculation is rampant that several more will follow in the coming months. While suburban office buildings still have quite a following, downtown is currently prospering in the hot Houston office market.

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).

- **Trammell Crow Co.** (713-963-1000) is planning to develop **Discovery Tower (CBD 150)**, a 623,000-square-foot building located at 1501 McKinney in the Central Business District (493Q). Construction on the building is expected to begin in the 1st quarter of 2008, with completion slated for the 1st quarter of 2010. **John Pruitt** and **Cody Armbrister** of **CB Richard Ellis** are handling leasing.
- **Moody National Cos.** (713-977-7500) is planning to develop **Moody Park 10 (P10 056)**, a 175,000-square-foot office building located at Highway 6 and the Katy Freeway (488A), on a 12.32-acre site recently purchased from **Granite Properties**. The development will also feature a 127-room **Hyatt** hotel and a 101-room **Marriott** hotel. Construction is expected to begin on the hotels in 3 to 5 months, with construction on the office building beginning in 5 to 8 months. Construction is expected to wrap up in 18 months. In the land sale, the buyer was represented in-house by **Alex Sims**, while **John Tobin** of **Stan Creech Properties** represented the seller.
- **US Property Management** obtained \$20 million in refinancing for the **Lyric Centre (CBD 066)**, a 378,000-square-foot Class B building located at 440 Louisiana in the Central Business District (493L). The 24-year-old building is 95% occupied with average rents at \$19.00 per square foot. **Gary Dunkum** of **Live Oak Capital** (713-993-1300) arranged the financing, with funds provided by **John Hancock Real Estate Finance, Inc.**
- Six Houston office buildings were recently recognized by the **Houston Building Owners and Managers Association** in the **Office Building of the Year Awards**. **Two Memorial City Plaza** was recognized in the 250,000 to 499,999 square foot category, **5 Houston Center** was recognized in the 500,000 to 1 million square feet category, and **Four Oaks Place** was recognized in the over 1 million square feet category. **First City Tower** won in the renovated building category, while **Waterway Plaza** won in the suburban office park mid-rise category and **Legacy Center Business Park** won in the industrial office park category. Winners were selected based on community impact, tenant/employee relations programs, energy management systems, accessibility for disabled people, emergency evacuation procedures, building personnel training programs, and overall quality.

The following chart illustrates historical office rents.



Broadway Partners (212-319-7100) purchased **One City Centre (CBD 047)**, a 599,000-square-foot Class B building located at 1021 Main in the Central Business District (493Q), from **1021 Main Street Properties, LP**. The 47-year-old building is 90% occupied with average rents at \$24.00 per square foot. The buyer was represented in-house by **Jim Hennessy**, while **Robert Williamson** and **Scott Galloway** of **HFF** represented the seller.

Moody National Cos. (713-977-7500) purchased **2100 West Loop South (GAL 118)**, a 166,000-square-foot Class B building in the Galleria area (491V), from **Rockwell Management Co.** The 33-year-old building is 88% occupied with average rents at \$20.00 per square foot. The buyer was represented in-house by **Teddy D. Dykoski** and **Brett Moody**, while **Danny Miller** of **HFF** represented the seller.

University of St. Thomas (713-522-7911) purchased two Montrose-area office buildings: **4200 Montrose (MAP 093)**, a 74,000-square-foot Class B building constructed in 1986, and **4203 Yoakum (MAP 051)**, a 34,000-square-foot Class B building constructed in 1999, from **John Hansen Investment Builder**. The university also purchased **The Campanile (INL 086)**, a 12,000-square-foot, 21-year-old retail center located at 4100 Montrose Blvd. (493S), from **John Hansen Investment Builder**. Both office buildings and the retail center are fully leased. UST plans to eventually occupy the buildings, which are adjacent to its campus, but existing tenants will be allowed to stay for what the university estimates will be at least five years. The buyer was represented in-house in all three sales, while the seller was represented in-house by **John Andell** and **Ryan Haley**.

100 North Freeway Investments, LLC purchased **Conroe Central (TWC 033)**, a 74,000-square-foot Class C building located at 100 North Fwy. in Conroe (187D), from **Huntsville Investments**. The 30-year-old building is 93% occupied with average rents at \$16.00 per square foot. **Henry Hagendorf** and **Brian Hines** of **Sperry Van Ness** represented the buyer, while **Marshall Willey** of **Homestead Land Co.** represented the seller.

Gillette Properties (713-532-5353) purchased **3 Northpoint Dr. (GNB 067)**, a 54,000-square-foot Class B building in the Greenspoint area (372V), from **Barbosa Group, Inc.** The 28-year-old building is fully leased. The buyer was represented in-house by **Boyd Alexander**, while **Martin O'Malley** and **Christopher Klein** of **Colliers International** represented the seller.

Lockheed Martin leased 80,000 square feet at **2400-50 NASA Parkway (CLC 044)**, a Class B office park totaling 160,000 square feet located in the Clear Lake area (619S), from **Travelers Insurance Co.** (410-321-1900). The 23-year-old building is fully leased with average rents at \$18.50 per square foot. **Derrell Curry** of **Studley Houston** represented the tenant, while **John Pruitt** and **Dena Wren** of **CB Richard Ellis** represented the landlord.

Tudor, Pickering & Co. leased 40,000 square feet in **Heritage Plaza (CBD 094)**, a 1,149,000-square-foot Class A building located at 1111 Bagby in the Central Business District (493Q), from **Goddard Investment Group** (404-442-5500). The 21-year-old building is 87% occupied with average rents at \$31.00 per square foot. **Louie Caprito** and **David Bale** of **The Staubach Co.** represented the tenant, while **Matt Schendle** and **Mark Dickenson** of **Cousins Properties** represented the landlord.

Houston Title Co. and Old Republic National Title Holding Co. renewed its lease for 24,000 square feet at **777 Post Oak Blvd. (GAL 051)**, a 175,000-square-foot building located in the Galleria area (491R), from **Gateway Ridgecrest, Inc.** (713-572-9482). The 34-year-old building is fully leased with average rents at \$23.50 per square foot. **Scot Ison** of **Axis Property Advisors** represented the tenant, while **Elaine Burcham** of **RREEF** represented the landlord.

Atos Origin leased 23,000 square feet in **Southwest Corporate Center (SWF 094)**, a 354,000-square-foot Class B building located at 9700 Bissonnet in southwest Houston (530S), from **YoungWoo & Associates** (212-477-8008). The 32-year-old building is fully occupied with average rents at \$16.50 per square foot. **Gerry Trione**, **Doug Elliott**, and **Bill Boyer** of **CB Richard Ellis** represented the tenant, while **Steve Bryant** of **Moody Rambin Interests** represented the landlord.

BBVA Bancomer leased 13,000 square feet at **Galleria Financial Center (GAL 095)**, a 251,000-square-foot Class A building located at 5065-5075 Westheimer in the Galleria area (491U), from **Walton Street Capital** (312-915-2800). The 30-year-old building is 90% occupied with average rents at \$24.69 per square foot. **Robert Parsley** and **Jay Kyle** of **Colliers International** represented the tenant, while **Chip Colvill** and **Michael Anderson** of **Colvill Office Properties** represented the landlord.

RETAIL CENTERS

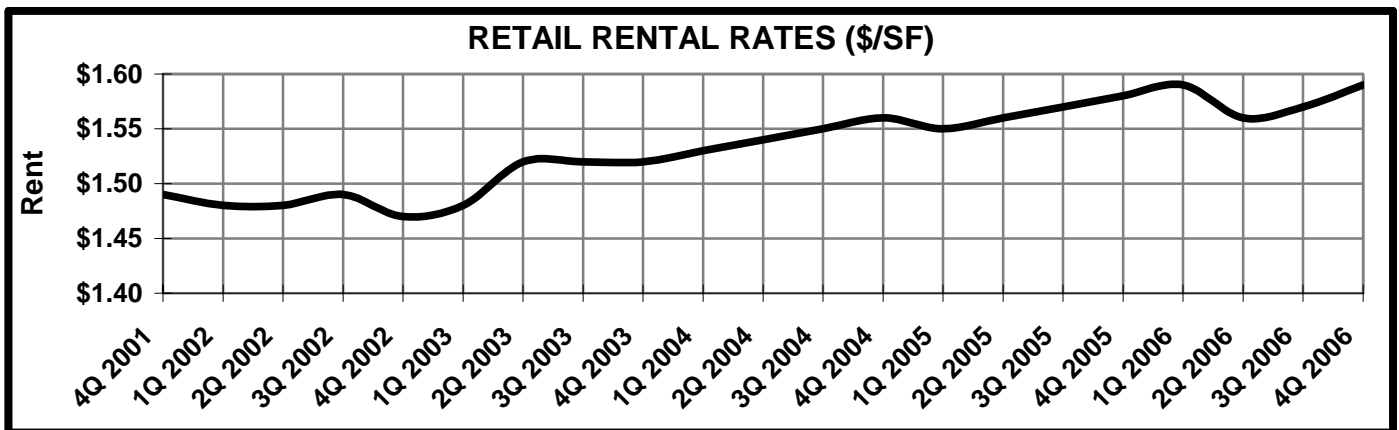
As inner cities became less popular among families over the past 20 years or so, retailers have followed suit, and large retail centers continue to be constructed on Houston's outskirts today; many retailers in these centers have relocated from closer-in parts of cities, depressing performance among retail centers in these areas. However, a new breed of retailer has emerged that attempts to take advantage of this situation. Retailers featuring clearance or inexpensive merchandise, most notably Big Lots, actively look for space in older centers in areas of cities seen by some other retailers as undesirable locations, and frequently fill vacant grocery store spaces in these centers. These retailers are able to capitalize on lower rents and a readily available target market. Residents of aging, sometimes run-down areas of cities need retail services just as much as residents of more affluent suburbs, and retailers are beginning to recognize this fact. The growth of such retailers could be a boost for areas of Houston in which performance of retail centers has slumped over the past few years.

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).

- **Manley Bereson & Associates** (617-236-4996) is planning to redevelop **Northline Mall (NNW 127)**, a 47-year-old, 850,000-square-foot mall located at 400 Northline Mall in north Houston (453K). A series of new freestanding buildings will be constructed that will make up the new center, which will be called **Northline Commons (NNW 348)**. The center will feature a 250,000-square-foot **Wal-Mart Supercenter (NNW 349)**, as well as 450,000 square feet of other retail space. **Marshalls** has leased 28,000 square feet of space in the new center. Construction is under way, with completion estimated for December 2008; after completion of the new center, the existing mall will be demolished. In the Marshalls lease, **Culver Stedman** of **Page Partners** represented the tenant, while **Lynn Davis** of **Fidelis Realty** represented the landlord.
- **Regency Centers** (713-599-3500) is developing **Westwood Village (FNO 358)**, a 295,000-square-foot center located at FM 1488 and FM 2978 in Magnolia (215M). The center, which will be anchored by **Target**, is 51% preleased. Construction is under way, with completion expected in September 2007. **Abe Pacetti** and **Ben Brown** are handling leasing for Regency.
- According to a recent survey by the **National Retail Federation**, the average shopper expects to increase their spending on Easter this year. The survey reports that the average shopper will spend \$135 on Easter this year, up 11% from approximately \$122 last year. Consumers will spend the most on meals and clothing. Consumers between the ages of 25 and 34 will spend the most, averaging \$147.47, followed by those between the ages of 45 and 54, who will spend \$144.13 on average. The survey reports that discount stores should see the most traffic, but more consumers plan to shop at department stores this year.
- **The Retail Connection** has announced plans to open a Houston office. The office will be the third for the company, which has an office in San Antonio in addition to its Dallas headquarters. The company has the leasing assignment for more than 17 million square feet of retail space. **David Stukalin**, who recently joined the company as a partner, will head the new Houston office.

The following chart illustrates historical retail rents.



AVG Partners (310-273-0864) purchased two retail centers in Pearland. AVG purchased **Pearland Centennial (FSE 206)**, a 33,000-square-foot center located at 2800 E. Broadway (615Q), from **Pennington-Chen Interests**, and a 50,000-square-foot former **Randall's** store (**FSE 367**) located in the same center from **Safeway**. Prior to the sale, **The University of Texas Medical Branch** leased 18,000 square feet in the former Randall's. In the UTMB lease, the landlord was represented in-house by **Chad Oflen**, while **Kelley Carmody** of **Commercial Houston** represented the tenant.

Blackstone Capital Group (310-829-0200) purchased **Barker Cypress Market Place (FNW 248)**, a 67,000-square-foot center located at 6960 Barker Cypress in northwest Houston (407P), from **Investcorp**. The 9-year-old center, which is anchored by **H-E-B**, is 88% occupied with average rents at \$1.34 per square foot. The buyer was represented in-house by **Mikail Halston**, while **George Cushing** and **Wendy Vandeventer** of **Grubb & Ellis** represented the seller.

DSW leased 15,000 square feet in **Hedwig Village Shopping Center (NRW 303)**, a 170,000-square-foot center located at 9425 Katy Fwy. in west Houston (490B), from **Levcor, Inc.** (713-268-3716). The 38-year-old center is 98% occupied. **Tim Donovan of The Retail Connection** represented the tenant, while the landlord was represented in-house by **Larry Levine, Dan Smith, and Kevin Block.**

INDUSTRIAL FACILITIES

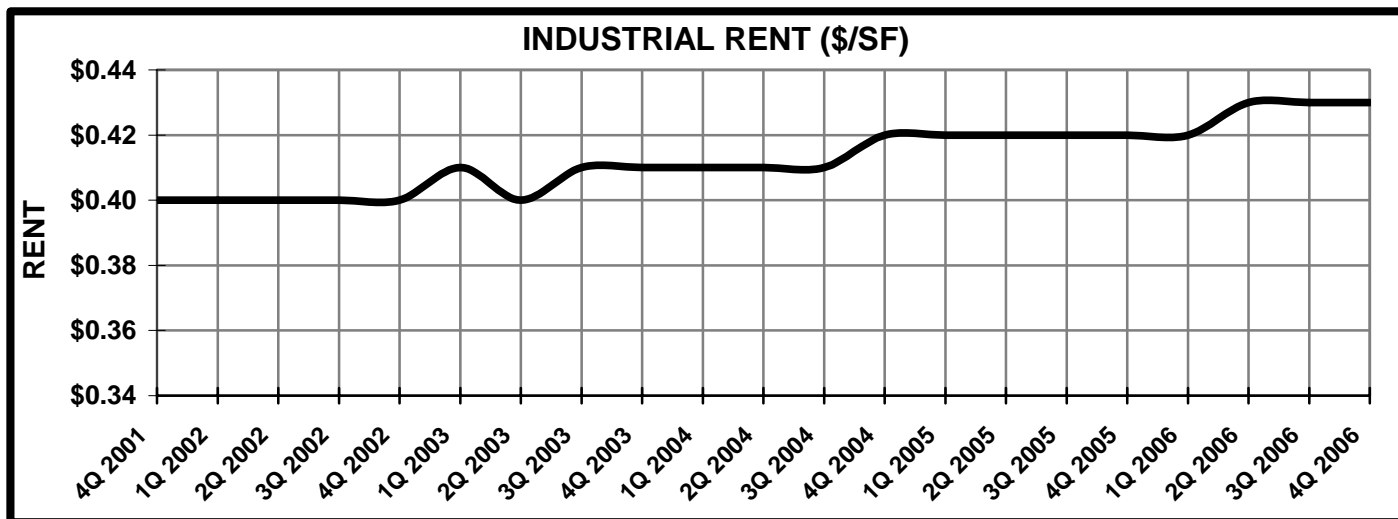
Many of Houston's older industrial facilities are located relatively close to downtown. However, as Houston's boundaries have pushed farther and farther outward and residents have followed, there is less of a need to have these industrial facilities close to the city center. Many older industrial facilities also lack many of the features users want, such as high clearances, rail access, sprinklers, and other modern amenities. Many times these facilities are simply torn down in order to make way for new development or are occasionally an industrial building is renovated for a new use. Industrial developers typically seek out land that is more inexpensive than what one might find near downtown, making the area somewhat unattractive for new industrial development. The combination of these factors means that it is likely that the flight of industrial users towards Houston's outlying areas will continue, and most new industrial development will be located in the suburbs as well.

According to the O'Connor & Associates **Fourth Quarter 2006 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is **91.56%** (Flex = 88.74%; Bulk = 92.92%; Manufacturing = 93.73%, Service = 85.25%, Distribution = 89.46%, R&D = 94.69%). Occupancy is down 1.05 points from the last quarter, and down 0.43 points over the last year. The overall monthly **rental rates** remained flat at **\$0.43 per square foot** (Flex = \$0.45; Bulk = \$0.36; Manufacturing = \$0.35, Service = \$0.55, Distribution = \$0.39, R&D = \$0.59).

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).

- **Worthington Development, LLC** (281-590-7200) is developing **High Ridge Industrial Park**, a park featuring 127 for-sale industrial/office suites located at 5750 N. Sam Houston Pkwy. E. in northeast Houston (374V). The units, which will feature grade-level loading, will range from 1,950 square feet to 2,100 square feet in size, with prices between \$237,900 and \$264,000. Construction is under way, with completion slated for October 2008.
- **Clay Development & Construction** (713-789-2529) is developing a 60,000-square-foot expansion of the corporate headquarters of **20/20 Exhibits (4909A)**, located at 10550 S. Sam Houston Pkwy. in south Houston (570F), on a 2-acre site 20/20 Exhibits recently purchased from **EE&T Corp.** In the land sale, **John Ferruzzo** and **Chris Caudill** of **NAI Houston** represented the buyer, while **Kenny Lo** of **AA Realty** represented the seller.
- **Greatwood Investments Co.** (281-344-0700) is planning to develop a 27,000-square-foot office/warehouse facility (**1428A**) located at Barney Rd. and Southerland Rd. in northwest Houston (451A), on 2 acres of land recently purchased from **Kathy Frazier**. The facility, which will feature 20-foot clearance with grade-level loading, will be owner occupied. Construction is scheduled to begin in two months. In the land sale, **Mark Lehman** and **Bill Burge** of **Grubb & Ellis** represented the buyer, while **Greg Wellen** of **Capital Real Estate Commercial** represented the seller.

The following chart illustrates historical industrial rents.



Liberty Property Trust (281-955-2000) purchased **Greens Crossing Distribution Center (0288E, 0288F, 0288G)**, a warehouse complex totaling 575,000 square feet located at 11201 Greens Crossing Pkwy. and 850-860 Greens Pkwy. in north Houston (372P), from **Simmons Vedder & Co.** The recently-completed facilities have clearances ranging from 20 to 32 feet. All three facilities are available; **Faron Wiley** and **Corey Driskill** of **CB Richard Ellis** are handling leasing.

Cole Cos. (602-778-8700) purchased **Academy Distribution Center (2929)**, a 483,000-square-foot warehouse located at 1800 Mason Rd. in Katy (493P), from **Academy, Inc.** in a sale-leaseback transaction. Academy signed a 20-year lease for the 31-year-old facility. **Stan Johnson** and **Gill Warner** of **Stan Johnson Co.** represented the seller.

Bourguignon Family, LP purchased **Rankin Road I (0300)**, a 105,000-square-foot warehouse located at 910 Rankin Rd. in north Houston (373F), from **American International Industries.** The 25-year-old facility, which features 22-foot clearance with dock-level loading, is fully leased with average rents at \$0.38 per square foot. **Ross Cannizaro** and **Zach Caraway** of **Marcus & Millichap** represented both the buyer and seller.

Simpkins Group (713-963-0885) purchased **5203 Aeropark Dr. (0413D)**, a 88,000-square-foot office/warehouse facility located in northeast Houston (374U), from **Aeropark, LP.** The buyer then leased the facility to **Mahindra USA.** Average rents at the 7-year-old facility, which features 21- and 25-foot clearance with dock-level loading, are \$0.45 per square foot. In the sale, **Jarret Venghaus** of **The Staubach Co.** represented the buyer, while **J. Michael Boyd** and **Alexander Reilly** of **Boyd Commercial** represented the tenant. In the lease, the landlord was represented in-house by **Rob Bryant**, while **Jarret Venghaus** of **The Staubach Co.** represented the tenant.

AMI (713-932-1122) purchased **5295 Hollister Dr. (1277B)**, a 29,000-square-foot research and development facility in northwest Houston (450D), from **5603 Hollister.** The 28-year-old facility will be owner occupied. **Jon Silberman** of **NAI Houston** represented the buyer, while **Clayton Peeples** of **Boyd Commercial** represented the seller.

Studio Management, Inc. purchased **14149 Westfair Dr. (0468A)**, a 10,000-square-foot office/warehouse facility in **Westland Business Park** in northwest Houston (408G), from **BRG Cornerstone Development & Construction.** The recently completed facility, which features 18-foot clearance with grade-level loading, will be owner occupied. **Brian Felt** of **Trish Baldwin & Associates** represented the buyer, while **Travis Land** and **John Ferruzzo** of **NAI Houston** represented the seller.

Hydratight leased **1102 Hall Ct. (4841A)**, a 28,000-square-foot office/warehouse facility in Deer Park (538M), from **Clay Development & Construction** (713-789-2529). The year-old facility features 24-foot clearance. **Robert Clay** of **Clay Development & Construction** brokered the lease.

Sunrise Fasteners renewed their lease for 10,000 square feet at **I-10 Park (2384)**, a 151,000-square-foot warehouse located at 1105-1111 Upland Dr. in west Houston (489B), from **Whitestone REIT** (713-467-2222). The 30-year-old facility, which features 14- and 18-foot clearance and dock- and grade-level loading, is 87% occupied with average rents at \$0.43 per square foot. The tenant was represented in-house, while the landlord was represented in-house by **Brian Harbuck**.

VACANT LAND

M&M Rafizadeh purchased 53 acres of land at U.S. Highway 59 and Highway 36 in Rosenberg (604Y), from **Elwen Properties**. **Mike Bennett** of **Bennett Properties** represented the buyer, while **Bill Heavin** and **Matthew Hering** of **Grubb & Ellis** represented the seller.

Windfern Lane Properties, LLC purchased 10.3 acres of land near the intersection of Windfern Lane and Puerto Rico in northwest Houston from **Essex Fairbanks Investors**. The buyer plans to develop an industrial facility on the site. **Payton Indermuehle** of **Indermuehle & Co.** represented the buyer, while **Marc Drumwright** of **Southwest Realty Advisors** represented the seller.

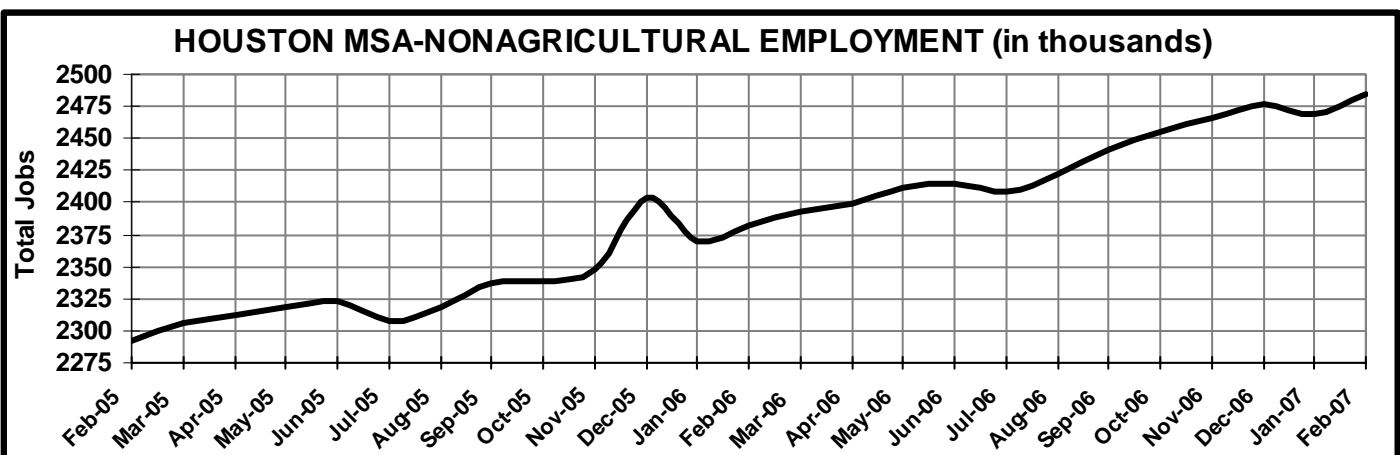
Gulf Coast Regional Blood Center (713-790-1200) purchased 8.9 acres of land located at Fannin St. and Holmes Rd. in south Houston (532Z), from **Management & Investment Services**. The buyer plans to develop an office/warehouse facility on the site, which it will occupy. The buyer was represented by **Jesse Tollett**, while **Thad Hickman** of **Grubb & Ellis** represented the seller.

Malik Waliandy purchased 6.7 acres of land located at Beltway 8 and Scott St. in south Houston (573Y) from **Jeito Foundation** for \$1,459,260 (\$5 per square foot). The buyer plans a retail development on the site. The buyer was self-represented in the transaction, while **Kirk Laguarda** of **Land Advisors Organization** represented the seller.

ECONOMIC & FINANCIAL NEWS

The total number of wage and salary jobs in the ten-county Houston area increased by 15,600 jobs to 2,484,700 in February 2007, according to the **Texas Workforce Commission**. This month's total is 90,200 jobs more than the 2,394,500 jobs at this time last year. Of nonagricultural employers, the Government sector posted the largest gain over the month at 6,500 jobs, followed by the Construction sector, with 3,600 jobs gained. Over the year, the Professional & Business Services sector has had the largest increase in employment, adding 14,500 jobs, followed by the Trade, Transportation & Utilities sector, which added 13,800 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 February 2007 were \$370.5 billion, an increase of 0.1% from January, and up 3.2% from February 2006. Retail trade sales were up 0.2% from January, and were 3.1% above last year's level.

Personal income increased \$65.4 billion, or 0.6%, and Disposable Personal Income (DPI) increased \$53.8 billion, or 0.5%, in February 2007, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$55.5 billion, or 0.6% in February 2007. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.5% in February 2007, and is 2.4% higher than in February 2006. Food and beverages, apparel, medical care, and housing posted the largest increases in price during February 2007.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** decreased to 107.2 in March 2007, down 4.0 points from 111.2, in February. The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** decreased 0.5% in February to 137.3. The index is an indicator of direction the economy is expected to take in coming months, relative to a figure of 100 in 1996, the base year.

According to the **Federal Reserve**, industrial production increased 1.0% in February, and is 3.4% higher than the February 2006 level. Output in the manufacturing sector increased 0.4% in February, output of utilities increased 6.7% over the month, while output at mines increased 0.1%. The rate of industrial capacity utilization was 82.0% in February, which reflected an increase of 0.6 points from the previous month, and a 0.9-point increase above the previous year's level.

Freddie Mac reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.29% in February 2007, which is up 0.07 points from January, and is up 0.04 points from one year ago. The average for the **15-year FRM** was 6.02% in February 2007, which is 0.05 points above last month's level, and is 0.16 points higher than it was in February 2006.

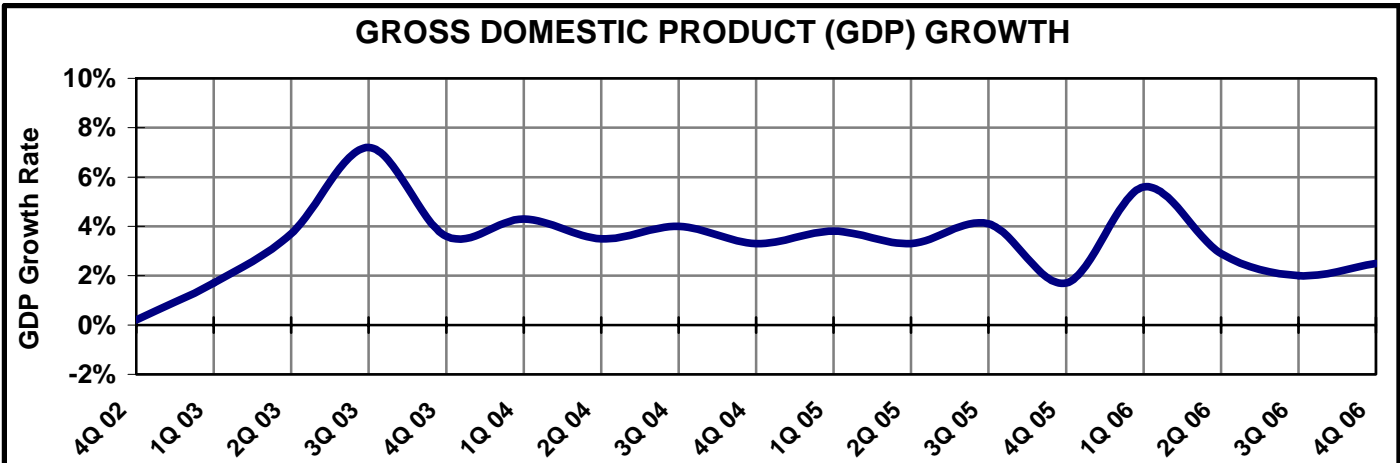
The **U.S. Department of Commerce** reports that real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 2.5% in the fourth quarter of 2006, up from the 2.0% growth rate recorded in the third quarter of 2006. The increase in GDP during 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 February 2007 was estimated at a seasonally adjusted annual rate of \$1,170.8 billion, 0.3% above the revised January estimate. The February figure is 2.4% below the February 2006 estimate of \$1,199.9 billion. Private residential construction was at a seasonally adjusted annual rate of \$562.4 billion in February, 1.8% below the revised January estimate of \$567.9 billion, and 15.1% below the February 2006 estimate of \$662.6 billion.

The **Federal Reserve** left the federal funds rate, the benchmark interest rate that banks charge each other, unchanged at 5.25% at its March meeting. The Federal Reserve cited inflation worries, as well as weaker economic indicators and the adjustment of the housing sector in making its decision. The March meeting marked the sixth straight meeting at which the rate was left unchanged, with the most recent change having been made at the June 2006 meeting.

According to statistics recently released by the **U.S. Bureau of Labor Statistics**, the Houston area gained 99,100 jobs between January 2006 and January 2007, more than any other metropolitan area in the nation. Oil and gas-related jobs led the way, as the number of jobs in the extraction sector increased by 7.1%, with the number of jobs in support activities up 12.1%. Jobs in computer systems design and related services increased 7.2%, while the number of jobs in durable goods manufacturing rose 5.9%.

The **Baker Hughes** count of active domestic rotary rigs stands at 1,749 during the week ending March 30, 2007. The rig count in March is up 11.0% from last year's figure of 1,576 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.



Source: Department of Commerce

POTPOURRI

According to a report recently released by the **U.S. Census Bureau**, the Houston-Baytown-Sugar Land metropolitan statistical area is now the nation's sixth largest. The bureau reports that the MSA grew 824,547 people, or 17.5%, between April 1, 2000 and July 1, 2006, with the current population estimated at 5,539,949. The growth figures over that time period are the third-highest in raw numbers and the 30th-highest in terms of percentage among areas nationwide. Texas' population grew by approximately 2.7 million over the same time period. The Atlanta area gained approximately 890,000 residents over the six-year period, the largest numerical gain, followed by Dallas-Fort Worth with an estimated population increase of 842,000. In terms of percentage growth, St. George, Utah was the fastest growing, with a population increase of 39.8% between 2000 and 2006.

Astrodome Redevelopment Corp., the developer endorsed by Harris County to transform the Astrodome into a destination hotel complex, has missed two deadlines set by the county to show proof of a financial partner for the project. The developer missed a December 2006 deadline, after which the county granted an extension to March 1. While the developer found a bank interested in backing the development, the Harris County Sports & Convention Corp. was not satisfied with the level of commitment shown by the bank. However, according to the developer, the bank should commit to funding the project in the near future as it receives more information from the developer. Astrodome Redevelopment Corp. expects to begin construction on the project, which will include a four-star hotel, parking garage, restaurants, nightclubs, and retail space, in early 2008.

Baylor College of Medicine is planning to build its first hospital, which will be located on a 35-acre site adjacent to the Michael E. DeBakey Veterans Affairs Medical Center. The complex will also include faculty offices and a clinic to replace the existing Baylor clinic. All of the school's specialties except for pediatrics, obstetrics, psychiatry, and intense rehabilitation services will move to the hospital, which will offer emergency services but will have no trauma center. The hospital will initially span approximately 1.1 million square feet and have 256 beds; a planned second phase would increase the size to 2.7 million square feet and 600 beds. Construction costs are estimated at \$568 million. Baylor plans to break ground on the hospital in July, with completion slated for 2010.

George Bush Intercontinental Airport has been named the first “model port of entry” by **United States Customs and Border Protection**. According to the agency, improved signage, multilingual explanatory videos, and modernized procedures ease the process of arriving in the United States. Many of the processes and procedures currently used at the airport will be implemented at **Washington-Dulles International Airport** and will serve as a prototype for international airport operations across the county. Bush Airport’s International Arrivals Terminal processes more than 10,000 arriving passengers on a daily basis.

The **Holiday Inn Select Houston West** has been rebranded and will undergo extensive renovations. The 344-room hotel, which is now known as the **Crowne Plaza Houston West**, will renovate its 32 Club Floor rooms, adding a plasma television, cordless phone, and other amenities to each. In addition, the Club Floor levels will have a private lounge with workspaces and sitting areas. Room service hours have been extended and the hotel now has concierge service. The renovations will also include the addition of a presidential suite, two deluxe suites, a dry sauna, and an updating of the bar area.

According to a survey by **Promark Research**, a majority of Texas voters support the state government developing additional energy sources. The survey, which polled 809 Texas voters, found that 53% of those surveyed supported such moves by the state government. The survey also found that 20% of those surveyed opposed using coal as a method of generating electricity. The study was commissioned by **FPL Energy**, a wind energy company.

An annual report from **Intuit, Inc.** recently named Houston the nation’s No. 1 city for income tax procrastinators. Houston moved up from No. 4 last year, and has been no lower than 4th on the list every year that it has been published. Chicago came in 2nd, New York was 3rd, and Austin was 4th on the list. San Antonio came in at No. 7. Rankings were determined by the number of tax returns filed online using the TurboTax online service between April 14 and 17, 2006.

The **University of Houston System** announced plans to launch the **Center for Industrial Partnerships**. The center will conduct research and foster joint initiatives between companies and the UH System in order to solve technological challenges involved in the commercialization process. According to university officials, the center will help speed the translation of research into commercial applications due to the input that industry will have into the research.

The **Texas Bowl** will return for another year at Houston’s Reliant Stadium. The bowl will be played on December 28, and is scheduled to feature one team from the Big 12 Conference and one team from either Conference USA or the Big East Conference. Rutgers and Kansas State played in the game last year before a crowd of 52,210. According to estimates from the Houston Convention and Visitors Bureau, the 2006 game generated more than \$28 million in local spin-off revenue.

Please direct any questions regarding content in the *Houston Real Estate Trends* to Kathryn Koepke at 713-686-9955 or kkoepke@poconnor.com