



Houston Real Estate Trends

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\$199 per year

Volume 22 Number 2

April 2007

Published by:
O'Connor & Associates

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Houston, TX 77018
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APARTMENTS

Amidst positive absorption in all four classes during the first quarter of 2007, overall Houston occupancy slid 0.04 points to 88.49%. The decline in occupancy can be mostly attributed to elevated construction activity. Already in 2007, 2,573 units have been delivered to market, while another 13,848 units are currently under-construction. The areas experiencing the most new construction include Far West (1,265 units), Midtown (989 units), Greenway Plaza (869 units), Medical Center (724 units), and the Museum District (710 units). With an additional 10,579 units on the drawing board, it appears construction activity will remain elevated throughout 2007. As the vast majority of the new construction is in the Class A market, we expect Class A occupancy will be pressured over the course of the year, ending the year at around 89.50%. We expect the Class B and C markets to benefit from the tightening in lending practices in the face of the subprime collapse, as a number of individuals will now have to stay put at apartment complexes rather than going through subprime lenders to obtain a home. Additionally, home foreclosures in the area will likely generate additional demand for Class B and C apartments. We expect Class B occupancy to end the year at around 90%, while Class C occupancy is expected to remain relatively stable at around 85% over the year. Class D should remain the weakest of all classes, hovering between 83% and 84% through the rest of 2007.

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.

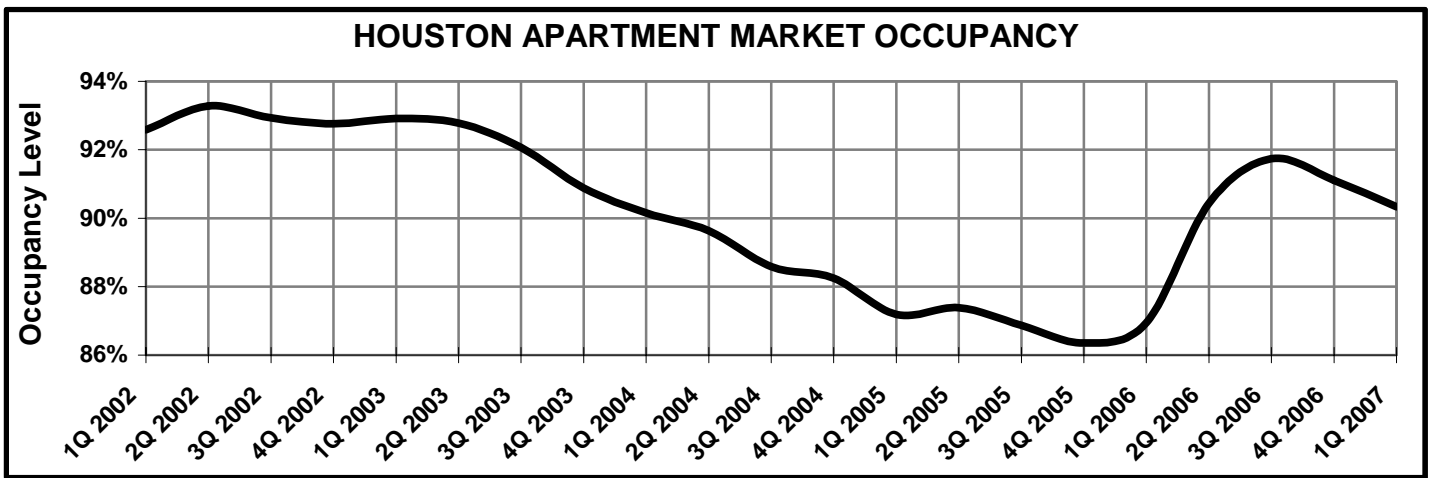
Note: The multifamily projects listed herein are followed by their representative identification number as they appear in the new O'Connor & Associates **ApartmentLink Online Data** platform and are provided for subscriber cross-referencing. *The property information contained within this database is updated on a monthly basis and accessible over the web (please contact us for more details).*

- A partnership between **Martin Fein Interests** (713-683-4800) and **BlackRock Realty** (212-243-6060) has broken ground on three new apartment complexes with plans to break ground on a fourth complex in the near future. The projects currently underway include **Cascade at Fall Creek (17561)**, **Gateway at Sienna Plantation Apartment Homes (17562)**, and **Sorrento at Tuscan Lakes (17563)**. Cascade at Fall Creek is a 246-unit complex located at 8330 North Sam Houston Parkway E. in Humble (375U). Rents at the complex, which is expected to be completed in September 2007, will average \$1.07 per square foot. Gateway at Sienna Plantation is a 270-unit complex located at 8787 Sienna Springs Blvd. in

Missouri City (609Z). Rents at the complex, which is also expected to be completed in September 2007, will average \$1.20 per square foot. Sorrento at Tuscan Lakes is a 204-unit complex located at 1455 Louisiana Ave. in League City (659M). Rents at the complex, which is expected to be completed in October 2007, will average \$1.09 per square foot. The partnership also plans to develop **Tuscan Lakes Phase III (17564)**, a 300-unit complex that will be located in the 1700 block of League City Parkway in League City (659M). Construction is expected to begin in December 2007, with completion expected by the summer of 2008.

- **The Chaparral Group** (713-468-1500) has plans to build a 200-unit complex (**17565**) at 9402 Seawall Blvd. in Galveston (402A). The 13.60-acre site is currently under contract to Chaparral, with the land sale expected to close in mid-Summer 2007. The site is home to the **Jungle Surf** water park, which provided the City approves Chaparral's apartment plans, will be razed to make way for the new development. Pending final city approval, construction is slated to begin in December 2007, with completion expected by December 2008.

The following chart illustrates historical apartment occupancy.



Centaurus Investments, LLC (310-415-6468) purchased **The Trails at Dominion Park (1445)**, an 843-unit Class B complex located at 200 Dominion Park Dr. in the Champions area (372B), from **Equity Residential** (312-474-1300). The 16-year-old complex is 94% occupied with average rents at \$0.85 per square foot. **David Mitchell, David Oelfke, Matt Rotan, and David Wylie** of **Apartment Realty Advisors** represented both the buyer and seller.

Inland Real Estate Acquisitions (630-218-8000) purchased **Alexan Landing Apartments (17560)**, a 364-unit Class A complex located at 501 Sarah Deel Dr. in Webster (618U), from **Clear Lake Apartments, LP**. The year-old complex is 91% occupied with average rents at \$1.05 per square foot. Inland has since renamed the property **The Landings at Clear Lake**. The buyer used in-house representation, while **Todd Stewart, Craig LaFollette, Todd Marix, and Tre Banks** of **CB Richard Ellis** represented the seller. Inland also purchased **Waterford Place at Shadow Creek Ranch (17329)**, a 296-unit Class A complex located at 2200 Business Center Dr. in Pearland (613J), from **Davis Development** (770-474-4345). The year-old complex is 94% occupied with average rents at \$0.99 per square foot. **David Mitchell, David Oelfke, Matt Rotan, and David Wylie** of **Apartment Realty Advisors** represented both the buyer and seller.

Providence Management Corp. (312-377-7100) purchased **Gables Windmill Landing (3992)**, a 258-unit Class A complex located at 10121 Windmill Lakes Blvd. in southeast Houston (576N), from **Gables Residential** (770-436-4600). The 23-year-old complex is 95% occupied with average rents at \$0.85 per square foot. The buyer was self-represented, while **David Mitchell, David Oelfke, Matt Rotan, and David Wylie** of **Apartment Realty Advisors** represented the seller.

The Related Cos., LP (212-421-5333) purchased **Arbor Court (1507)**, a 232-unit Class C complex located at 802 Seminar Dr. in the Greenspoint area (373P), from **Arbor Court, LP** (415-788-0700). The

28-year-old complex is fully occupied with average rents at \$0.80 per square foot. The buyer used in-house representation, while **Jeff Eisenhardt** of **Hendricks & Partners** represented the seller.

CWS Apartment Homes (512-837-3028) purchased **The Bridges of Eldridge (15896)**, a 230-unit Class A complex located at 2250 Eldridge Parkway in the far west Houston (488U), from **MBS Management Services Inc.** (504-836-5075). The 4-year-old complex is 89% occupied with average rents at \$1.14 per square foot. CWS has since renamed the property **The Marquis on Eldridge**. **Trevor Dallas** of CWS represented the buyer, while **David Mitchell, David Oelfke, Matt Rotan, and David Wylie** of **Apartment Realty Advisors** represented the seller.

GID Investment Advisors (617-973-9680) purchased **Siena at Memorial Heights (16094)**, a 224-unit Class A complex located at 600 Studemont St. in the Memorial Heights area (493A), from **Internacional Realty** (210-281-1469). The 3-year-old complex is 98% occupied with average rents at \$1.42 per square foot. Windsor has since renamed the property **Windsor at Siena**. The buyer was self-represented, while **David Mitchell, David Oelfke, Matt Rotan, and David Wylie** of **Apartment Realty Advisors** represented the seller.

SINGLE-FAMILY HOUSING

MLS home sales increased in March, as 5,045 used homes were sold, up from the 4,868 homes sold in February, according to the **Houston Association of Realtors (HAR)**. Sales for March 2007, however, were down 6.5% from March 2006. The median price of a used single-family home sold in March was \$140,000, up 3.3% from March of last year, while the average home price was \$189,956, up 6.3% from the March 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 3% in March to 2,703 from 2,633 in February, but are down 21% from March 2006. Realtor co-op sales represented 60% of gross sales, down from 62% in March 2006. Traffic decreased 12% from last year to 32,092 in March 2007. The inventory of completed speculative homes (2,393) is up 27% from last year. There are 3,566 spec homes under construction, which is down 13% from 2006. Overall, the 5,959 specs (both completed and under construction) are unchanged from March 2006's figures. *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 March to a seasonally adjusted annual rate of 858,000, 2.6% above the revised February sales rate of 836,000, but 23.5% below the March 2006 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$254,000. Privately owned housing starts were at a seasonally adjusted annual rate of 1,518,000 in March 2007, which is 23% below the March 2006 rate. Privately owned housing completions were at a seasonally adjusted annual rate of 1,632,000 in March 2007, 25.9% below the March 2006 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, decreased 3 points in April to 33 on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring current sales of new single-family homes decreased by 3 points to 33, the index measuring sales expectations for the coming six months declined 6 points to 44, while the index measuring the traffic of prospective buyers decreased 1 point to 27.

According to the **National Association of Realtors (NAR)**, 482,000 existing homes were sold in March 2007, up 24.5% from February sales, but down 13.0% from the 554,000 homes sold in March 2006. The median sale price was \$217,000, which represents a 0.3% decrease from sale prices one year ago.

According to the most recent report by **RealtyTrac**, over 149,000 homes nationwide entered foreclosure in March 2007, up 7% from February's total and up 47% from March 2006. Nevada leads the nation in

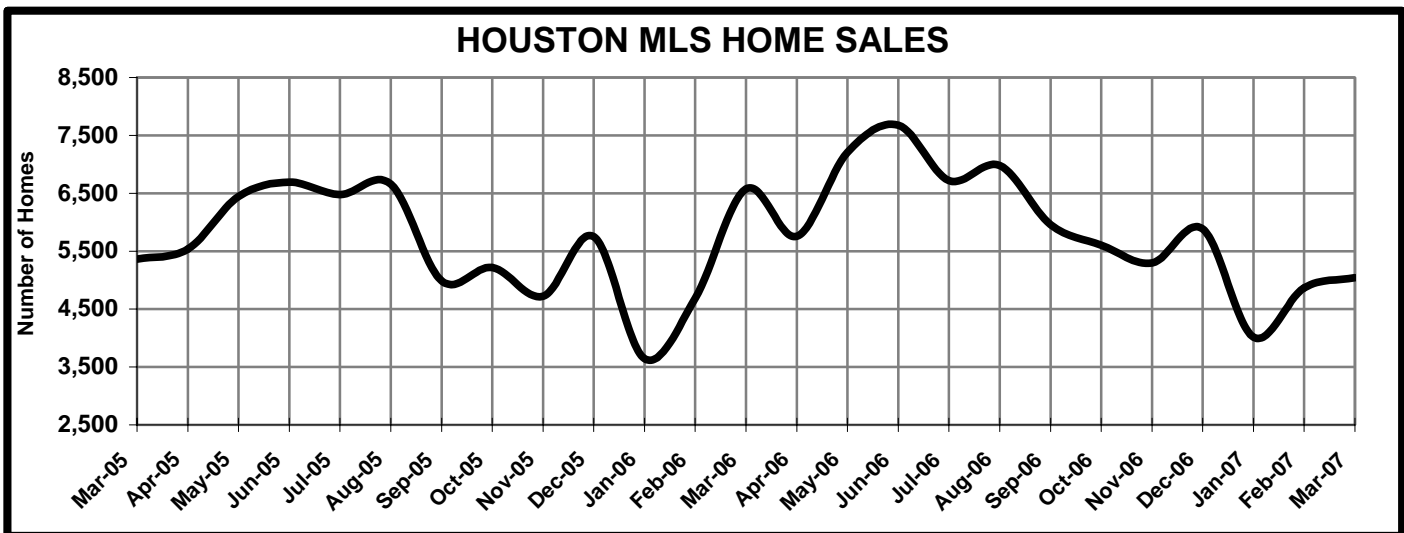
foreclosure rates, as 1 in every 183 households has a foreclosure filing, followed by Colorado where 1 in every 292 households has a foreclosure filing. Texas ranks eleventh on the list, as 1 in every 631 households has a listed foreclosure filing.

The **Harris County Appraisal District** indicated the average appraised value of single-family homes located in Harris county increased 7% over the year, from \$151,000 to \$162,300. Final tax bills based upon the new appraisals will be mailed in October, after property tax appeals have been processed. Last year over 258,000 property owners protested their appraisals, and the appraisal district expects a similar number this year. The deadline to final property tax appeals is May 31st.

According to a recent report by **Moody's Economy.com**, the percent of mortgage loans in the Houston area more than 30 days late increased during the first quarter of 2007 to 4.38%. This represents a 2.34-point increase over last year's figure of 2.04%. The Houston area ranks fourth, behind the Detroit, MI, Miami, FL, and Riverside, CA areas in terms of 30 day delinquencies.

New Century Financial (949-440-7030) filed for Chapter 11 bankruptcy protection and announced the layoff of 3,200 employees nationwide, including 201 employees here in Houston. As part of the filing, all nine Houston area offices have closed. New Century, previously one of the nation's largest subprime lenders, has suffered greatly in the wake of the subprime collapse.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

Group LSR (InnerLoopCondos.com) (713-840-8400) purchased 86 unsold condominium units located within the 253-unit **Royalton at River Oaks** high-rise tower from **BCN Development** (303-260-7881). The 3-year-old property located at 3333 Allen Parkway (492M) was originally built as a rental development. BCN purchased the property in early 2005 and converted the units into for-sale condominiums. Group LSR plans to price the remaining 86 units, ranging in size from 1,000 to 4,900 square feet, at around \$325 per square foot. Group LSR also plans to offer a lease-to-own option on its recently purchased units. The units will be available for lease for \$2.00 to \$2.25 per square; 25% of the monthly rental rate, up to a maximum of \$10,000, may be applied toward a down payment on a unit at the property.

HHN Homes (713-526-3060) is developing **Season's Brownstones**, a 36-unit brownstone-style townhome community located near the intersection of Houston Ave. and Summer St. in the Memorial Heights area (493F). The homes will range from 1,777 to 1,861 square feet in size, with prices from \$269,900 to \$289,900. Two of the 36 homes have been sold. Construction of the community is expected to be completed by September 2007.

Hahnfield Witmer Davis (713-840-1001) has broken ground on **Regent Square Brownstones**, a 35-unit brownstone-style townhome community located off of West Lake Houston Parkway within the **Kings Harbor** development in the Kingwood area (337G). The homes will range from 2,450 to 3,300 square feet in size, with prices between \$385,000 and \$485,000. Two of the 35 homes have been sold. The first homes are expected to be available for move-in by September 2007.

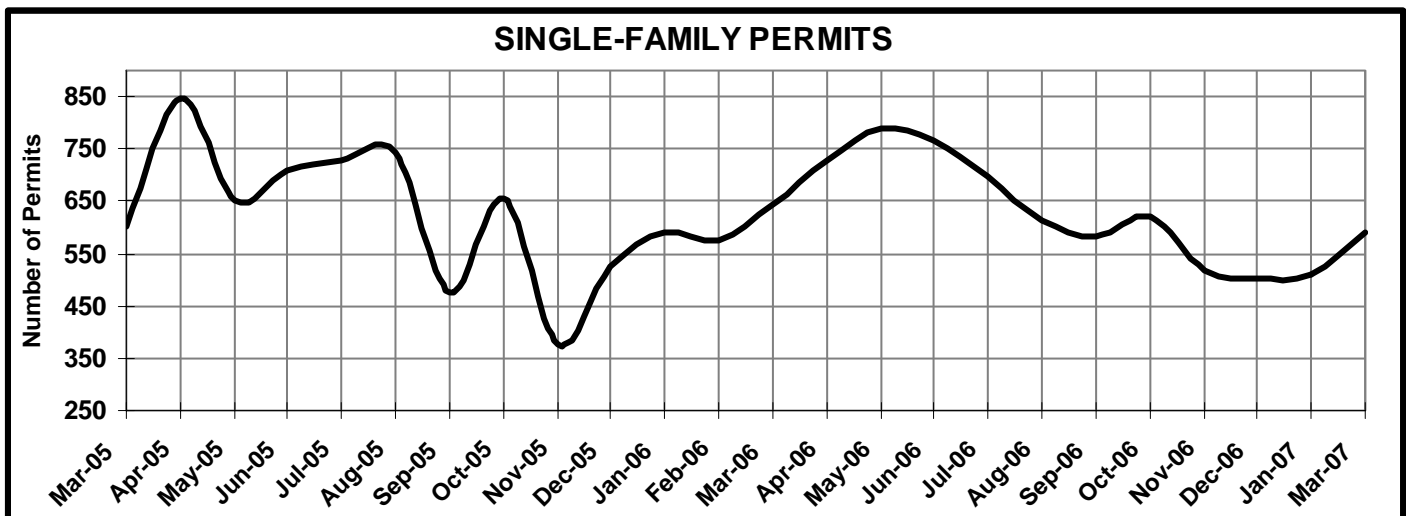
PERMIT ISSUANCE

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

First quarter 2007 figures indicate that Houston's office market is on a roll. Overall occupancy is now up to 87.37%, its highest level in five years. Occupancy stands a full 3.57 points higher than it was one year ago. Class A continues to lead the market, with occupancy increasing 0.70 points over the quarter to 91.70%, which represents an astounding 5.42-point increase over last year's figure. Quarterly occupancy gains were also registered in the Class B, C, and D markets. The steep occupancy increases during the first three months of 2007 have translated into sharp rental rate gains, as well. Overall rental rates increased \$0.39 over the quarter and are up \$1.73 over the year to their current record high rate of \$20.44 per square foot. The Class B market enjoyed the largest quarterly rental rate increase, as rents increased \$0.49 to \$18.19 per square foot, followed by the Class A market, where rents increased \$0.32 to \$24.37 per square foot.

According to the O'Connor & Associates **First Quarter 2007 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **87.37%** (Class A = 91.70%; Class B = 84.74%; Class C = 83.16%; Class D = 77.10%). The citywide annual multi-tenant office **rental rate** is **\$20.44 per square foot** (Class A = \$24.37; Class B = \$18.19; Class C = \$14.53; Class D = \$11.82).

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).

- **Planned Community Developers** (281-242-2000) plans to develop **2150 Town Square Place (SFC 048)**, a 200,000-square-foot office building that will contain 15,000 square feet of ground floor retail (**FSW 369**), within **Sugar Land Town Square** in Sugar Land (568X). Average rents for the office space are quoted at \$28.00 per square foot. Construction is slated to begin in June 2007, with completion expected by the fall of 2008. **Don Janssen** of **Sugarland Properties, Inc.** is handling leasing.
- **YoungWoo & Associates** (212-477-8008) has completed **Southwest Corporate Center Phase II (SWF 119)**, a 175,000-square-foot expansion of the **Southwest Corporate Center** located at 9702 Bissonnet St. in southwest Houston (530S). The expansion brings the total office square footage at the property, which was previously the Westwood Mall, up to 561,000 square feet. Rental rates for the new space average \$17.00 per square foot. **Steve Bryant** of **Moody Rambin** is handling leasing.
- **Means Knaus** (713-355-9100) has placed **2000 West Loop S. (GAL 117)**, a 357,000-square-foot Class A building in the Galleria area (491R), available for sale. The 36-year-old building is 98% occupied with average rents at \$24.00 per square foot. **Jeffrey Hollinden** and **Robert Williamson** of **HFF** (713-852-3500) are marketing the listing on behalf of the seller.

The following chart illustrates historical office occupancy.



Griffin Partners Inc. (713-622-7714) purchased a 12-building portfolio located between 1720-1820 Nasa Rd. 1 (**CLC 028, CLC 029, CLC 030, CLC 031, CLC 032, CLC 033**) in the Clear Lake area (618V) from the **Nassau Development Co.** (281-333-2012). The Class C and D buildings built during the 1960s collectively contain 450,000 square feet of office space. Griffin plans to demolish the existing buildings and develop a mixed-use project on the 27-acre tract. Preliminary plans for the site call for 300,000 square feet of office space (**CLC 117**), 75,000 to 100,000 square feet of retail space (**FSE 419**), a 250-300 unit apartment complex (**17567**), and a 200-room hotel. The buyer used in-house representation, while **Ken Page** and **Scott Myers** of **Cushman & Wakefield** represented the seller.

Cameron Management (713-224-1663) purchased the **Houston Club Building (CBD 069)**, a 369,000-square-foot Class B building located at 811 Rusk St. in the Central Business District (493L), from **JP Morgan Chase** (713-216-6331). The 52-year-old building is 90% occupied with average rents at \$15.00 per square foot. In-house principals **Dougal Cameron** and **Ted Don** represented the buyer, while **Mark Russell** of **Studley's Houston** represented the seller.

Crown Castle International Corp. (713-570-3000) purchased **1220 Augusta (GAL 133)**, a 131,000-square-foot Class B building located in the Galleria area (491P), from **1220 Augusta Partners, Ltd.** (713-266-4626). The 24-year-old building is 91% occupied with average rents at \$18.00 per square foot. **Christopher Winters** of **Colliers International** represented the buyer, while **Jay Kyle** of **Colliers** represented the seller.

Travelers Insurance leased **Houston Intellicenter (NNW 220)**, a 158,000-square-foot Class A building that is currently under construction at 4650 Westway Park Blvd. in northwest Houston (449H), from **Koll Development Co.** (214-696-1700). Travelers will fully occupy the building, which is expected to be completed by February 2008.

Murphy Oil Exploration & Production Co. leased 108,000 square feet at **The Offices at Park Ten Phase II (P10 035)**, a 157,000-square-foot Class A building located at 16295 Park Ten Place in west Houston (447Y), from **Yancey-Hausman & Assoc.** (713-462-8802). The year-old property is 81% occupied with average rents at \$28.00 per square foot. **Jim Vann** of **Moody Rabin** represented the tenant, while **Tony Allen** of **Yancey-Hausman** represented the landlord.

Signature Hospital Corp. leased 20,000 square feet at **363 North Belt (GNB 028)**, a 400,000-square-foot Class B building in the Greenspoint area (373S), from **NWX Partners, Ltd.** The 25-year-old property is 90% occupied with average rents at \$20.50 per square foot. **Tim Warren** and **John Hornbuckle** of **Cypressbrook Co.** represented the tenant, while **Sandy Benak** of **Granite Properties** represented the landlord.

Bechtel Corp. leased 17,000 square feet at **5333 Westheimer (GAL 097)**, a 178,000-square-foot Class B building located in the Galleria area (491U), from **Westheimer Galleria Investments**. The 36-year-old building is 97% occupied with average rents at \$21.00 per square foot. **Steve Hesse** and **Mark Pilsbury** of **CB Richard Ellis** represented the tenant, while **L. Ace Schlameaus** of **Grubb & Ellis** represented the landlord.

MTM Technologies leased 10,000 square feet at **Northborough Atrium I (GNB 050)**, an 83,000-square-foot Class C building located at 12600 Northborough Dr. in Greenspoint area (372Q), from **Yancey-Hausman & Assoc.** (713-462-8802). The 28-year-old building is 81% occupied with average rents at \$16.75 per square foot. **Robert Bantly** and **Scott Fikes** of **Grubb & Ellis** represented the tenant, while the landlord used in-house representation.

RETAIL CENTERS

Few cities can match Houston in terms of sheer sprawl, and with Houston booming these days, new, large-scale retail centers are popping up in far-flung suburbs such as Rosenberg, Conroe, Tomball, and Magnolia. These centers often contain big-box retailers like Target, Wal-Mart, Office Depot, PetsMart, and Best Buy, which are highly popular, as they sell their respective products at affordable prices. While suburbanites continue to enjoy easy access to these popular retailers, many of those living in and around inner Houston don't enjoy the same conveniences. However, there are signs that these retailers are once again taking notice of in-town markets. One of the most well-known recent examples is the redevelopment of the old **Gulfgate Mall** by **Wulfe & Co.** in 2002. Today the thriving **Gulfgate Center** features a variety of national retailers. It was recently announced that the owners of **Northline Mall** will attempt a similar revitalization; they appear to be off to a good start, as national retailers **Wal-Mart** and **Marshalls** have already signed on. In addition, **Property Commerce** recently opened portions of **Sawyer Heights Village**, a **Target**-anchored center located off of Interstate 10 in the Heights area. While there doesn't appear to be a massive shift in retail development from the suburbs to the city on the horizon, the changing character of in-town retail being driven by differentiation of product and target market is likely to continue. Some retailers and developers have begun to recognize the possibilities and the potential is there for more retailers to capitalize on these long-ignored in-town markets.

According to the O'Connor & Associates **First Quarter 2007 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **85.81%** (Regional = 87.75%; Community = 87.14%; Neighborhood = 84.75%; Strip = 84.14 %). Occupancy is up 0.03 points over the last quarter, and up 0.04 points over the past 12 months. The citywide monthly multi-tenant retail **rental rate** is **\$1.60 per square foot** (Regional = \$3.00; Community = \$1.58; Neighborhood = \$1.17; Strip = \$1.16). Overall rents are up \$0.01 from the last quarter, but are the same as 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).

- **Weingarten Realty Investors** (713-866-6000) announced renovation and expansion plans for the **River Oaks Shipping Center**, a 70-year-old center located at W. Gray and N. Shepherd St. (492R). Weingarten plans to demolish 22,000-square-feet of the 310,000-square-foot center and build two multi-level buildings that will contain a total of 60,000 square feet of retail space (**INL 520**) and a 363-car parking garage. Construction of the new phase is scheduled to begin in September 2008 and will affect the tenants located in the northeast corner of W. Gray and N. Shepherd Dr. Weingarten has already secured a 34,500-square-foot lease from **Barnes-N-Noble**, which will open in 2009 along with the rest of the newly expanded center. Rents for the remaining 26,500 square feet are quoted at \$2.92 per square foot. **Patty Bender** of Weingarten is handling leasing.
- **Regency Centers** (713-599-3500) is developing **Waterside Marketplace (FSW 368)**, a 127,000-square-foot center located at Grand Parkway and Mason Rd. in Richmond (526W). The center, which will be anchored by 103,000-square-foot **Kroger**, has 24,000 square feet of inline space available for lease at quoted average rents of \$2.33 per square foot. Construction is slated to begin during the third quarter of 2007, with completion expected by the third quarter of 2008. **Walter Salik** and **Ryan Orr** of **Read King Commercial Real Estate** are handling leasing.

The following chart illustrates historical retail occupancy.



Covington Realty Partners (312-879-7538) purchased **First Colony Commons (FSW 135)**, a 380,000-square-foot center located at 15201-15555 Southwest Freeway in Sugar Land (568U), from **Weingarten Realty Investors** (713-866-600). The 15-year-old center is 96% occupied with average rents at \$1.71 per square foot. Tenants at the center include **Home Depot**, **Office Depot**, and **Michael's**. The buyer used in-house representation, while **Rusty Tamlyn** of **HFF** represented the seller.

CBL & Associates (423-855-0001) purchased the 92,000-square-foot former **Expo Design Center** building, located at 17355 Tomball Parkway in the Willowbrook area (370J), from **HD Development Properties**. The building is part of **Willowbrook Plaza (FNW 218)**, a 404,000-square-foot center located between 17125 and 17355 Tomball Parkway, which is owned by CBL & Associates. CBL has leased the newly acquired building to **Fingers Furniture**. The buyer used in-house representation, while **Mark Davis** of **Davis Commercial** and **Michael Stevens** of **Steveco Commercial** represented the seller.

Richland Investments (713-682-5707) purchased **Raton Plaza Shopping Center (FSE 418)**, a 33,150-square-foot center located at 2407 West Parkwood Ave. in Friendswood (656U), from **Option One Realty** (713-983-7800). The 2-year-old center is near fully leased. **Michelle Kirsch** of Richland represented the buyer, while **Trent Grothues** of Option One represented the seller.

FKM Partnership, Ltd. (713-668-2369) purchased **Parkway Commons (NEA 302)**, a 17,900-square-foot center located at 1850 W. Lake Houston Parkway (337B), from **Lake Houston Retail, Ltd.** The 3-year-old center is fully occupied with average rents at \$1.50 per square foot. Tenants at the center include **Kingwood Family Practice**, **Arturo's Hair Design**, and **Soriano's Italian Bakery**. The buyer was represented by **States Mortgage Company**, while **George Cushing** and **Wendy Vandeventer** of **Grubb & Ellis** represented the seller.

Boone Texas Properties, LLC purchased **Village Center Plaza (FWE 318)**, a 32,000-square-foot center located at 23930 Westheimer Parkway in Katy (485T), from **South Texas Republic Development Co., Ltd.** The year-old center is 67% occupied with average rents at \$1.79 per square foot. Tenants at the center include **Janus Coffee House**, **New Image Salon**, and **Star Tex Title**. The buyer used in-house representation, while **John Knauth** of **Colliers International** represented the seller. **Matt Kafka** and **Charlie Gasper** of **HFF** (713-852-3500) arranged \$8.24 million in acquisition financing on behalf of Boone Texas, with funds provided by **CW Capital**.

JP Morgan Chase Bank leased 50,000 square feet in **Fort Bend Town Center (FSW 370)**, a proposed 175,000-square-foot center located at the southwest corner of State Highway 6 and Fort Bend Parkway in Missouri City (610Y), from **NewQuest Properties** (281-477-4300). The **Kroger**-anchored center, which is expected to break ground in August 2007, is 89% pre-leased with average rents at \$2.29 per square foot. **David Stukalin** of the **Weitzman Group** represented the tenant, while **Eric Walker** of NewQuest represented the landlord.

Marshalls leased 28,000 square feet in **Plaza on Galveston Island (FSE 092)**, a 153,000-square-foot center located at 6105 Stewart Rd. in Galveston (774W), from **Harold A. Clark & Co.** (713-722-9934). The 27-year-old center is 74% occupied with average rents at \$1.33 per square foot. Tenants at the center include **Ross Dress for Less**, **Hollywood Video**, and **Sherwin Williams**. **Culver Stedman** of **Page Partners** represented the tenant, while **Matt Reed** and **Dean Lane** of **NewQuest Properties** represented the landlord.

T.J. Maxx leased 28,000 square feet in **Westwood Village (FNO 358)**, a 295,000-square-foot center currently under construction off of F.M. 1488 in Magnolia (215M), from **Regency Centers** (713-599-3500). The center, which is expected to be completed in March 2008, is 55% pre-leased with quoted average rents at \$2.46 per square foot. **Culver Stedman** of **Page Partners** represented the tenant, while **Abe Pacetti** of Regency represented the landlord.

INDUSTRIAL FACILITIES

The apartment market isn't the only real estate sector in Houston experiencing a boom in construction. Multi-tenant industrial construction activity is on track to exceed over 3.5-million square feet of space in 2007, which will be the highest level in over 7 years. Already in 2007, 8 multi-tenant projects containing a total of 1.2 million square feet of space have been delivered to market. Another 26 projects containing 4.6 million square feet of space are currently under-construction. Areas experiencing the most activity include the Far Southeast sector, where 2.3-million square feet of space is under-construction; the Far South sector, where the 1.5-million-square-foot **Spectrum Commerce Center** is underway; and the Far North

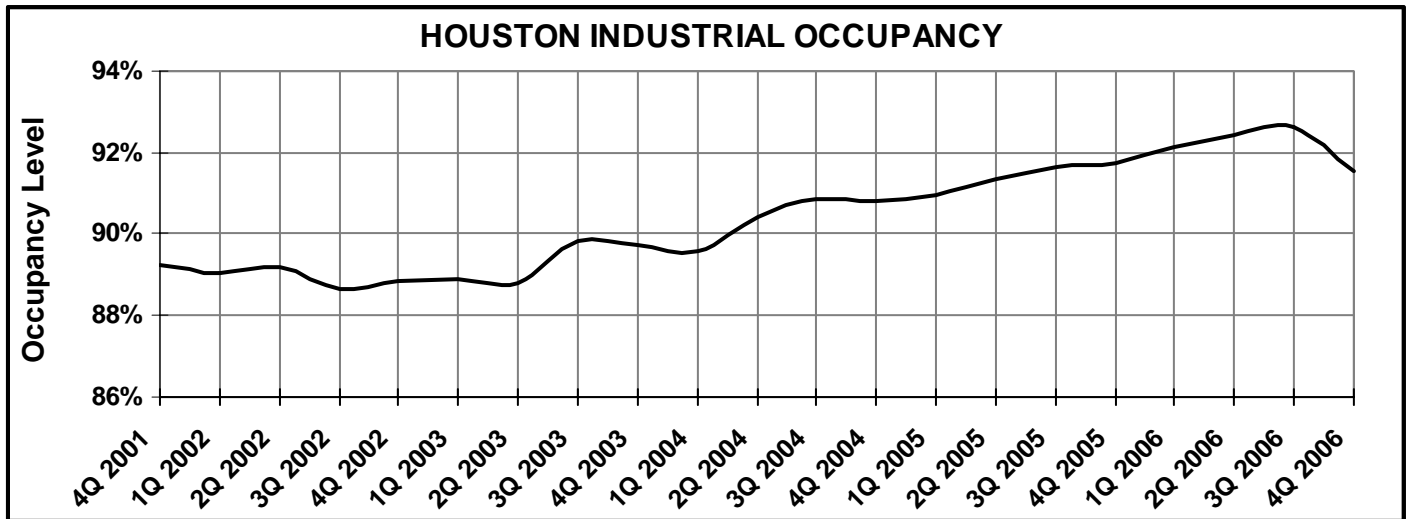
sector, where 817,000-square-feet of space is under-construction including high-profile developments by **ProLogis** and **Cypressbrook**. Houston's strong economy, aided by the flourishing energy sector, steady job growth, and expanding Port activity have contributed to the construction boom, which shows no signs of slowing down, as another 6.7-million square feet of multitenant projects are on the drawing board.

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).

- **Granite Properties** (713-781-8000) has broken ground on **Granite Park – Beltway 8 Phase III (1075N)**, a 99,100-square-foot two-building office-warehouse facility located at 5355-5365 West Sam Houston Parkway North in northwest Houston (449C). The new buildings will feature 18-foot clearance and grade- and semi-dock-level loading. Construction is expected to be completed in September of 2007.
- **Seatex, Corp.** (713-868-1461) is in the process of expanding its 120,000-square foot manufacturing facility **445 State Highway 36 (5268N)** located in Rosenberg (604K) by 65,000 square feet. Seatex will house its chemical manufacturing operations in the expanded space, which is expected to be completed by the end of the year.
- **Xebec Realty Partners** (916-979-7060) announced plans to develop **Chambers County Industrial Park Bldg. I (3743)**, a 500,000-square-foot warehouse facility to be located on a 169-acre tract near the intersection of State Highway 146 and F.M. 1405 in Baytown (502G). Construction on the first building is slated to begin in May 2007, with completion expected by March 2008. Xebec eventually plans to build over 2-million square feet of warehouse and distribution space on the site.
- **Ben E. Keith Co.** (817-759-6000) plans to develop a 350,000-square-foot warehouse/distribution center **(4906C)** on a recently purchased 82-acre tract of land located near the intersection of U.S. Highway 90A and Gessner Rd. in Missouri City (570N). Ben E. Keith Co. will fully occupy the property, which is expected to break ground in May of 2007. Construction is expected to be completed in December of 2007.
- A recently released study by **Martin Associates** documented the **Port of Houston's** impact on the Texas economy in 2006. The study indicated that more than 785,000 jobs were affected in some way by activity at the port over the course of the year. The actual number of jobs tied directly to port activity, induced by spending of those employed at the Port, and those generated indirectly for business related to the Port increased by 198,983 jobs in 2006. In addition, the port generated \$117.6 billion in economic activity across the state and \$3.7 in state and local taxes.
- The **International Association of Ports and Harbors** held the **2007 World Ports Conference** in Houston in early May. A major topic of discussion at the conference was environmental responsibility, as port leaders passed a resolution calling for ports to adopt clean air practices in order to combat global warming.

The following chart illustrates historical industrial occupancy.



Meritex Enterprises (651-855-9700) purchased **Portwall Distribution Center Ph. I (3479C)**, a 205,000-square-foot distribution center located at 200 Portwall St. in east Houston (495B), from **Argus Realty Investors, LP** (713-439-1773). The 8-year-old facility is fully occupied. **Doug Nicholson** and **John Nicholson** of **Grubb & Ellis** represented the buyer, while the seller used in-house representation.

HJ Ventures (713-868-8060) purchased **7100 Schneider St. (2052A)**, a 33,000-square-foot office/warehouse facility in north Houston (453M), from **Joe Baccus**. HJ plans to fully occupy the 35-year-old facility, which features 18-foot clearance and dock-level loading. **Fred Sklar** of **Sklar Realty Services** represented the buyer, while **Clay Peeples** of **Boyd Commercial** represented the seller.

Worstell Auction Co. (713-644-0388) purchased **8424 Hansen Rd. (5092B)**, a 23,000-square-foot warehouse facility in southeast Houston (575G), from **South Central Industrial Properties II, LP**. Worstell plans to fully occupy the 32-year-old facility. **Rick Garcia** of **Carlos Garcia Realty** represented the buyer, while **Kelley Parker** of **Cushman & Wakefield** represented the seller.

GSL Industrial Partners (713-952-7000) purchased **Interbelt North Business Center (0429S)**, a 17,000-square-foot warehouse facility located at 14149 Interdrive West in north Houston (374W), from **Boyd Commercial** (713-877-8400). The 4-year-old facility, which features 24-foot clearance and dock-level loading, is fully occupied with average rents at \$0.44 per square foot. In-house principal **Welcome Wilson** represented the buyer, while **Andrew Sowell** of **Boyd** represented the seller.

W&O Supply leased 58,000 square feet at **Market-McCarty Distribution Center (3502A)**, a 355,000-square-foot distribution center located at 8000 Market St. in southeast Houston (495E), from **TIAA-CREF** (212-490-9000). The 30-year-old facility, which features 22-foot clearance and dock-level loading, is 80% occupied with average rents at \$0.27 per square foot. **Billy Gold** of **CB Richard Ellis** represented the tenant, while **Edward Bane** of **Holt Lunsford Commercial** represented the landlord.

AmPac Tire Distribution leased 48,000 square feet at **Claymoore III (1085)**, a 185,000-square-foot warehouse facility located at 3550 Brittmoores Rd. in west Houston (449L), from **Invesco Real Estate** (972-715-7400). The 7-year-old facility, which features 24-foot clearance and dock-level loading, is 72% occupied with average rents at \$0.34 per square foot. The tenant used in-house representation, while **Brian Gammill** of **Transwestern** represented the landlord.

Geokinetics leased 25,000 square feet at **7223-7273 Empire Central (0669V)**, a two-building 50,000-square-foot warehouse facility in northwest Houston (410N), from **Nickson Brookhollow West Industrial Park, LLC** (713-961-4400). The recently completed facility, which features 24-foot clearance and grade-level loading, is 50% occupied with average rents at \$0.55 per square foot. **Eric Hughes** of **National Realty Group** represented the tenant, while **John Ferruzzo** and **Travis Land** of **NAI Houston** represented the landlord.

VACANT LAND

RRK Co. purchased 169 acres of land near the intersection of State Highway 146 and F.M. 565 in Baytown (502L) from **J.G. & Sonya Keeling**. RRK plans to develop an industrial property on the site, though specific plans have yet to be finalized. The buyer used in-house representation, while **Doyle Toups** of **Grubb & Ellis** represented the sellers.

S. Main Ltd. has purchased 46.8 acres of land located at 12100 S. Main St. in south Houston (571D) from the **Metropolitan Transit Authority of Houston** (713-739-4000). Preliminary plans call for the development of medial office buildings. **Mike Rose** of **Rose Properties** represented the buyer, while **Jeff Lindenberger** of **McDade, Smith, Gould, Johnston, Mason & Co.** represented the seller.

Jones Road Project, Ltd. (713-789-4443) purchased 12.3 acres of land located near the intersection of U.S. Highway 290 (Northwest Freeway) and Jones Rd. in northwest Houston (409K) from **Partnervision Investments, LP** (281-373-5373). **Josh Jacobs** of **Page Partners** represented the buyer, while **Bill Byrd** of **Colliers, Appelt, and Womack** represented the seller.

Lamrock 3/2001, LP purchased 3.3 acres of land located in the 3300 block of Nasa Rd. 1 in the Clear Lake area (619P) from **Celox** for \$4.5 million. The buyer used in-house representation, while **Wayne Vitale** and **Ron Simons** of **McDade, Smith, Gould, Johnston, Mason, & Co.** represented the seller.

UV Country (713-649-0556) purchased 2.4 acres of land near the intersection of Beltway 8 and Martin Luther King Blvd. in southeast Houston (574W) from **Blossom Development**. UV Country plans to build a utility vehicle dealership on the site. **Stephan Robinson** of **Alliance Commercial** represented the buyer, while **David McSween** of **Silvestri Investments** represented the seller.

The Salvation Army (409-763-1691) purchased 2.2 acres of land at the northwest corner of 51st St. and Winnie St. in Galveston (774T) from **Richard Bryan Nelson**. The Salvation Army plans to eventually build a homeless shelter on the site, which will replace the shelter currently located at 23rd St. and Broadway St. **V.J. Tramonte** of **Joe Tramonte Realty** represented the buyer, while **Robert McKenzie** of Joe Tramonte represented the seller.

United S. Investment Group, Inc. purchased 1.7 acres of land at the southeast corner of Parker Rd. and Bretshire Dr. in northeast Houston (414Z) from **J.D. Mandell**. **Simon Dabbasi** of **Simon Dabassi Real Estate** represented the buyer, while **Asa Weldon** of **Champions Real Estate** represented the seller.

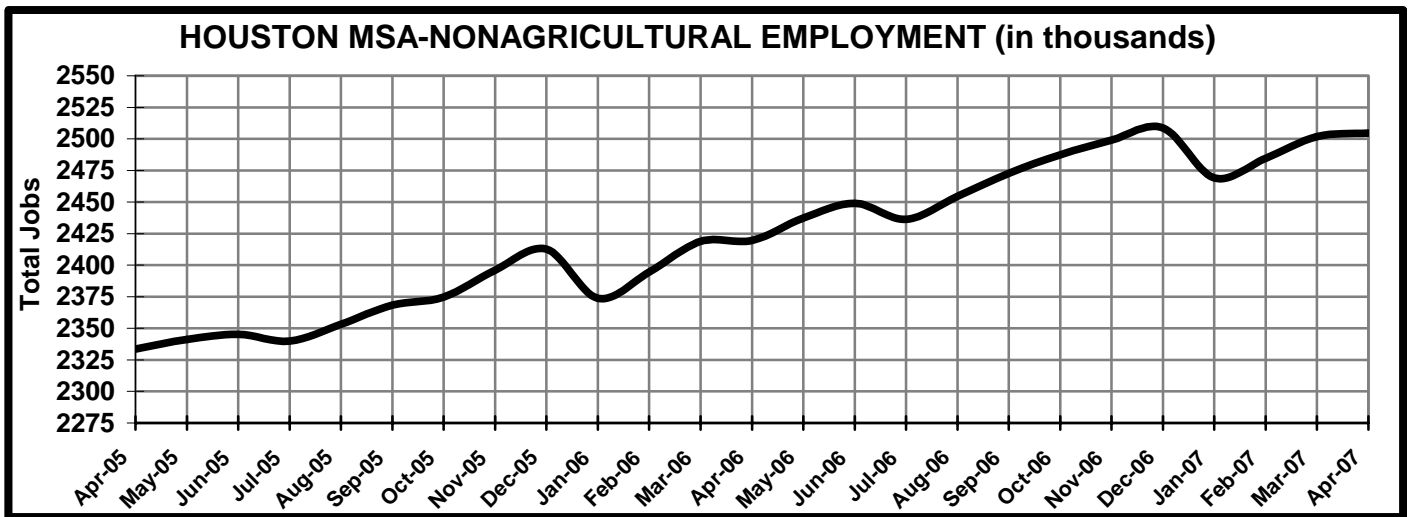
A.R. Radwan purchased 1.6 acres of land near the intersection of Jensen Dr. and East Crosstimbers St. in north Houston (454J) from **Field Estate**. **Nabil Murad** of **NH Management, Inc.** represented the buyer, while **Asa Weldon** of **Champions Real Estate Group** represented the seller.

B.W. Development Co. (281-344-8183) has placed 108 acres of land located near the intersection of Reading Rd. and U.S. Highway 59 (Southwest Freeway) in Rosenberg (605U) available for sale for \$18 million. The parcel, which is located across the street from **Brazos Town Center (FSW 300)**, was purchased by B.W. approximately 18 months ago.

ECONOMIC & FINANCIAL NEWS

The total number of wage and salary jobs in the ten-county Houston area increased by 2,800 jobs to 2,504,600 in April 2007, according to the **Texas Workforce Commission**. This month's total is 84,900 jobs more than the 2,419,700 jobs at this time last year. Of nonagricultural employers, the Leisure & Hospitality sector posted the largest gain over the month at 2,600 jobs, followed by the Government sector, with 1,000 jobs gained. Over the year, the Professional & Business Services sector has had the largest increase in employment, adding 14,500 jobs, followed by the Construction sector, which added 11,200 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 March 2007 were \$371.6 billion, an increase of 0.7% from February, and up 3.8% from March 2006. Retail trade sales in March were up 0.6% from February, and were 3.6% above last year's level.

Personal income increased \$79.9 billion, or 0.7%, and Disposable Personal Income (DPI) increased \$65.5 billion, or 0.7%, in March 2007, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$24.4 billion, or 0.3% in March 2007. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.6% in March 2007, and is 2.8% higher than in March 2006. Energy, at 5.9%, and Transportation, at 2.8%, posted the largest increases in March 2007.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** decreased to 104.0 in April 2007, down 4.2 points from 108.2, in March. The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** increased 0.1% in March to 137.4. 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 decreased 0.2% in March, but remains 2.3% higher than the March 2006 level. Output in the manufacturing sector increased 0.7% in March, output of utilities decreased 7.0% over the month, while output at mines increased 0.1%. The rate of industrial capacity utilization was 81.4% in March, which reflected a decrease of 0.2 points from the previous month's level, and was unchanged from the previous year's level.

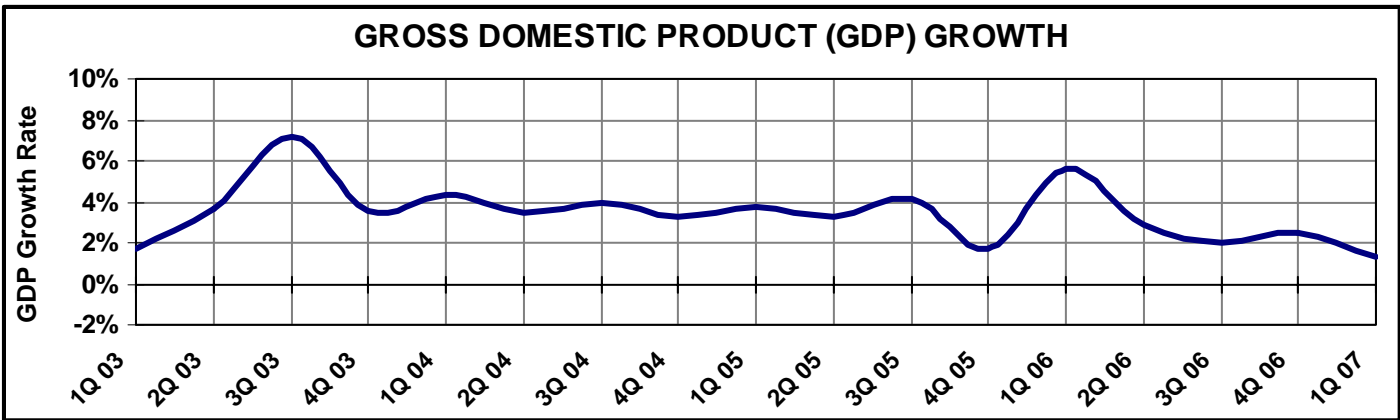
Freddie Mac reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.18% in April 2007, which is up 0.02 points from March, but down 0.33 points from one year ago. The average for the **15-year FRM** averaged 5.88% in April 2007, which is unchanged from last month, and is 0.28 points higher than it was in April 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 1.3% in the first quarter of 2007, down from the 2.5% growth rate recorded in the fourth quarter of 2006. The increase in GDP during the first quarter was attributed to positive contributions from personal consumption expenditures and state and local government spending.

The **U.S. Department of Commerce** reports that construction spending during March 2007 was estimated at a seasonally adjusted annual rate of \$1,187.8 billion, 0.2% above the revised February estimate. The

current figure is 2.0% below the March 2006 estimate of \$1,212.4 billion. Private residential construction was at a seasonally adjusted annual rate of \$900.3 billion in March, 0.2% above the revised February estimate of \$898.6 billion, and 5.1% below the March 2006 estimate of \$948.7 billion.

The **Baker Hughes** count of active domestic rotary rigs stands at 1,747 during the week ending May 4, 2007. The current rig count is up 7.5% from last year's figure of 1,625 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

Alex. Brown Realty, Inc. (410-727-4083) and **Presidian Cos.** (210-646-8811) announced plans to jointly develop a new **Hilton Garden Inn** within the 110-acre **Telfair** master-planned community located near the intersection of State Highway 6 and U.S. Highway 90A in Sugar Land (568X). The new hotel will contain 203 rooms and feature a swimming pool, fitness center, restaurant and bar, and 7,000 square feet of meeting space. Construction is scheduled to begin in May 2007, with completion expected by late 2008. **Gary Dunkum** of **Like Oak Capital** (713-993-1300) arranged financing on behalf of Alex. Brown Realty and Presidian.

Ashford Hospitality Trust, Inc. (972-490-9600) purchased the **Hampton Inn**, a 12-year-old 176-room hotel located at 4500 Post Oak Parkway in the Galleria area (491R), from **CNL Hotels & Resorts, Inc.** (407-650-1151). The sale was part of a 51-hotel \$2.4 billion nationwide acquisition by Ashford, which included five hotels located within the state of Texas.

Memorial Hermann Healthcare System (713-448-5555) has partnered with **RediClinic** (713-935-0333) to increase the number of RediClinic's located within **H-E-B** grocery stores over the coming years. The partnership will involve continued physician oversight by doctors working within the Memorial Hermann Healthcare System, joint marketing activities including the rebranding of RediClinic to be "in association with Memorial Hermann", and quality control issues. There are currently six RediClinic's in operation, and another eight are scheduled to open by the end of the year.

Houston's City Council approved a contract between the **City of Houston** and **EarthLink, Inc.** (281-530-9039), which will provide Earthlink with a wireless broadband network license agreement and a five-year service agreement for Houston's planned high-speed wireless internet (Wi-Fi) network. This will allow Earthlink to move forward with the building of Houston's 600-square-mile Wi-Fi network, which is slated for completion in the spring of 2009. Upon completion Houston's Wi-Fi network will cover the largest area in North America.

The findings of **KPMG, LLP's** (212-909-500) recent survey of 105 Houston area business owners indicate that expectations for Houston's economy are strong for 2007. Of those surveyed, 74% predicted 2007 would be a better year financially than 2006 and 63% indicated they would increase the number of

employees at their respective companies in 2007. The respondents expected the energy, health care/pharmaceuticals, retail, and distribution sectors to enjoy the most growth over the next two years.

The job market for new college graduates this year is expected to be brighter than last year, according to a recent survey by the **National Association of Colleges and Employers (NACE)**. The survey indicated that the number of new college graduates hired by companies here in the United States would be 17.4% higher than last year. Salaries are also expected to increase 4.6% for new graduates compared to one year ago. Those with degrees in Accounting, Business Administration and Management, Computer Science, Electrical Engineering, and Mechanical Engineering will be in the highest demand this year. In a related report by **Bizjournals**, the Houston MSA ranks 27th out of 66 large metropolitan areas in favorability for job opportunities for young adults. Other Texas metropolitan areas making the list include Austin at 7th, Dallas at 25th, and San Antonio at 38th. According to the report, the best place for job opportunities for young adults was found in Las Vegas, NV. Rankings were based on multiple factors including growth rates, employment activity, costs of living, incomes for households under 25, and the number of employed young adults with college degrees in the area.

Inc. Magazine ranked the Houston metropolitan area as the 17th best large city for business. The Houston MSA moved up from No. 31 in last year's publication. Also making the list was the Austin-Round Rock MSA at No. 16. The Las Vegas-Paradise MSA remained the best city for business for the second year in a row.

Black Enterprise ranked Houston as top city in 2007 for African Americans. Houston came in fourth behind Washington D.C., Atlanta, GA, and Raleigh-Durham, NC. Rankings were based on median household income, the percentage of households in the upper-income ranges, percentage of college graduates living in the area, home loan rejection rate, homeownership rate, unemployment rate, and the percentage of owner-operated businesses.

Houston ranked second on **Move, Inc.'s** recent survey to determine where individuals are migrating. Chicago, IL was ranked first by the survey, while Austin, TX came in third.

The **OneStar Foundation** (512-473-2140), a private nonprofit corporation that works to promote Texas' nonprofit community, released their annual **Volunteering in America** report, which details volunteer activities across the nation. The report concluded that 4.58 million individuals living Texas volunteered a total of 609.4 million hours of their time in 2006. Their services were worth a total of \$11.4 billion. In terms of the per capital volunteer rate, Texas ranked 34th in the nation.

American Pet Resorts (904-241-9335) plans to build a 14,000-square-foot **Pet Paradise Resort & Day Spa (NOE 405)** at Aldine Bender Rd. and JFK Blvd. in northeast Houston (374X) near the **Bush Intercontinental Airport**. The pet resort will feature 125 dog suites that each boast outdoor patios and 25 cat suites, as well as a swimming pool and synthetic grass courtyard. The company has already broken ground on the property and plans a grand opening for later this summer.

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