



Houston Real Estate Trends

Edited by Kathryn Koepke

\$199 per year

Volume 22 Number 4

June 2007

Published by:
O'Connor & Associates

2200 N. Loop West, Suite 200
Houston, TX 77018
713.686.9955

APARTMENTS

While Houston apartment occupancy has fallen steadily over the past year, rental rates continue to increase. Overall Houston occupancy continued to decline despite positive absorption in Class A, B, and C apartments during the second quarter of 2007. Overall occupancy is down 0.06 points to 88.51%, with Class B and D apartments showing the largest decline, losing 0.31 points and 0.05 points, respectively. Overall rents ended the second quarter of 2007 at \$0.841 per square foot, gaining \$0.007 psf over the quarter and \$0.015 psf over the last year. The gains were across the board, as all classes posted quarterly increases. While Class A led the way with an increase of \$0.018 psf, Class B gained \$0.002 psf, Class C posted an increase of \$0.001 psf, and Class D posted an increase of \$0.006 psf. Overall absorption reached 2,560 units, a second straight quarterly increase, with Class A, at 1,849 units, and Class C at 603 units, showing the strongest numbers.

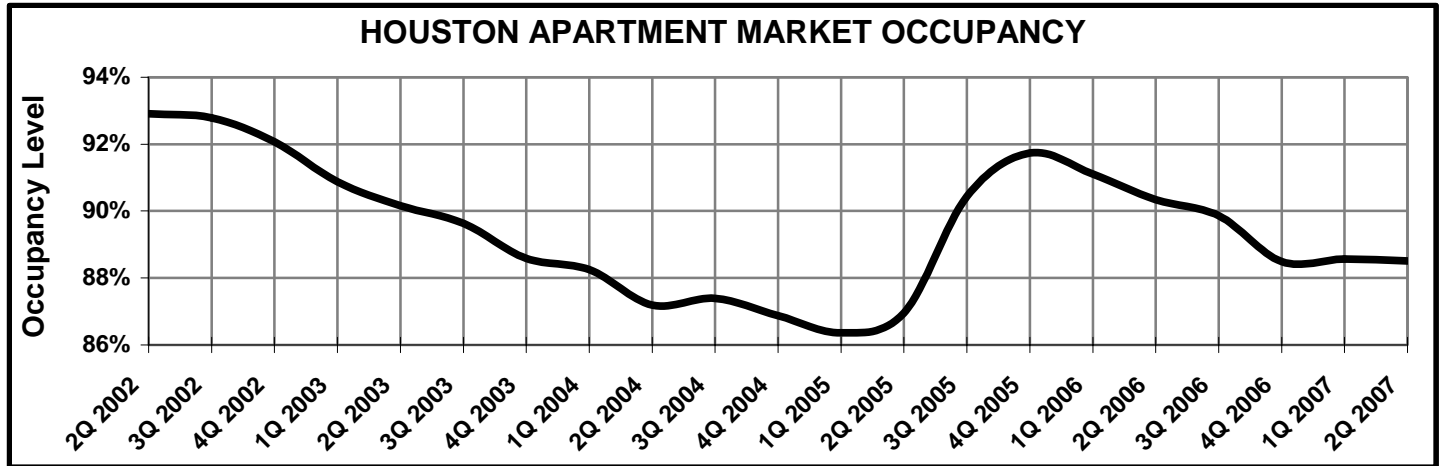
According to www.oconnordata.com, O'Connor & Associates' online apartment data program, **Second Quarter 2007** overall **occupancy** for Houston area apartment projects is **88.51%** (Class A = 91.02%; Class B = 89.27%; Class C = 85.82%; Class D = 84.79%). Occupancy is down 0.06 points from the first quarter and down 1.79 points over the past year. The overall monthly **rental rate** is **\$0.841 per square foot** (Class A = \$1.115; Class B = \$0.816; Class C = \$0.682; Class D = \$0.604). Overall rents are up \$0.007 from the first quarter of 2007 and \$0.015 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).*

- **Simmons Vedder & Company** (713-626-9102) is developing **Eldridge at Briar Forest (17595)**, a 330-unit complex on 9.6 acres of land located at the southeast corner of Eldridge Parkway and Briar Forest (488K) in west Houston. The complex will feature one-, two-, and three-bedroom units with an average unit size of 974 square feet. Proposed common area amenities for the three-story development include a clubroom, swimming pool, game room, theater, fitness center, and business center. Unit amenities will include 10-foot ceilings, granite countertops, track lighting, and black appliances. Construction on the complex is under way, with completion slated for Fall 2008.
- **The Dinerstein Companies** (713-977-4844) is developing **Kings Cove (17617)**, a 192-unit complex 4920 Magnolia Cove Dr. in Kingwood (337M). The complex will feature one-, two-, and three-bedroom units with an average unit size of 1,082 square feet. Proposed common area facilities for the Class A

development include a Cyber Cafe, swimming pool, tanning bed, spinning room, and business center. Unit amenities include granite countertops, spacious closets, oversized bedrooms and bathrooms, and an upgraded appliance package. Construction on the complex is expected to be completed this summer, with first move-ins scheduled for early July.

The following chart illustrates historical apartment occupancy.



Harbor Group International, LLC (757-640-0800) purchased **Town Center Apartments (1363)**, a 13-year-old, 518-unit Class A complex located at 2727 Ben's Branch Dr. in Kingwood (337B), from **Equity Residential Properties Trust** (713-460-0410). The complex is 95% occupied with average rents at \$0.94 per square foot. The buyer and seller were represented by **Russell Jones** and **Matt Rotan** of **Apartment Realty Advisors**.

KC Venture Group (813-531-2727) purchased two Houston-area apartment complexes from **The Shoptaw Group** (678-538-1060). The complexes include: **Champions Park Apartments (1424)**, a 15-year-old, 246-unit Class A complex located at 13050 Champions Park in west Houston (370F); and **Champions Centre Apartments (1415)**, a 13-year-old, 192-unit Class A complex located at 13222 Champions Centre Dr. in west Houston (370F). Champions Park is 93% occupied, while Champions Centre Apartments is 92% occupied. Both complexes have average rents at \$1.07 per square foot. The buyer was represented in-house, while **Craig LaFollette**, **Todd Stewart**, and **Tre Banks** of **CB Richard Ellis** represented the seller.

Coopers Mill Partners, LLC (281-482-4167) purchased **Coopers Mill (4034)**, a 366-unit Class B complex located at 15603 Gulf Freeway in Webster (617A), from **The Dinerstein Cos.** (713-977-4844). The 25-year-old complex is 95% occupied with average rents at \$0.83 per square foot. The buyer was represented by **Tom Wilkenson** of **KET Enterprises**, while **Barry Novy** of **Novy Investments** represented the seller.

SCI Western Ridge Fund, LLC (310-575-0409) purchased **Western Ridge Apartments (2217)**, a 7-year-old, 318-unit Class A complex located at 3354 Rogerdale Rd. in Houston (489Z), from **Western Ridge Properties, Inc.** (860-616-9000). The complex is 95% occupied with average rents at \$1.08 per square foot. The buyer was represented in-house by **Scott Derrick**, while the seller was represented by **Craig LaFollette**, **Todd Stewart**, **Todd Marix**, and **Tre Banks** of **CB Richard Ellis**.

Manohar Gidwani (281-449-5816) purchased **Oakwood Villa Apartments (3815)**, a 31-year-old, 284-unit Class C complex located at 6101 West Belfort in Houston (570D), from **La Salle Bank National Associate, Trustee**. The complex is 71% occupied with average rents at \$0.63 per square foot. The buyer and seller were both represented in-house.

Providence Management Company (972-473-8100) purchased **Gables Windmill Landing (3992)**, 259-unit Class A complex located at 10121 Windmill Lakes in Houston (576B), from **LG Windmill Landing**,

LP. The 23-year-old complex is 95% occupied with average rents at \$0.85 per square foot. The buyer and seller were both represented by **Matt Kafka** of **HFF**.

NNN Apartment REIT Holdings, LP (714-667-8252) purchased **The Park at Northgate Apartments (15942)**, a 4-year-old, 248-unit Class A complex located at 26325 Northgate Crossing Blvd. in Spring (292F), from **North Spring Park, LLC** for \$16,600,000. The complex is 96% occupied with average rents at \$0.93 per square foot. The buyer was represented in-house in the deal.

Triple Net Properties, LLC (714-667-8252) purchased **Chartwell Court (1444)**, a 243-unit Class A complex located at 15100 Ella Blvd. in northwest Houston (372B), from **Lynd Co.** (210-733-6125). The 12-year-old complex is 93% occupied with average rents at \$0.86 per square foot. The buyer was represented in-house, while **Todd Stewart** of **CB Richard Ellis** represented the seller.

Edgelake SPE, LLC (402-392-1200) purchased **Edgelake (4111)**, a 216-unit Class B complex located at 3010 NASA Rd. 1 in Seabrook (620N), from **Archon Residential Management** (972-368-2200). The 23-year-old complex is 93% occupied with average rents at \$0.91 per square foot. The buyer and seller were both represented by **Russell Jones** and **Matt Rotan** of **Apartment Realty Advisors**.

Holbrook Farms, LC (801-768-3291) purchased **Royal Place Apartments (2917)**, a 66-unit Class C complex located at 3800 Baker Rd. in Baytown (500M), from **Stonebrook at Goose Creek, Ltd.** The 40-year-old complex is 60% occupied with average rents at \$0.53 per square foot. The buyer was represented in-house, while **Jeff Eisenhardt** of **Hendricks & Partners** represented the seller.

SINGLE-FAMILY HOUSING

MLS home sales increased in May, as 5,994 used homes were sold, up from the 5,086 homes sold in April, according to the **Houston Association of Realtors (HAR)**. Sales for May 2007 were down 1.1% from May 2006. The median price of a used single-family home sold in May was \$149,000, up 2.8% from May of last year, while the average home price was \$202,181, up 6.1% from the May 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 decreased 1% in May to 2,317 from 2,337 in April, and are down 27% from May 2006. Realtor co-op sales represented 59% of gross sales, the same level as in May 2006. Traffic decreased 17% from last year to 27,219 in May 2007. The inventory of completed speculative homes (2,288) is up 30% from last year. There are 3,273 spec homes under construction, which is down 27% from 2006. Overall, the 5,561 specs (both completed and under construction) are down 11% from May 2006. *Note: the 24 homebuilders in this survey account for approximately 65% of housing starts in Houston.*

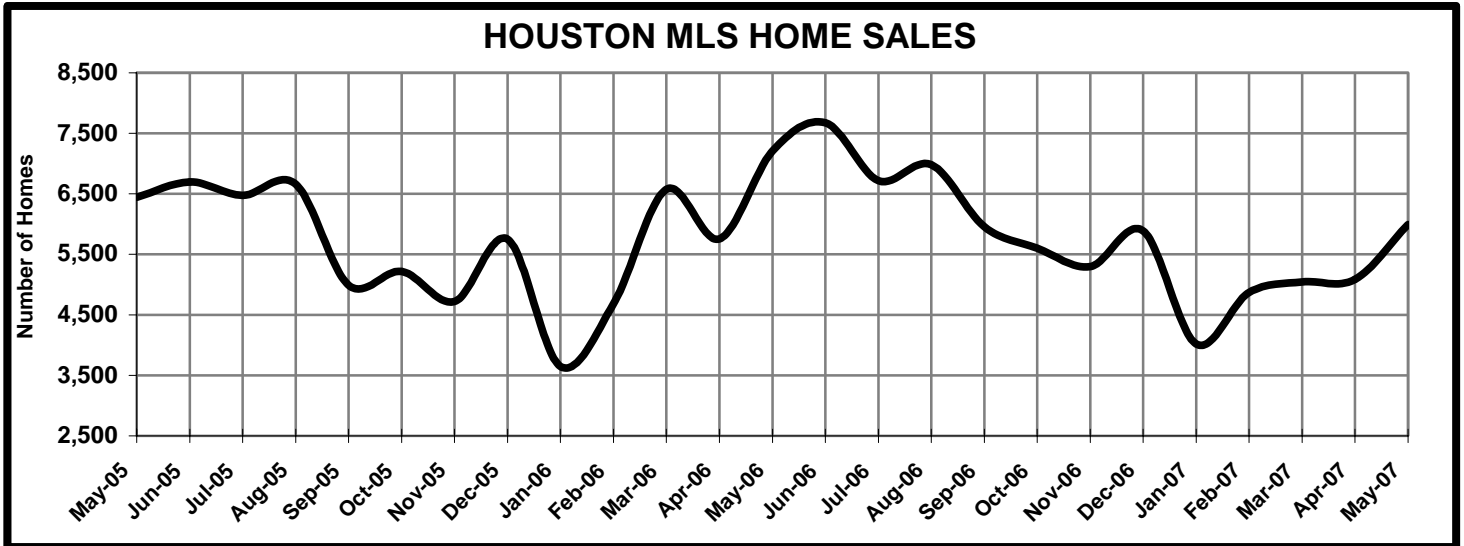
Nationwide sales of new single-family homes decreased in May to a seasonally adjusted annual rate of 915,000, 1.6% below the revised April sales rate of 930,000 and 15.8% below the May 2006 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$236,100. Privately owned housing starts were at a seasonally adjusted annual rate of 1,474,000 in May 2007, which is 24.2% below the May 2006 rate. Privately owned housing completions were at a seasonally adjusted annual rate of 1,534,000 in May 2007, 0.5% below the May 2006 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, decreased 2 points in June to 28 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 2 points to 29, the index measuring sales expectations for the coming six months declined 2 points to 39, while the index measuring the traffic of prospective buyers decreased 1 point to 21.

According to the **National Association of Realtors (NAR)**, 577,000 existing homes were sold in May 2007, up 12% from April sales, but down 10.1% from the 642,000 homes sold in May 2006. The median sale price was \$223,700, which represents a 2.1% decrease from sale prices one year ago.

According to the most recent report by **RealtyTrac**, over 176,000 foreclosure filings — default notices, auction sale notices, and bank repossessions — were reported during the month of May. This figure is up 19% from April and up nearly 90% from May 2006. The company estimates that one in every 656 households nationwide entered the foreclosure process in May. Texas was among the nation’s 10 highest states in total foreclosure filing for the month of May.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

Cherokee Investment Partners (919-743-2500) is planning to redevelop the old Imperial Sugar property in Sugar Land. The development, which also includes a tract of adjacent, state-owned land, would create a 651-acre site including up to 900 single-family homes and 450 mixed-use residences. The project also entails approximately 1 million square feet of commercial and office space, as well as a system of public parks and trails. Plans call for the preservation of the old Imperial Sugar’s historic structures, such as the Char House, a warehouse built in 1920, the water tower, and 38 acres of wetlands. The City of Sugar Land, the developer, and the General Land Office have been negotiating the details of their partnership, while the developer works to purchase the property by the end of the month.

Bam Houston Real Estate Investment (281-242-0808) broke ground in May on the residential component of **Aliana**, a 2,000-acre mixed use development on the east side of Grand Parkway at FM 1464 in Richmond (566D). The residential development will consist of townhomes, condos, and single-family residences. The town homes and condos are priced starting at \$200,000.

John Laing Homes (949-265-2400) is developing the gated community **Shadow Springs** on Neuens, a block east of Gessner between Long Point and Hammerly in the Spring Branch area of Houston. The community will have 71 homes on a 7-acre parcel of land. The single-family homes will range in size from 1,500 to 2,400 square feet and will be priced from the \$150,000s. The land is being cleared for development, but no completion date has been set.

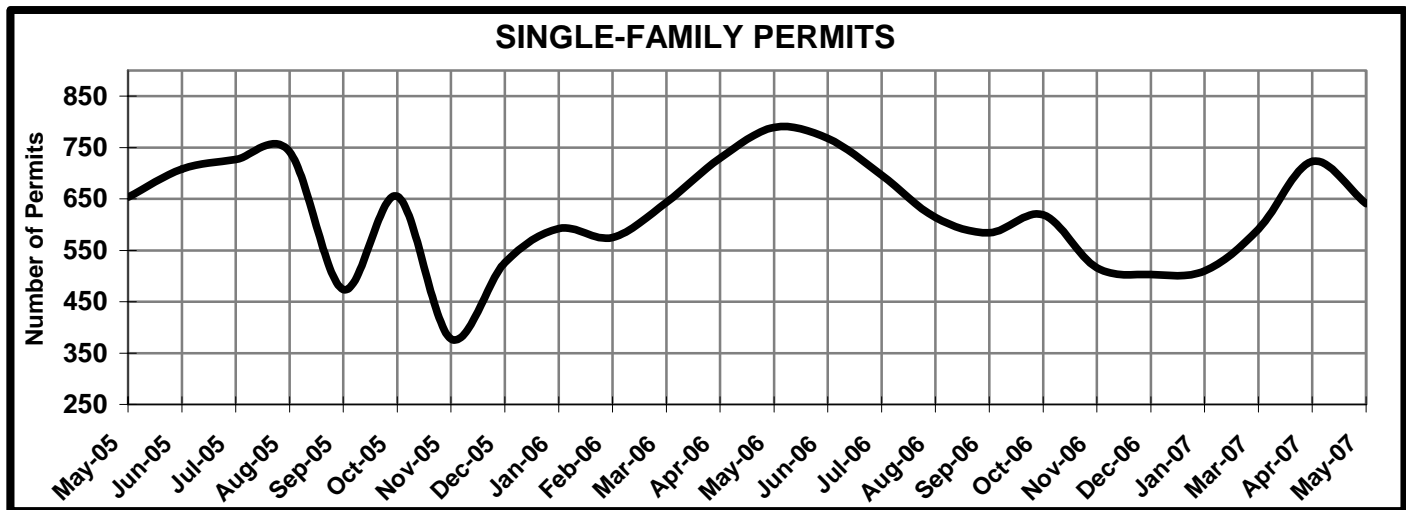
PERMIT ISSUANCE

The **City of Houston** issued permits to build 641 private single-family houses and 24 private multifamily buildings in May. Demolition permits were issued for 256 private single-family houses. In addition, 310 permits were issued for privately owned non-residential construction totaling \$120,356,379 and 35 permits were issued for public non-residential construction totaling \$2,148,800. Additions, alterations, and conversions totaled \$119,141,961 for the private sector and \$4,727,094 for the public sector.

Cost of Construction*

	2005	2006	2007
Month of May	\$312,247,295	\$401,621,847	\$429,727,897
Year-to-Date	\$1,349,117,705	\$1,509,531,805	\$2,185,667,233

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



OFFICE BUILDINGS

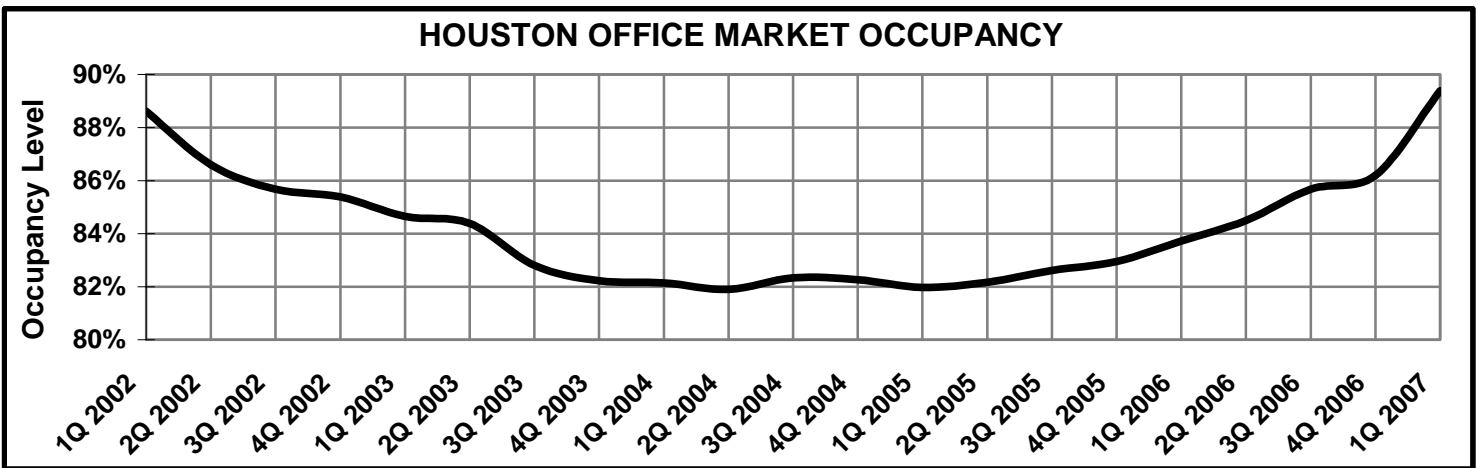
Overall office rental rates in the Houston market continued their upward trend over the first quarter of 2007 as they have gained \$1.43 per square foot (psf) over the year, reaching an average of \$20.44 psf. All classes recorded quarterly rent gains, with the Class B market posting the largest quarterly increase of \$0.49 psf. **Class A** rents showed an increase in rents over the quarter, up \$0.32 psf over the quarter and \$2.11 psf over the year. The highest rental rates can be found in **Galleria** and **Central Business District** sectors at \$25.83 and \$25.57 psf, respectively, while the lowest can be found in **Kingwood** at \$12.00 psf. The **Class B** rents are up \$0.49 psf over the quarter to \$18.19 psf, and up \$1.15 psf since this time last year. The **Medical Center** posted the highest rents at \$22.29 psf, while the **Northeast 2** sector reported the lowest rents at \$12.75 psf. **Class C** rents also posted quarterly and yearly increases of \$0.26 and \$0.77 psf, respectively, and are at \$17.19 psf. The **Greenway Plaza** sector reported the highest rental rates at \$17.19 psf, while rents were lowest found in the **Northeast 2** sector at \$12.00 psf. **Class D** rents reported a \$0.29-quarterly gain to \$11.82 psf, which is \$0.46 psf higher than they were one year ago. The **Clear Lake** sector recorded the highest rental rates at \$14.71 psf, with the **Southwest 1** sector trailed the market at \$9.89 psf.

According to the O'Connor & Associates **First Quarter 2007 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **89.33%** (Class A = 92.70%; Class B = 87.33%; Class C = 86.23%; Class D = 81.79%). 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).

- **Granite Properties, Inc.** (713-781-8000) will break ground this summer on **Granite Towers at Sugar Creek Phase II (SFC 225)**, an eight-story, 204,195-square-foot office building located at 13137 Dairy Ashford Rd. in Sugar Land (568M). The building will include a parking garage and surface parking spaces, an on-site deli, bank, and 24-hour security. Construction completion is expected by August 2008.
- **Stream Realty Partners, LP** (713-300-0300) has been retained to handle the leasing and management of two office buildings in the Houston area: **Timberway I (KFW 001)**, a Class B, 25-year-old building totaling 96,000 square feet located at 15990 Barkers Landing North in the Katy Freeway Area (488A) and **Reserve at Greens Crossing Phase II (GNB 002)**, a Class B, 6-year-old building totaling 158,000 square feet located at 11310-11410 Greens Crossing at Gears Rd. in the Greenspoint area (372Q).

The following chart illustrates historical office occupancy.



Yunan Properties, Inc. (818-703-9600) purchased **Cowperwood Savoy (SWF 059)**, a Class B building totaling 180,000 square feet located at 6464 Savoy in the Southwest Freeway area (530D), from **UnilevManagement (713-850-7878)** for \$7 million. The 27-year-old building is 34% occupied with average rents at \$17.50 per square foot. The buyer was represented by **Steve Rocher** of **CB Richard Ellis**, while **Dave Hanusa** of **CB Richard Ellis** represented the seller.

Rida Development Co. (713-961-3835) purchased **3120 Southwest Freeway (GPL 064)**, Class B building totaling 92,000 square feet located at 3120 Southwest Freeway in the Greenway Plaza area (492X), from **3120 Southwest Freeway, Ltd.** The 36-year-old building is 93% occupied with average rents at \$18.50 per square foot. The buyer was represented in-house, while **Logan Brown** of **Grubb & Ellis** represented the seller.

Jacobs Engineering executed a renewal/expansion for 51,204 square feet at **2222 Bay Area Blvd (CLC 009)**, a Class B building totaling 71,000 square feet in Clear Lake (618L), from **Triyar Management (713-529-1122)**. The 28-year-old building is now fully occupied with average rents at \$15.00 per square foot. The tenant was represented by **Lou Cushman** of **Cushman & Wakefield**, while **Ace Schlameus** of **Grubb & Ellis** represented the landlord.

Litton Loan Servicing leased an additional 17,644 square feet at **Loop Central III (GAL 155)**, located at 4828 Loop Central Dr. (491Z), a 199,000-square-foot Class B building from **IPC Loop Central, LP (713-681-8100)**. The 24-year-old building is fully occupied by Litton Loan Servicing. **Marshall Clinkscapes** of **MSC Properties** represented the tenant, while **Virgil Hydes** of **Lincoln Property Co.** represented the landlord.

Darling Homes leased 12,442 square feet at **10255 Richmond (WES 041)**, a 112,000-square-foot Class B building located in west Houston (489Z), from **BMS Management, Inc.** (713-621-3222). The 26-year-old building is now fully occupied with average rents at \$17.75 per square foot. Darling Homes will make the building its Houston regional headquarters and design center. **Kevin Hodges** of **Studley Houston** represented the tenant, while **Steve Rocher** of **CB Richard Ellis** represented the landlord.

Legend Natural Gas leased 10,555 square feet at **16420 Park Ten Place (P10 020)**, located at 16420 Park Ten Place in west Houston (447Y), from **Caldwell Cos.** (713-690-0000). The 24-year-old, 88,000-square-foot Class B building is 89% occupied with average rents at \$18.50 per square foot. **Ron McWherter** of **CB Richard Ellis** represented the tenant, while **Mary Caldwell** of **Caldwell Cos.** represented the landlord.

TBG Partners leased 10,000 square feet at **Lakes on Post Oak (GAL 066)**, a 350,000-square-foot Class A building located at 3050 Post Oak Blvd. in the Galleria area (491Y), from **DRA CRT Post Oak** (212-697-4740). The 28-year-old building is 92% occupied with average rents at \$25.00 per square foot. **Jay Kyle** and **Robert Parsley** of **Colliers International** represented the tenant, while **Lee Jeane** of **CB Richard Ellis** represented the landlord.

RETAIL CENTERS

The first half of 2007 seemed pretty calm considering the nearly \$60 billion in private equity firm-led retail buyouts in 2006. The retail industry seems to be picking up steam with some recent announcements. **Friendly's Ice Cream Corp.**, which operates more than 500 restaurants nationwide, has reached a deal to be acquired by **Sun Capital Partners, Inc.** **Home Depot** announced that it was selling its Supply Unit to **Bain Capital**, the **Carlyle Group**, and **Clayton Dubilier & Rice** for \$10 billion. Just recently **Wendy's International, Inc.**, which has a portfolio of 6,658 locations internationally, hinted at a possible sale and **Jones Apparel Group** is rumored to be close to a deal to sell its upscale **Barneys New York** chain to **Isthma**, which is the investment arm of the Dubai government, for a reported \$825 million. However, some potential problems facing private equity players today are rising prime interest rates, a shakier economy, and higher asking prices while these equity players want to make sure they will get value for their money.

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).

- **Interfin** (713-840-8474) is developing **Vintage Park (FNW 138)**, a 500,000-square-foot open-air center located on the southwest corner of Louetta Road and State Highway 249 in northwest Houston (329U), on an 87-acre site. The center will be anchored by **H-E-B** and has a third to a quarter of the available spaces committed. **Curtis Henderson** of **CB Richard Ellis** will handle leasing for Vintage Park, while **Helaine Abramson** of Interfin will handle management. Construction is scheduled to be complete this fall.

The following chart illustrates historical retail occupancy.



Inland Real Estate Acquisitions (630-218-8000) purchased **Northwest Marketplace Shopping Center (NNW 214)**, a 183,000-square-foot center located at 13706-13858 Northwest Freeway in northwest Houston (450D), from **Kimco Realty Corporation** (832-242-6913). The 4-year-old center is 93% occupied with average rents at \$1.71 per square foot. Tenants of the center include **Ross Dress for Less, Office Depot, PetSmart, Old Navy, Famous Footwear, Pier 1, Panera Bread, and Chipotle**. The buyer was represented in-house, while the seller was represented by **Rusty Tamlyn and Mike Parker of HFF**.

Pacific 9651 Bissonet, Ltd. purchased **Lone Star Shopping Center (NSW 057)**, a 30,000-square-foot center located at 9651 Bissonet in southwest Houston (530S), from **A & T Properties**. The 31-year-old center is fully leased with average rents at \$.86 per square foot. Tenants of the center include **Goodyear Tire Center and H & R Block**. The buyer was represented in-house, while the seller was represented by **Robert Lowery of Coldwell Banker Commercial United**.

Miller Realty Investment Partners, Inc. (713-626-2828) purchased **Silverlake Shopping Center (SOU 311)**, a 30,000-square-foot center located at 10201 Broadway in Pearland (613P), from **PPA Pearland, LLC**. The 4-year-old center is fully occupied with average rents at \$2.00 per square foot. Tenants include **Bank of America, Sylvan Learning Center, and Quizno's**. **Henry S. Miller IV of Henry S. Miller Commercial** represented the buyer, while **Jennifer Pierson of CB Richard Ellis (Dallas)** represented the seller.

Liberty Property Investments (713-681-4414) purchased **Coastal Plaza (FSE 683)**, a 16,000-square-foot center located at 501 Gulf Freeway in League City (658Q), from **Option 1 Realty Group** (713-983-7800). The 2-year-old center is 31% leased with average rents at \$1.25 per square foot. Tenants include **Bill Fogle Collision Center and The Learning Tree**. The buyer was represented in-house by **James Nguyen**, while the seller was represented in-house by **Trent Grothues**.

Memorial Hermann Family Practice leased 40,300 square feet at **The Park at Sugar Creek Shopping Center (FSW 078)**, located at 14015 Southwest Freeway in Sugar Land (568R), from **KFLP Partnership, Ltd. and JDLP, Ltd.** The former **Louis Shanks Furniture** two-story building is undergoing renovation and is scheduled to open in September. **Coldwell Bankers, Bank United, and Kent Academy** are current occupants of the center. The landlord was represented by **Pete Stewart of Pete Stewart Properties**, while **Kolbe Curtice of Curtice Commercial Real Estate** represented the tenant.

CVS leased a 65,000-square-foot pad site in **The Shops at San Felipe (NRW 309)**, located at 1407 Voss Rd. in west Houston (490R), from **San Felipe/Voss, Ltd.** The newly constructed center is 68% occupied with average rents at \$2.55 per square foot. **Wachovia Bank** also leased a 30,000 square foot pad site at the same center. Tenants include a **Pei Wei Restaurant, Ben & Jerry's, and The UPS Store.** In the CVS transaction, the tenant was represented by **Charlie Christ** and **Loch Cook** of **Page Partners** and in the Wachovia Bank transaction, the tenant was represented by **Jim Smith** of **The Staubach Co.**, while **H. Dean Lane, Jr.** of **NewQuest Properties** represented the landlord in both transactions.

Wachovia Bank signed a ground lease for 59,377 square feet at **Fort Bend Town Center (FSW 370)**, a 175,000-square-foot center located at southwest corner Highway 6 and Fort Bend Parkway in southwest Houston (610Y), from **NewQuest Properties** (281-477-4300). The center, which is anchored by **Kroger**, is 89% occupied. **Scott Shillings** of **The Staubach Co.** represented the tenant, while the landlord was represented in-house by **Eric Walker.**

Chick-fil-A leased a 42,976-square-foot pad site at **Spring Town Center Phase II (FNO 229)**, a 22,000-square-foot center located at 21330 Kuykendahl in north Houston (290R), from **Inland Southwest Management** (972-442-8000). The 3-year-old center is 92% occupied with average rents at \$1.88 per square foot. Tenants in the center include **Lowe's Home Improvement, 24 Hour Fitness, Chase Bank, McDonald's, Verizon Wireless, and Murphy's Deli.** The tenant was represented in the transaction by **David Hardesty** of **Hardesty Real Estate**, while **Bob Conwell** of **NewQuest Properties** represented the landlord.

Taco Bell leased a 38,063-square-foot pad site in the **Stables Town Center (FNW 528)**, a 97,000-square-foot center located at 8745 Spring Cypress in Spring (330E), from **NewQuest Properties** (281-477-4300). The 6-year-old center is 92% occupied with average rents at \$1.71 per square foot. **Kroger** anchors the center and other tenants include **Walgreen's, Bank of America, Washington Mutual, Subway, Massage Envy, Starbucks, Chase, Pizza Hut, Wendy's, and First Service Credit Union.** **Matt Reed** of **NewQuest** represented the tenant, while **Rebecca Nguyen** of **NewQuest** represented the landlord.

Washington Mutual Bank leased a 29,275-square-foot pad site at **Bay Colony Town Center Phase II (FSW 333)**, located at 1818 FM 646 in League City (699A), from **NewQuest Properties** (281-477-4324). The center will be anchored by **24 Hour Fitness, Kohl's, and Petco.** The landlord was represented in-house by **Heather Nguyen**, while **Tami Pearson** of **NAI Houston** represented the tenant.

INDUSTRIAL FACILITIES

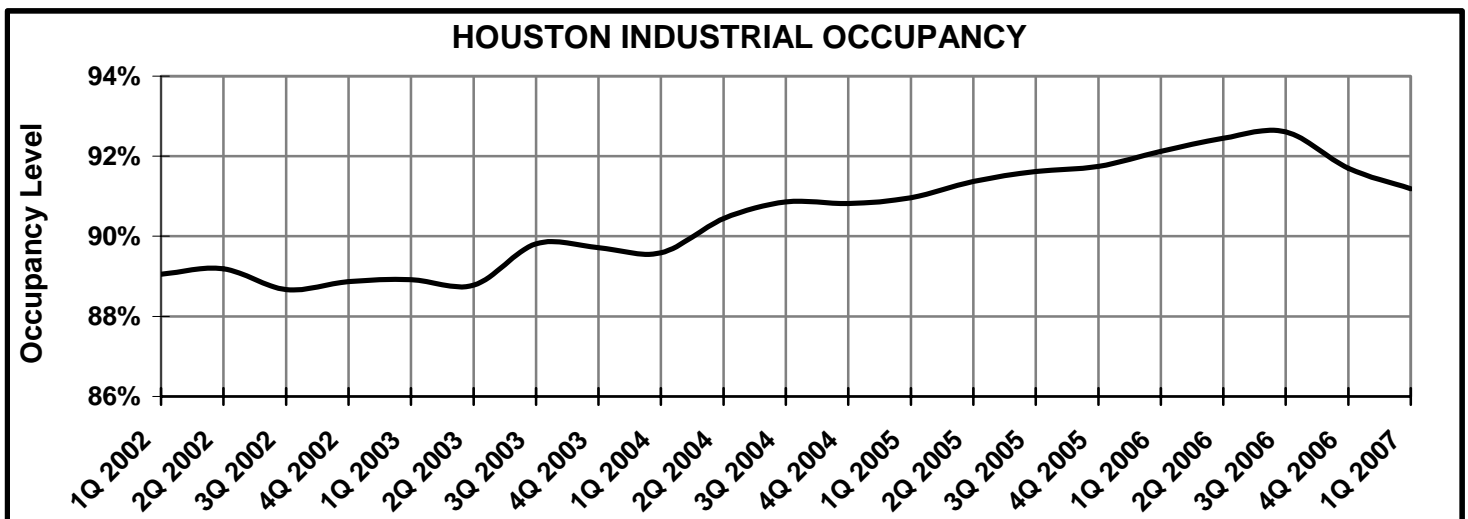
One of the most notable leases in the northwest Houston area was recently announced. **FedEx Freight East, Inc.**, a subsidiary of **FedEx, Inc.**, signed minimum 10-year term lease to occupy 153,853 square feet of **PinPoint Commercial's** (713-425-5425) 115-acre **Satsuma Station Industrial Park (0465A).** The FedEx Freight facility will be located at US Highway 290 and FM 1960. According to PinPoint executives, FedEx chose the location because of its major access points and the lack of available land that size in the heavy industrial northwest side of the city. Ground development is underway and building construction is expected to begin in September with a completion date in the second quarter for 2008. This deal has put the Satsuma Station on the map with other potential build-to-suit tenants looking at the park's remaining 70 acres.

According to the O'Connor & Associates **First Quarter 2007 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is **91.19%** (Flex = 88.98%; Bulk = 92.83%; Manufacturing = 91.46%, Service = 85.68%, Distribution = 88.49%, R&D = 94.82%). Occupancy is down 0.50 points from the last quarter, and down 1.00 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 = \$0.54, 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).

- **First Industrial Realty Trust, Inc.** (312-344-4300) has awarded a contract to build **InterPort Distribution Center Building One (5248A)**, a 598,000-square foot warehouse within the 88-acre **InterPort Business Park** located at 13001 Bay Area Blvd. in Pasadena (580N), to **Cadence McShane Corporation**. The facility will feature 30-foot clearance, 104 truck docks, and four drive-in doors. Completion is set for September.
- **TNRG-The National Realty Group** (713-244-7400) has broken ground on **Signat Business Park (1065)**, an industrial park that will feature seven freestanding metal buildings located at 6922 – 6946 Signat Dr. in northwest Houston (409N). The buildings will range from 6,000 to 12,000 square-feet each. The building will be for sale or lease with quoted prices for the buildings ranging from \$450,000 to \$900,000 including build-outs. Estimated completion date is summer 2008. Leasing and management will be handled in-house by **Steve Adkinson** of TNRG.
- **Stream Realty** (713-300-0300) has been retained by **DCT Properties** to handle the leasing and management at five of their Houston area buildings: 229,000-square-foot **4000 Greenbriar (4265)** in southwest Houston (532C); 149,000-square-foot **12505 Reed Rd. (4904B)** in southwest Houston (568H); 119,000-square-foot **Gateway at Central Green I and II (0333A and 0333)** at 1606-1610 Greens Blvd. in north Houston (373P); 79,000-square-foot **Corporate IV (4904A)** in southwest Houston (569E); and 71,000-square-foot **Sugarland Center (4180M)** at 505-525 Julie Rivers Rd. in Sugar Land (568M).

The following chart illustrates historical industrial occupancy.



GID Investment Advisers (617-973-9680) purchased **Legacy Park Business Center (0289T and 0289V)**, a business park totaling 128,000 square feet located at 10910-10930 W. Sam Houston Parkway N., in northwest Houston (409D), from **The Betz Companies** (281-873-4444). The facility, which was built between 2001 and 2004, is fully leased. The buyer was represented by **David Boyd** of **Boyd Commercial**, while the seller was represented in-house by **Larry Marks**.

ECMD leased 157,000 square feet at **Greens Crossing Distribution Center 2 (0288F)**, located at 850 Greens Parkway in north Houston (372P), from **Liberty Property Trust** (281-955-2000). The newly constructed facility, which features 32-foot clearance, is 50% occupied with average rents at \$0.44 per square foot. **Clay Peeples** of **Boyd Commercial** represented the tenant, while **Faron Wiley** of **CB Richard Ellis** and **Joe Trinkle** of Liberty Property Trust represented the landlord.

Meridian IQ Services leased a 69,680 square foot office/warehouse at **7350 Roundhouse Ln. (2230M)**, in northeast Houston (455M), from **Weingarten Realty Investor** (713-866-6000). The 16-year-old facility features 24-foot clearance and dock-high loading with average rents at \$0.35 per square foot. **Lane Guinn** of **JLM Commercial Advisors** represented the tenant, while **Mary Jo Giammalva** of Weingarten represented the landlord.

DuPuy Storage leased an additional 52,415 square feet at **7198 Mykawa (4555)**, a 277,000-square-foot facility in south Houston (534T), from **St. Paul Properties** (612-310-8449). The 36-year-old facility, which features 22-foot clearance and grade-level doors, is now fully occupied with average rents at \$0.20 per square foot. **David Boyd** of **Boyd Commercial** represented the tenant, while **Darryl Noon** of **Transwestern Commercial** represented the landlord.

A & B Valve and Piping Systems, LP signed a five-year lease for 44,500 square feet at **Beltway Northwest Building A, B, C (0257M)**, a 282,000-square-foot warehouse facility located at 4100 – 4500 N. Sam Houston Parkway W. in northwest Houston (371S), from **Transwestern Commercial** (713-270-7700). The year-old facility, which features 16- to 24-foot clearance, is 17% occupied with average rents at \$0.35 per square foot. **Graham Horton** of **Cushman & Wakefield** represented the tenant, while **Darryl Noon** of Transwestern represented the landlord.

Paramount Transportation Systems leased 31,432 square feet at **Beltway Crossing Bldg II (0245N)**, a 51,000 -square-foot warehouse facility located at 13770 Hollister in northwest Houston (370Z), from **East Group Properties** (281-987-7200). The newly constructed facility features 24-foot clearance and is fully leased. **Travis Land** and **John Ferruzzo** of **NAI Houston** represented the tenant, while **Rives Nolan** and **Clay Reichenbach** of **Insite Realty Partners** represented the landlord.

Parades Etc. leased 17,964 square feet at **Quitman Warehouses (2770M)**, a 772,000-square-foot warehouse facility located at 2300 Quitman St. in north Houston (494A), from **Hartman Management** (713-467-2222). The 87-year old facility features 16-foot clearance and is 88% occupied. **Oscar Rivas** of Hartman represented both parties in the transaction.

Insulating Products leased 12,000 square feet at **Willowbrook Business Center (0212A)**, a 96,000-square-foot distribution center located at 9305 Millsview in northwest Houston (369H), from **Dividend Capital Trust, Inc.** (303-228-2200). The 9-year-old facility, which features 24-foot clearance and dock-level loading, is fully leased with average rents at \$0.37 per square foot. **Lane Guinn** of **JLM Commercial Advisors** represented the tenant, while **Bill Ginder** of **Caldwell Cos.** represented the landlord.

VACANT LAND

The consortium of the **USA Coastguard, Galveston Island Redevelopment Authority, The City of Galveston, and UTMB** is requesting information from developers interested in acquiring the 600-acre **East End Flats**, located at the far east end of the Galveston Island north of Seawall Boulevard and east of Ferry Road in Galveston (775H). Deadline for the request for information is 3:00 p.m., July 27, 2007. The Galveston Island Redevelopment Authority will select a potential developer to carry out the preliminary plans of developing 93 acres in Phase I of the project, with 40 acres to be used for a Continuum of Care Retirement Community; 26 acres for the development of research, office, or other commercial uses consistent with retirement communities; 16 acres for middle-income housing; and 11 acres for public infrastructure. The site is currently being used by the U.S. Army Corps of Engineers to deposit dredge material from the adjacent ship channel. Construction is estimated to begin in three to five years with the entire project expected to take 15 to 20 years to complete.

Lynchburg Crossing 28, Ltd. (713-522-2000) purchased a total of 31.42 acres of land at the intersection of Crosby-Lynchburg Road and Interstate 10 in Baytown (499D), in two separate transactions. The first piece was bought from **Robert A. Easley, Jr.**, while the second was acquired from **A E J W Corp.** Robert A. Easley, Jr. was self-represented, while **A E J W Corp.** was represented by **John Littman, B. Kelley Parker III, Jon Farris, and H. Frank Stanley** of **Cushman & Wakefield** in the transaction. **Henri Klok** of

Broker Associates represented the buyer.

Kingsland Residential Partners (915-833-3322) purchased 21.13 acres of land located near the intersection of Interstate 10 and Barker Cypress in the Energy Corridor (487A) from **W The Residential Estate Company** (972-404-9700). The buyer plans to develop the land into an apartment complex. **Tim Dosch** of **Apartment Realty Advisors** represented the buyer, while the seller was represented in-house.

KJEX Properties (713-956-2924) purchased 10.61 acres of land located in the 3400 block of Shady Hill St. in Baytown's Rollingbrook subdivision (500R) from **F & F Developers**. The buyer plans to develop the land into an apartment complex. The buyer was represented by **Keith Jaehne** of **General Property and Services**, while **Jerry Wilkins** of **Coldwell Banker Commercial United** represented the seller.

Landry's Restaurants, Inc. (713-850-1010) purchased 5.16 acres of land, located at 5001 Avenue U in Galveston (774Y). **Galveston College** sold the land which is only a short distance from Landry's **San Luis Resort, Spa, & Conference Center**. The buyer was represented in-house, while **Julie Presswood** of **Yancey Hausman & Associates, Inc.** represented the seller.

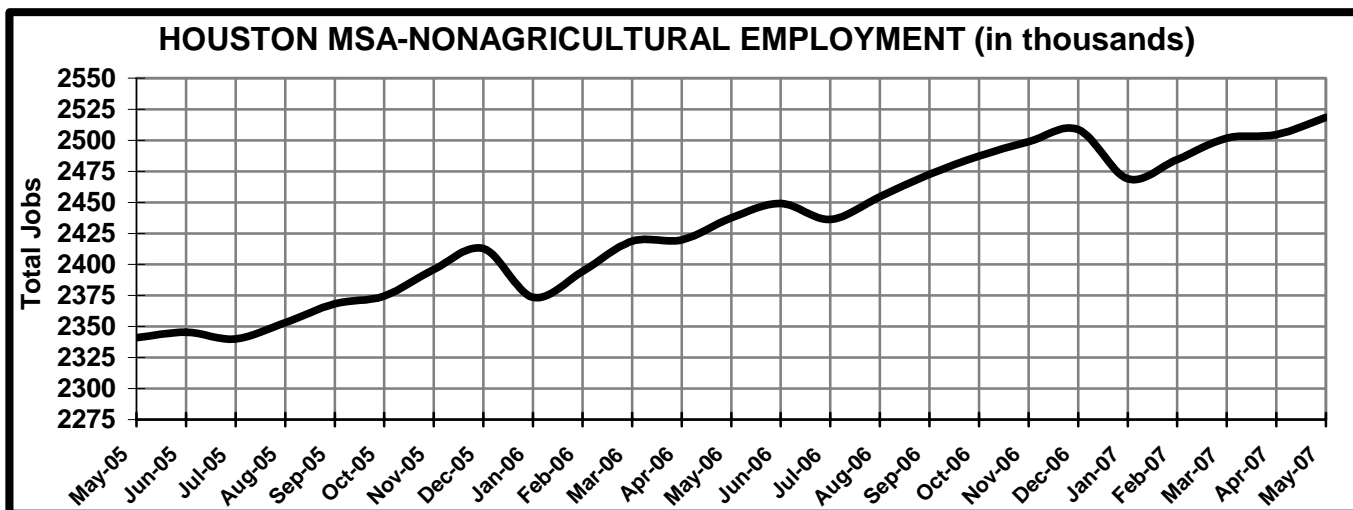
M D Gibson Associates (713-965-9800) purchased 5.81 acres of land, located at FM 518 and Westover Park Dr. in League City's 500-acre master-planned **Westover Park** (657U), from **Cypressbrook Westover Park, LP**. **Paul Stryker** of **Stryker/Groen Commercial Realty** represented the buyer, while **Denise Ksiazek** of **Cypressbrook Co.** represented the seller.

Shanti Holdings (281-486-9997) purchased 1.28 acres of land located on Mill Forest Rd. in **Bay Terrace** in Webster (618T) from **HealthSouth Diagnostics Centers of Texas**. **Bob Zannelli** of **Zann Commercial Brokerage** represented the buyer, while **Ethan Garner** of **Lincoln Harris CSG** represented the seller.

ECONOMIC & FINANCIAL NEWS

The total number of nonagricultural wage and salary jobs in the ten-county Houston area increased by 13,000 jobs to 2,518,500 in May 2007, according to the **Texas Workforce Commission**. This month's total is 81,100 jobs more than the 2,437,400 jobs at this time last year. Of nonagricultural employers, the Leisure & Hospitality sector posted the largest gain over the month at 4,300 jobs, followed by the Construction sector, with 2,600 jobs gained. Over the year, the Professional & Business Services sector has had the largest increase in employment, adding 14,900 jobs, followed by the Construction sector, which added 11,500 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 May 2007 were \$377.9 billion, an increase of 1.4% from April, and up 5.0% from May 2006. Retail trade sales in May were up 1.5% from April, and were 4.9% above last year's level.

Personal income increased \$47.3 billion, or 0.4%, and Disposable Personal Income (DPI) increased \$37.6 billion, or 0.4%, in May 2007, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$52.0 billion, or 0.5% in May 2007. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.6% in May 2007, and is 2.7% higher than in May 2006. Energy, at 5.4%, and Transportation, at 2.8%, posted the largest increases in May 2007.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** decreased to 103.9 in June 2007, down 4.6 points from 108.5, in May. The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** increased 0.3% in May to 138. 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.

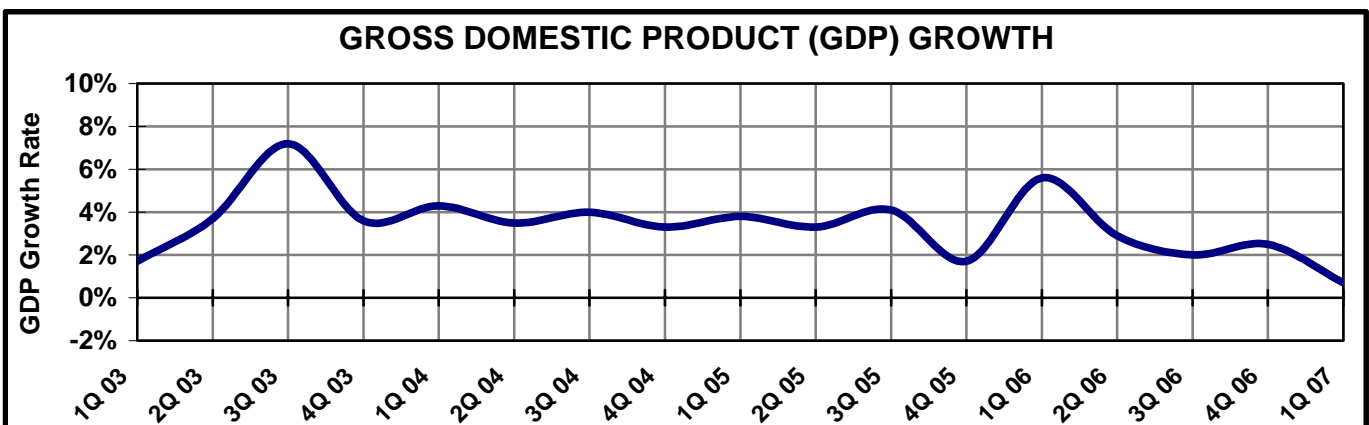
According to the **Federal Reserve**, industrial production did not change in May, and is 1.6% higher than the May 2006 level. Output in the manufacturing sector increased 0.1% in May, output of utilities increased 1.1% over the month, while output at mines increased 0.1%. The rate of industrial capacity utilization was 81.3% in May, which reflected a decrease of 0.2 points from the previous month's level, and was 0.4 points lower than the previous year's level.

Freddie Mac reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.66% in June 2007, which is up 0.40 points from May but down 0.02 points from one year ago. The average for the **15-year FRM** averaged 6.34% in June 2007, which is up 0.37 points from last month, and is 0.03 points higher than it was in June 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 0.7% 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 May 2007 was estimated at a seasonally adjusted annual rate of \$1,176.6 billion, 0.9% above the revised April estimate. The current figure is 2.8% below the May 2006 estimate of \$1,210.0 billion. Private residential construction was at a seasonally adjusted annual rate of \$892.1 billion in May, 0.5% above the revised April estimate of \$887.6 billion, and 6.5% below the May 2006 estimate of \$954.4 billion.

The **Baker Hughes** count of active domestic rotary rigs stands at 1,775 during the week ending June 29, 2007. The current rig count is up 6.5% from last year's figure of 1,666 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

French Quarter Hospitality, LLC (770-257-0430) has purchased the **Del Lago Resort** on Lake Conroe (124P) from **Del Lago Partners, Inc.** (936-582-7590). The sale of the 174-acre mixed-use development includes an 18-hole golf course, yacht marina, 68 golf course bungalows and lake front townhomes, a 320-suite tower, 130,000-square foot conference center, and a full-service marina. The new owner plans to completely gut and rebuild the buildings. More buildings will be added including an upscale restaurant, spa, and the hotel will gain a lobby. **Ray Hankamer** of **Hankamer & Associates** represented the seller in the transaction.

Developers **Fred Caldwell** and **Chuck Watson** have ended their partnership in the **Caldwell Watson Real Estate Group**. Watson will continue to invest in real estate deals with Caldwell, but he will no longer be an owner in the company. The firm is changing its name to **Caldwell Cos.** to reflect this change. The company is active in commercial and residential land development, and also has property management operations.

According to **Builder Magazine**, the Houston area is the largest market for new housing in the country. Rankings by total building permits issued in 2006 show the Houston area first on the list with 71,257 permits, followed by Atlanta with 68,240 and Phoenix with 43,657. Texas leads the nation in new permits, with 16% of the overall permits among the top 75 housing markets. The Lone Star State replaced Florida, which accounted for 14% of permits issued in 2006.

A recent study conducted by **The Barbara Jordan-Mickey Leland Institute at Texas Southern University** and **California's La Jolla Institute** named Houston one of America's most compelling models for urban greatness. According to the study, Houston, along with Phoenix, Dallas, Atlanta, and Charlotte, will be successful because of their approach of the future better focused on creating opportunities for broad ranks of their residents. It is predicted that Houston is likely to be the kind of place that can accommodate the estimated 100 million new Americans expected over the next 40 years.

According to the latest **J.D. Power and Associates 2007 North America Airline Satisfaction Study**, Houston-based **Continental Airlines** has the most satisfied customers among U.S. network carriers. This is the second year the airline has earned the honor. Continental was praised for "customer satisfaction among traditional network carriers in North America," according to the study and was one of only two airlines to improve from its 2006 scores. Airlines were evaluated according to customer satisfaction in seven areas: reservations, check-in, boarding/deplaning/baggage, aircraft, flight crew, in-flight services, and costs and fees.

Enterprise Products Partners, LP has completed a \$60 million expansion of its import/export terminal in the **Houston Ship Channel** that doubles its offloading capacity. The terminal is used to handle natural gas liquids and liquefied petroleum gases. Enterprise Products Partners said the capacity can now be doubled to 480,000 barrels per day from 240,000 bpd, and the terminal's maximum loading rate for exports has increased to 160,000 bpd from 140,000 bpd. The expansion also gives the company flexibility to simultaneously unload product from two vessels or two separate products from the same vessel. The capacity of its pipelines that connect the terminal to the partnership's fractionation and storage complex at Mont Belvieu increased. Enterprise Products Partners is managed by its general partner, **Enterprise Products GP, LLC**, which is wholly owned by **Enterprise GP Holdings, LP**.

A new **U.S. Department of Housing and Urban Development** advertising campaign is focusing on homeownership opportunities for low- to moderate-income African Americans and Latinos. Launching initially in Houston and nine other markets, the campaign's goal is to educate a multicultural audience about the benefits of the different **Federal Housing Administration** programs. The overall goal is to increase minority homeownership in America by 5.5 million by the end of the decade. Lanham, Md.-based **Global Advertising** first created the campaign, which will include print, radio, and Internet advertising.

Kingwood Medical Center has opened its doors to the new patient tower that includes a new and expanded emergency department, intensive care unit, and cardiac care unit. The building cost \$30 million and is licensed for 155 beds, but can add two more floors as the community grows. On the first floor is the emergency department with 16 beds, five more than the hospital had before. The second phase will be completed in three months bringing the total to 18 regular beds and six observation beds. The previous emergency department worked in a 6,000-square-foot space; the new department has 25,000 square feet. On the second floor is the 16-bed, 20,000-square-foot ICU unit.

According to the monthly **Monster Worldwide, Inc.** employment index, online job demand gained a point in the month of May. The Index for Houston had showed an 18 percent increase in the past 12 months. This makes the Houston metro area the fastest growing of any other major market nationwide. Of 20 occupational categories, 12 posted an increase over the month, while 6 declined and 2 remained unchanged. Military specific occupations posted the largest monthly gain of any category in online job opportunities over the month of May.

The **Houston Community College Board of Trustees** approved leasing land to **Houston ISD** for a permanent home for **East Early College High School**. East Early College High School is a high school established with \$400,000 in funding from the **Bill and Melinda Gates Foundation** and is designed for students with academic potential. East Early College High School will be located adjacent to a new academic center for Houston Community College's Southeast College on Drennan Street in Houston's Second Ward. Both institutions will build their own facility of up to 65,000 square feet. Completion of the two facilities is set for 2009.

Rice University will become the home of Texas' first research center for predicting and planning for weather disasters such as hurricanes and tropical storms. Recent legislation has created the **Severe Storm Prediction, Education and Evacuation from Disaster Center**. This center will organize leading universities, researchers, emergency managers and private and public entities in order to better address severe storm impacts from Texas to Louisiana. Research areas will include: severe storm and hurricane research and storm surge prediction; radar-based rainfall and flood warning systems for urban and coastal areas; state-of-the-art educational programs for work force training and public awareness; infrastructure risk assessment for sheltering and evacuation from disaster; and evacuation plans linked to the best warning and transportation systems and societal needs. The center plans to develop computer software that uses real time radar rainfall data to map flood zones.

According to the May 2007 **Architecture Billings Index**, developed by the **American Institute of Architects**, demand for non-residential construction continues to rise. Following three months of modest growth, May reported an index of 55.0 (any score above 50 indicates an increase in billings), up from the 52.6 mark in April. According to the AIA, the forecast for non-residential construction remains favorable throughout 2007 and into early 2008, based on lag time between billings and construction spending, and the high inquiry levels for new projects.

Earth Quest Adventures, a \$500 million dinosaur park will soon be built in East Montgomery County. The project will consist of a dinosaur museum for children and adults to learn about the animals, a theme park consisting of roller coasters and water rides, and a themed hotel and spa that will be built within the park. The location of the park will be north of Highway 59 over FM 1485 near the Caney Creek Bridge. This location in East Montgomery County was chosen from over 60 different communities around the country. It is projected that the new 150-acre site will attract more than 2.5 million people per year and will create 2,700 jobs for the area, and 30,000 jobs during the construction phase. The revenue from the project will benefit the economies of East Montgomery County, Humble, and the surrounding areas as well. Construction on the park is scheduled to begin in 2008 with a completion date by 2011.

Sequoia/Canongate Golf, LLC has acquired The Woodlands' five public golf courses and **The Woodlands Country Club**. Among the collection is the **East Course**, where the **PGA Houston Open** was played for 17 years. Included in the sale which was finalized May 31 is the 18-hole East Course, clubhouse and maintenance facilities; the building formerly known as the **Golf Hall of Fame**; **The Oaks** and **Panther Trail** golf courses, along with the golf pro shop, locker rooms and **Spartilo** restaurant; the 27-hole **Palmer Course**, **Palmer Clubhouse** and maintenance facilities; and the 18-hole **Player Course**,

clubhouse and maintenance facilities. The existing tennis facilities at The Woodlands Country Club, including the pro shop and indoor courts were also included.

According to **Allstate Insurance Co.'s** 2007 "**Americas Best Drivers**" report, Houston ranked 163rd out of 200 cities, making it one of the least safe cities for driving. The report based the safest city on average number of years between automobile accidents, and found Sioux Falls, SD to be the safest city with an average of 13.7 years between accidents, while Houston reported an average of 8.1 years between accidents. The national average is 10 years between accidents. Houston came in at number 4 out of the 9 largest cities (population of 1 million or larger) in the report.

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