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Houston Real Estate Trends

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APARTMENTS

Fourth Quarter 2007 figures indicate Greater Houston apartment occupancy is on the decline. Over the course of the year, overall occupancy has slid 0.45 points to its current level at 88.17%. Of all the classes, Class A occupancy has been the hardest hit, dropping 2.16 points over the year from 90.77% to 88.61%. Class C has also experienced a slight negative decline in occupancy, dropping from 86.24% in the fourth quarter of 2006 to 85.81% in the fourth quarter of 2007. Comparatively, the Class B market remains in relatively good shape with occupancy at 89.78%, though it has dropped 0.18 points since last quarter. While the winter months are typically slower months for the apartment market, we expect to see a trend of increasing occupancy due to many homeowners losing their houses due to foreclosures over the next couple of months.

According to www.oconnordata.com, O'Connor & Associates' online apartment data program, **Fourth Quarter 2007** overall **occupancy** for Houston area apartment projects is **88.17%** (Class A = 88.61%; Class B = 89.78%; Class C = 85.81%; Class D = 84.27%). Occupancy is down 0.69 points from the third quarter and down 0.45 points over the past year. The overall **rental rate** is **\$0.848 per square foot** (Class A = \$1.122; Class B = \$0.821; Class C = \$0.698; Class D = \$0.607). Overall rents are up \$0.003 from the third quarter of 2007 and \$0.017 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).*

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ApartmentLink

More Owner Contact Information

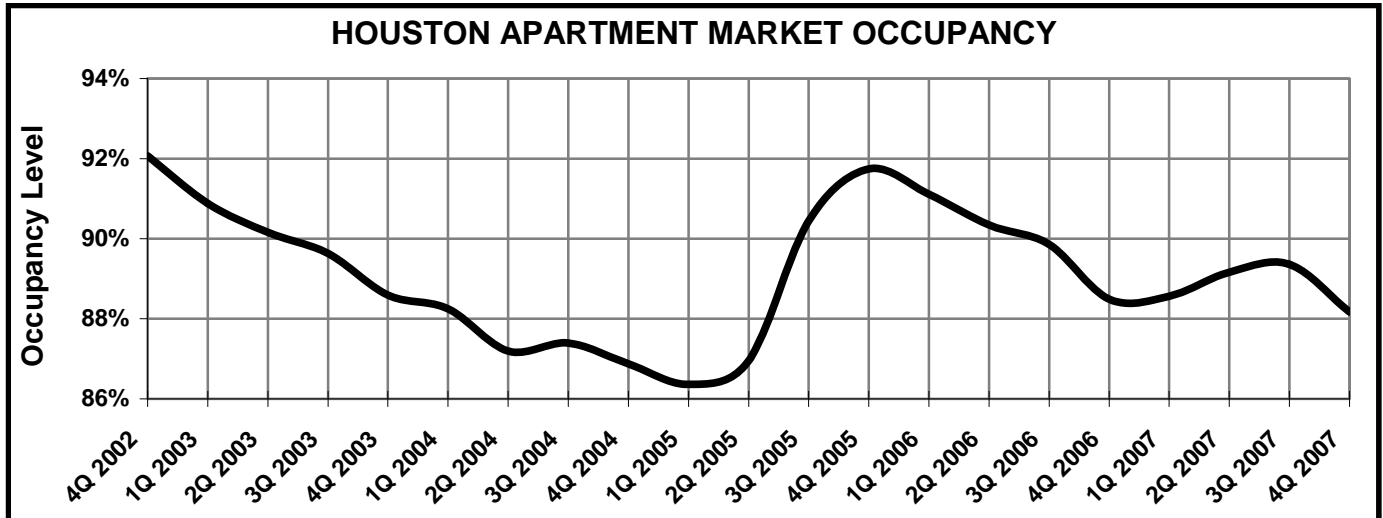
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- **ZOM Texas** (214-220-3880) is developing **Le Maison on Revere (17991)**, a 423-unit complex located at 2727 Revere (492U) in the River Oaks area. Construction is under way on the \$90 million complex, which will include 1- and 2-bedroom units with the average unit size at 978 square feet. The complex is scheduled for completion in summer 2009.
- **Trammell Crow Co.** (713-963-1000) is developing **Alexan Grand Mission (17853)**, a 328-unit complex located at 19010 Mission Park Dr. in Richmond (526G). **Kerry French of NorthMarq Capital** (713-622-6300) arranged \$8.651 million in financing on behalf of the developer, with funds provided by **Babson Capital**.

The following chart illustrates historical apartment occupancy rates.



- **Alterra Capital Group** (305-350-0915) purchased a portfolio of 4 Houston area Class B apartment complexes totaling 1,348 units from **Milestone Management** (713-785-1773). The properties include **Woodborough (1291)**, a 320-unit, 25-year-old complex located at 200 Hollow Tree in the Champions-East area (332K); **Carriage Hill (1317)**, a 252-unit, 27-year-old complex located at 100 Hollow Tree in the Champions-East area (332K); **One Cypress Landing (1314)**, a 341-unit, 28-year-old complex located at 910 Cypress Station in the Champions-West area (332E); and **Holiday on Hayes (2207)**, a 301-unit, 26-year-old complex located at 3131 Hayes Rd. in the Westchase area (489X). Occupancies at the properties range from 86% to 92%, while average rental rates range from \$0.76 to \$0.85 per square foot. The buyer was represented in-house, while **Todd Stewart** of **CB Richard Ellis** represented the seller.
- **Angelo Gordon & Co.** (212-692-8249) purchased **Rio Grande Ranch Apartments I & II (2145 & 2146)** from **Michelson Realty** (314-862-7080). Rio Grande Ranch Apartments I is a 312-unit Class A complex located at 2920 Shadowbriar in far west Houston (488V). The 8-year-old complex is 96% occupied with average rents at \$1.01 per square foot. Rio Grande Ranch Apartments II is a 312-unit Class A complex located at 3030 Shadowbriar in far west Houston (488V). The 7-year-old complex is 96% occupied with average rents at \$1.19 per square foot.
- **WestCorp Management Group** (702-307-2881) purchased **The Steeples (2170)**, a 408-unit Class B complex located at 2151 S. Kirkwood in west Houston (489N), from **Venterra Realty** (281-554-6900). The 29-year-old complex is 92% occupied with average rents at \$0.79 per square foot. The buyer was represented in-house by **Mark Taylor**, while **Teresa Guidotti Lowery**, **Saul Keeton**, and **Lynn Stewart** of **Colliers International** represented the seller.

- **GALP Cypress, LP** (253-396-4340) purchased **Fairfield Parke (1315)**, a 345-unit Class C complex located at 990 Cypress Station in the Champions-East sector (332J), from **Fairfield Management** (281-464-3434). The 28-year-old complex is 62% occupied with average rents at \$0.71 per square foot. The buyer was self-represented, while **Cindy Bedwell** of **Pinnacle American Management Services** represented the seller.
- **Mosaic Residential, Inc.** (281-647-6400) purchased **Mansions of Shadowbriar Apartments (2143)**, a 328-unit Class B complex located at 12200 Overbrook in far west Houston (488V), from **Sendera Investment Group** (512-439-1200). The 24-year-old complex is 93% occupied with average rents at \$0.83 per square foot. The buyer was self-represented, while **Apartment Realty Advisors** represented the seller.
- **Montford Management** (972-960-9300) purchased **Hartford Park (2968)**, a 328-unit Class B complex located at 3939 Synott in the Alief area (528C), from **Trimark Realty Investments** (972-476-9659). The 24-year-old complex is 20% occupied with average rents at \$0.73 per square foot.
- **Post Investment Group** (323-653-9700) purchased **Whispering Winds Apartments (4193)**, a 286-unit Class B complex located at 2902 Whispering Winds Dr. in Pearland (615Q), from **TR Associates of Whispering Winds, LP**. The 22-year-old complex is 80% occupied with average rents at \$0.92 per square foot. The buyer was self-represented, while **Ryan Terrell** of **Hendricks & Partners** represented the seller. **Tucker Knight** of **HFF** (713-852-3500) arranged \$17 million in financing on behalf of the buyer, with funds provided by **Freddie Mac**.
- **GFB** (281-931-9087) purchased **Imperial Landing (1524)**, a 264-unit Class C complex located at 16001 Cotillion in north Houston (373W), from **Beverly Partners III, Ltd.** The 29-year-old complex is 97% occupied with average rents at \$0.74 per square foot. **John Barker** and **Will Jarnagin** of **The Barker-Jargain Group** of **Marcus & Millichap** represented both the buyer and seller.
- **Marquis Management** (972-732-1155) purchased **South Lake Villas (2062)**, a 228-unit Class C complex located at 12355 Tidwell in the Northshore area (456C), from **South Lake Villas, Ltd.** (281-459-2550). The 24-year-old complex is 94% occupied with average rents at \$0.66 per square foot.
- **Broadway Hampton Court, LP** (408-996-9190) purchased **Park at Woodmoor (4405)**, a 220-unit Class A complex located at 8787 Shenandoah in Shenandoah (218W), from **Crest-Way Venture**. The 7-year-old complex is 95% occupied with average rents at \$0.88 per square foot. The buyer was self-represented, while **Chip Nash** and **Winston Black** of **Hendricks & Partners** represented the seller.
- **Eureka Holdings, Inc.** (214-363-2628) purchased **Granada Terrace (3751)**, a 156-unit Class C Section 8 housing complex located at 1301 Avenue A in South Houston (536Y), from **Granada Terrace, Ltd.** The 29-year-old complex is fully occupied with average rents at \$0.71 per square foot. The buyer was self-represented, while **Jeff Eisenhardt** of **Hendricks & Partners** represented the seller.
- **Glen Willow, LLC** (713-729-2600) is under contract to purchase **Glen Willow (3361)**, a 122-unit Class C complex located at 10600 S. Post Oak in the Meyerland area (531Y) from **Jane W. Lai**. The 44-year-old complex is 89% occupied with average rents at \$0.62 per square foot. **Jim Hurd** and **Shayan Hasnain** of **Houston Income Properties** represented the buyer, while **Jim Hurd** of **Houston Income Properties** and **Tom Wilkinson** of **KET Enterprises, Inc.** represented the seller.
- **No Mas Tomas, LLC** (281-497-5767) purchased **Memorial Trails Apartments (2034)**, a 77-unit Class B complex located at 14900 Memorial Dr. in far west Houston (488G), from **LSR Construction Company, Inc.** (713-468-4162). The 37-year-old complex is 99% occupied with average rents at \$0.73 per square foot. **Jeff Miller** of **Marcus & Millichap** represented the buyer, while **Brian Janak** of **Marcus & Millichap** represented the seller.

- **Community Housing Concepts Properties, LLC** (303-322-8888) purchased **Heritage Square Apartments (17990)**, a 50-unit Section 8 complex for seniors located at 520 Third Ave. N. in Texas City (738H), from **Heritage Square, Ltd.** The 29-year-old complex is fully occupied.
- **Verde Realty** (915-225-3200) purchased **Oaks of Beverly Hills (2410)**, a 40-unit Class B complex located at 5301 Beverly Hill in the Galleria area (491Y), from **Torry Management** (713-439-0131). The 45-year-old complex is 95% occupied with average rents at \$0.96 per square foot. The buyer was represented in-house, while **Jeff Eisenhardt** of **Hendricks & Partners** represented the seller.

SINGLE-FAMILY HOUSING

MLS home sales decreased in November, as 3,965 used homes were sold, down from the 4,323 homes sold in October, according to the **Houston Association of Realtors (HAR)**. Sales for November 2007 were down 9.4% from November 2006. The median price of a used single-family home sold in November was \$150,000, up 1.7% from November of last year, while the average home price was \$205,815, which was up 6.4% from the November 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 8% in October to 1,547 from 1,428 in September, but are down 28% from October 2006. Realtor co-op sales represented 62% of gross sales, down 2% from October of last year. Traffic decreased 22% from last year to 21,011 in October 2007. The inventory of completed speculative homes (2,156) is down 5% from last year. There are 2,139 spec homes under construction, which is down 48% from October 2006. Overall, the 4,495 specs (both completed and under construction) are down 33% from October 2006. *Note: the 24 homebuilders in this survey account for approximately 65% of housing starts in Houston.*

Nationwide sales of new single-family homes increased in November to a seasonally adjusted annual rate of 647,000, 9.0% below the revised October sales rate of 711,000 and 34.4% below the November 2006 figure, according to a release by the **U.S. Department of Commerce**. The median sales price in November was \$239,100. Privately owned housing starts were at a seasonally adjusted annual rate of 1,187,000 in November 2007, which is 3.7% below the revised October estimate, and 24.2% below the revised November 2006 rate. Privately owned housing completions were at a seasonally adjusted annual rate of 1,344,000 in November, 4.1% below the revised October figure and 28.7% below the revised November 2006 figure.

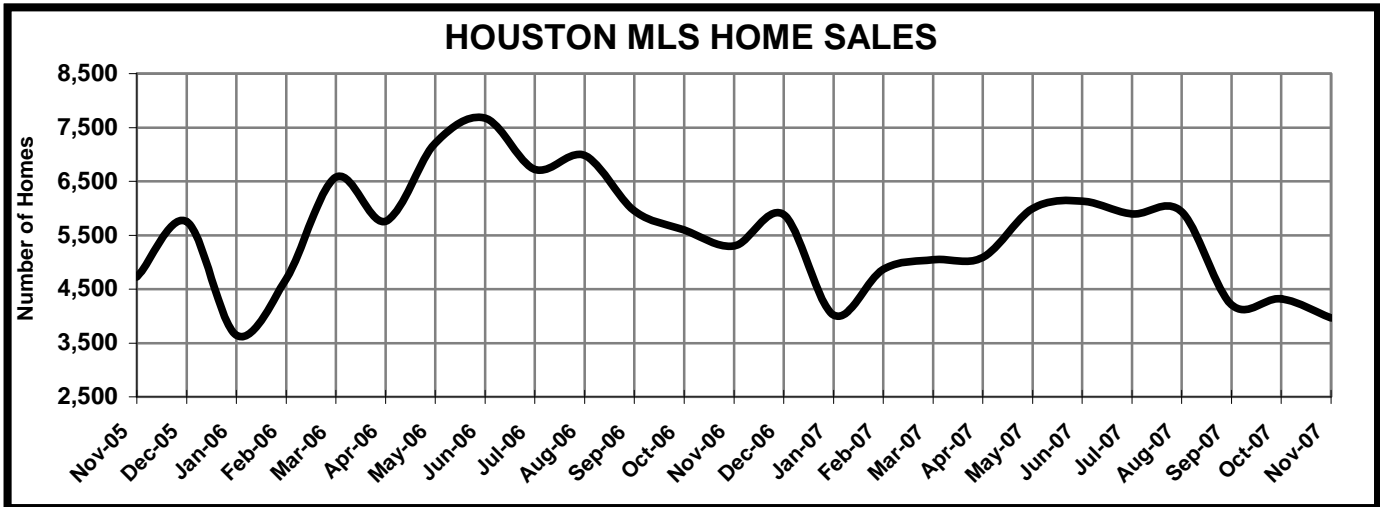
The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, remained unchanged at 19 in December, on a scale where any number greater than 50 indicates that builders view sales as more good than poor. This is the index's lowest point since the series began in January of 1985. The index measuring current sales of new single-family homes improved by 1 point to 19, the index measuring sales expectations for the coming six months rose 2 points to 26, while the index measuring the traffic of prospective buyers decreased 3 points to 14.

According to the **National Association of Realtors (NAR)**, 5,000,000 existing homes were sold in November 2007, up 0.4% from October sales, and down 20.0% from the 6,250,000 homes sold in November 2006. The median sale price was \$210,200, which represents a 3.3% decrease from sale prices last year.

According to the most recent report by **RealtyTrac**, 201,950 foreclosure filings — default notices, auction sale notices, and bank repossessions — were reported during the month of November. This figure is down 10% from October, but up 68% from November 2006. The company estimates that one in every 617 households nationwide entered the foreclosure process in November. Texas remains among the nation's 14 highest states in total foreclosure filing for the month of November.

Lennar Corp., the nation's largest builder in terms of revenue, is selling a portfolio of 11,000 properties to a joint venture it has established with **Morgan Stanley**. Morgan Stanley will own 80 percent of the joint venture, while Lennar will own the remaining 20 percent. The portfolio, which includes a mix of raw land and partially and fully developed homesites, is selling for \$525 million, or 40 percent of their previously-stated book value.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

- **Cherokee Investment** (512-615-2777) plans to develop a 650-acre mixed-use community called **Imperial Sugar Land** located at Highway 6 and Highway 90A in Sugar Land (568N). The home prices will start at \$300,000. The developer hopes to create the look of an old Houston neighborhood like the Heights or River Oaks with alleys and detached garages. Preliminary work at the site is expected to start early 2008, with work on the neighborhood beginning in 2009. The project will also include 27 acres a commercial retail space and 36 acres of office or light industrial space.
- **Grason Communities** (281-656-0555) plans to develop **Reflection Bay**, a 492-acre 1,400-home residential community located west of Highway 146, on the north side of Dickinson Bayou in Texas City (661W). The community will feature homes with a price range from the \$150,000s to the \$250,000s and will be able to accommodate boaters. Pre-construction work is slated to begin in 2008.
- **Carmel Builders** (713-952-6767) is developing **The Brownstones at CityCentre**, a townhome project located at I-10 and Beltway 8 (489D) as part of the City Centre mixed-use development underway by **Midway Cos.** Plans call for the construction of 35 brownstones with average sizes ranging from 3,200 to 3,700 square feet that will priced from \$810,000 to over \$900,000. The three-story homes are currently under construction with completion in 2008.
- **Black Diamond Development** (713-532-8849) plans to develop **Bammel Lane Park Homes**, a 1.7-acre 12-home community located off Bammel Lane south of West Alabama in the Upper Kirby District (492T). Homes will range in size from 3,900 to 5,500 square feet and have a starting price of \$1.6 million. Construction is expected to begin by the end of 2007.

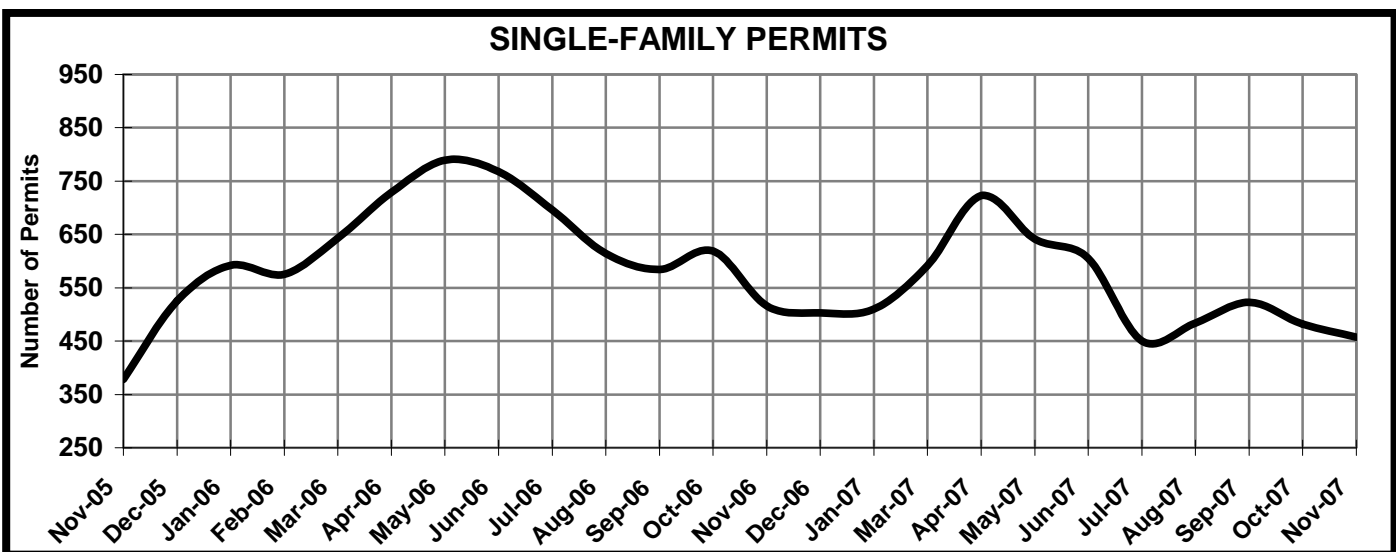
PERMIT ISSUANCE

The **City of Houston** issued permits to build 457 private single-family houses and 66 private multifamily buildings in November. Demolition permits were issued for 154 private single-family houses and 2 multifamily structures. In addition, 202 permits were issued for privately owned non-residential construction totaling \$141,754,219 and 0 permits were issued for public non-residential construction. Additions, alterations, and conversions totaled \$98,717,421 for the private sector and \$5,509,257 for the public sector.

Cost of Construction*

	2005	2006	2007
Month of November	\$404,089,921	\$344,282,616	\$405,824,052
Year-to-Date	\$3,436,311,976	\$4,730,156,017	\$5,098,561,024

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



OFFICE BUILDINGS

Office building sales in Greater Houston were especially brisk in 2007, as more than 60 properties traded hands. Some of the areas that saw the most activity include the Bellaire/West University sector where at least 19 properties sold in 2007, the Greenspoint/Northbelt area where 9 sales were recorded over the year, and the Galleria area where approximately 6 properties sold during the year. With 19 properties trading hands in the Bellaire/West University area, it is not surprising that over 3.7 million net square feet of office space came under new ownership in Houston. Also noteworthy for the year is the over 2.5 million net square feet of office space in the Central Business District were also sold. The **Bank of America Center** contributed over 1.2 million net square feet of space to that figure. Looking ahead, Houston could see sales activity continue as buildings such as the **Williams Tower** come on the market.

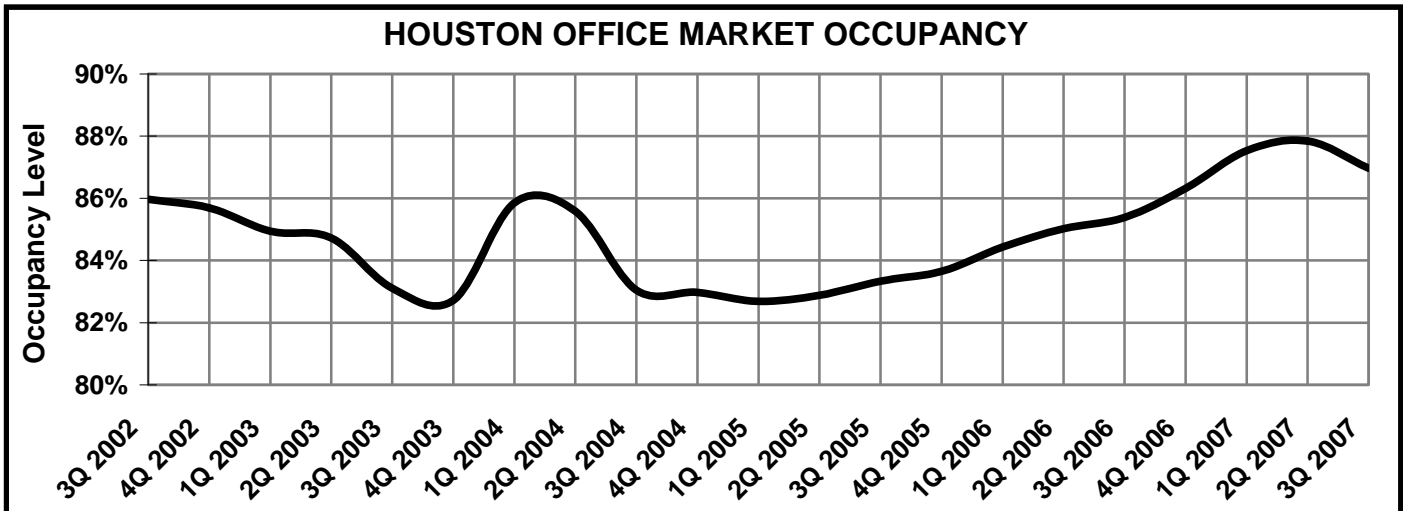
According to the O'Connor & Associates **Third Quarter 2007 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **86.96%** (Class A = 91.67%; Class B = 84.18%; Class C = 82.36%; Class D = 76.06%). The citywide annual multi-tenant office **rental rate** is **\$21.92 per square foot** (Class A = \$27.21; Class B = \$18.61; Class C = \$14.81; Class D = \$12.05).

Note: The office buildings listed herein are followed by their representative sector code and identification number as they appear in the O'Connor & Associates **OfficeLink 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).*

- **Fosterlane Holdings of Atlanta** has placed the **Williams Tower (478)** located at 2800 Post Oak Blvd. in the Galleria area (491U), up for sale for an undisclosed price. The 23-year-old 1,515,000-square-foot Class A building is 92% occupied with average rents at \$27.70 per square foot. **Ken Page, David Chuoke,** and **Jon Caplan** of **Cushman & Wakefield** will handle marketing of the property.
- **Thomas Properties Group, Inc.** (213-613-1900) plans to add four office buildings to its CityWestPlace Campus located along Beltway 8 between Westheimer and Briar Forest in west Houston (489U). **CityWestPlace V (2443)** is a 640,000-square-foot 22-story building, **CityWestPlace VI (2444)** is a 465,000-square-foot 16-story building, **CityWestPlace VII (2445)** is a 307,000-square-foot 12-story building, and **CityWestPlace VIII (2446)** is a 387,000-square-foot 16-story building. The Class A buildings will be added to the four existing buildings totaling 1.4 million square feet. No word yet on construction schedules. **Win Haggard** of Thomas Properties Group, Inc. will handle management duties, while **Chip Colvill** of **Colvill Office Properties** will handle leasing of the properties.
- **Park Ten Katy Land GP, LLC** (281-398-8118) plans to develop **The Reserve at Park Ten (2416)**, a 300,000-square-foot office building at the northeast corner of Park Ten Place and Broadfield Blvd. in the Park 10 area (447Z). Construction is slated to begin in the spring of 2008.
- **Everson Land Development, LLC** (281-362-9902) plans to develop **Technology Plaza at Research Forest (2440)**, a new retail/medical building located at 4185 Technology Forest in The Woodlands (217X). The project will consist of a 20,000-square-foot retail building, a 45,000-square-foot medical office building, and two pad sites. Construction is expected to begin this month and be completed by mid-2008. **Jeff Beard** of **J Beard Real Estate Company** will handle leasing and management duties.
- **Behringer Harvard** (469-341-2328) plans to develop **Three Eldridge Place (2441)** near Memorial Dr. and Eldridge Pkwy. in west Houston (488G). This will be the third building in the Eldridge Place office complex. Construction on the 300,000-square foot Class A space is expected to begin spring 2008. **CB Richard Ellis** will handle leasing and management duties.

- **Winding Way Properties** (281-482-2229) broke ground on **Medical Wellness Center at Clear Lake (2411)**, a 29,000-square-foot medical office development located at 1505 E. Winding Way in the Friendswood area (657E). Construction is expected to be completed by July 2008. The \$4.9 million, two-story medical center will house the **Memorial Hermann Imaging Center** and an OB/GYN practice on the first floor, with the remaining 40% available for lease. **Dr. Ronald Baden** of **Winding Way Properties** is handling leasing duties.
- **Live Oak Capital** (713-993-1300) arranged the acquisition fixed financing on behalf of **Norvin Kingsland, LLC** (212-755-7552) for **Kingsland Medical Plaza (1456)**, a 32,000-square-foot Class B medical office building located at 777 Fry Rd. in Katy (486C). The 13-year-old building is 38% leased with rents at \$17.00 per square foot. **Gary Dunkum** of Live Oak Capital arranged the financing through **American National Insurance Company**.

The following chart illustrates historical office occupancy rates.



- **HE 2425 West Loop, LP** (602-840-3000) purchased a 2-property portfolio, which includes the **AT & T Building (521)** and **One West Loop Plaza (539)** from **Fuller West Loop, LLC** (713-850-8400). The AT & T building is a 223,000-square-foot Class B office building located at 1001 West Loop South in the Bellaire area (491M). The 30-year-old building is 81% occupied with average rents at \$20.00 per square foot. One West Loop Plaza is a 282,000-square-foot Class B office building located at 2425 West Loop South in the Bellaire area (491V). The 28-year-old building is 82% occupied with average rents at \$20.00 per square foot. **Steve Ellman** of **The Ellman Cos.** represented the buyer, while the seller was represented by **Dan Miller** and **Marty Hogan** of **HFF** and **Steve Darnell** of **Fuller Realty Advisors**.
- **Younan Properties, Inc.** (818-703-9600) purchased a 3-property portfolio, which includes **Greenbriar Place (041)**, **Bridgewood I (043)**, and **Bridgewood II (042)**, from **KBS Investors IV** (949-417-6500). Greenbriar Place is a 146,000-square-foot Class B office building located at 650 N. Sam Houston Pkwy E. in the Greenspoint area (373S). The 27-year-old building is 94% occupied with average rents at \$17.25 per square foot. Bridgewood I is a 134,000-square-foot Class B office building located at 654 N. Sam Houston Pkwy E. in the Greenspoint area (373S). The 5-year-old building is 87% occupied with average rents at \$17.00 per square foot. Bridgewood II is a 140,000-square-foot Class B office building located at 652 N. Sam Houston Pkwy E. in the Greenspoint area (373S). The 27-year-old building is 71% occupied with average rents at \$17.00 per square foot. The buyer was represented in-house, while **Darrell Betts** of **Grubb & Ellis** represented the seller.
- **Shorenstein Properties, LLC** purchased **2000 West Loop South (533)**, a 357,000-square-foot Class A office building located in the Galleria area (491R), from **USA 2000 West Loop** (713-355-9100). The 36-year-old building is 98% occupied with average rents at \$24.50 per square foot. The buyer was

represented self-represented, while **Jeffrey Hollinden, Robert Williamson, and Barbara Buffey** of **HFF** represented the seller.

- **Cameron Management** (713-333-0811) purchased **1001 McKinney (81)**, a 371,000-square-foot Class B office building located in the Central Business District (493Q), from **1001 McKinney Venture, LP** (210-498-3222). The 60-year-old building is 85% occupied with average rents at \$16.50 per square foot. **Dougal Cameron** of Cameron Management represented the buyer, while **Rusty Tamlyn, Robert Williamson, and Barbara Guffey** of **HFF** represented the seller.
- **Younan Properties, Inc.** (818-703-9600) purchased **1010 Lamar (61)**, a 260,000-square-foot Class B office building located in the Central Business District (493Q), from the **BBS Investors II** (949-417-6500). The 26-year-old building is fully occupied with average rents at \$23.00 per square foot. Younan plans to convert the first floor of the attached garage into 25,000 square feet of retail space. The buyer was self-represented, while **Ken Page** and **Scott Myers** of **Cushman & Wakefield** represented the seller.
- **Behringer Harvard Opportunity REIT I** (214-655-1600) is under contract to purchase **Northborough Tower (655)** from **Commercial Developments International**. Northborough Tower is a 217,000-square-foot Class B office building located at 100 Glenborough in the Central Business District (372Q). The 24-year-old building is fully occupied by **Nobel Energy, Inc.** The buyer was self-represented, while **Rudy Hubbard** of **Transwestern Commercial Services** represented the seller.
- **Din\Cal Office, LP** (713-627-2800) purchased the **Richmond Tower Building (774)**, an 85,000-square-foot Class B office building located in the Greenway Plaza area (492X), from **3411 Richmond Partners, Ltd.** The 40-year-old building is fully occupied with average rents at \$18.50 per square foot.
- **Technip USA, Inc.** leased 684,000 total square feet of office space in west Houston. The company renewed their lease of 229,000-square-feet at **Energy Tower I (958)**, a 340,000-square-foot Class A office building located at 11700 Old Katy Rd. in west Houston (489A). The 8-year-old property is fully occupied with average rents at \$24.25 per square foot. Also leased was 376,000-square-feet at **Energy Tower II (962)**, a proposed 447,000-square-foot Class A office building located in west Houston (489A). The facility will be constructed adjacent to the firm's existing building. Technip also leased 79,000-square-feet at the **Offices at Park Ten, Phase I (1457)**, a 79,000-square-foot Class A office building located at 16285 Park Ten Place in west Houston (447Y). All buildings were leased from **FSP Limited Partnership**. The buyer was represented in-house, while **Tony Allen** of **Yancey-Hausman & Associates** represented the landlord.
- **Winstead PC** leased 14,500 square feet in the **24 Waterway Avenue (2257)** building, a 268,000-square-foot Class A building located in The Woodlands (449H), from **The Woodlands Development Co.** (281-719-6100). The yet-unfinished building is 39% pre-leased with average rents at \$21.50 per square foot. **Drew Morris** and **Steve Beigel** of **Studley Houston** represented the tenant, while **Dennis Conine** of **Binswanger Conine & Robinson** represented the landlord.

RETAIL CENTERS

According to **comScore, Inc.**, online sales for the 2007 holiday season (November 1 – December 27) was nearly \$28 billion. This figure is 19 percent higher versus the corresponding days last year. Even after the holiday season was winding down, relatively strong online sales continued. The day after Christmas saw online sales of \$545 million, more than twice that for the same day last year. Consumers clearly took advantage of the promotions and price discount offered by many retailers. The strength of online sales is also indicated by the 21 percent of sales growth seen in the period between Thanksgiving and Christmas compared to the same period in 2006.

According to the O'Connor & Associates **Third Quarter 2007 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **85.35%** (Regional = 87.54%; Community = 87.37%; Neighborhood = 84.09%; Strip = 82.67%). Occupancy is down 0.06 points over the last quarter and down 0.23 points over the past 12 months. The citywide monthly multi-tenant retail **rental rate** is **\$1.61 per square foot** (Regional = \$3.00; Community = \$1.59; Neighborhood = \$1.19; Strip = \$1.19). Overall rents remain the same from the last quarter, but are up \$0.02 from last year's figure.

Note: The retail centers listed herein are followed by their representative identification number as they appear in the new O'Connor & Associates **RetailLink 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).*

- **LaMesa Corporation** (713-526-4311) is developing phase one of **Sonoma in the Village (3834)** that will include 100,000 square feet of retail space, 50,000 square feet of office space, and 250 high-end residential condominium units located on the north end of Rice Village (532C). The mixed-use development will be spread over four acres. The project will be developed in two phases with the first phase scheduled to be delivered in summer 2009.
- **NorthMarq Capital** (713-622-6300) arranged the \$3.8 million refinancing loan on behalf of **Delta-Tryo Interests** for **5901 Westheimer Shopping Center (1537)**, a 48,000-square-foot retail center located at the southwest corner of Westheimer and Fountainview in near west Houston (491T). The 31-old center is 79% leased with average rental rates at \$1.88 per square foot. Tenants of the center include **Fitness Unlimited, Verizon Wireless, and Fast Signs**. **John Burke** of NorthMarq arranged the financing on behalf of the buyer, with funds provided by **ING Investment Management, Inc.**

The following chart illustrates historical retail occupancy rates.



- **KM Realty Advisors, LP** (713-690-2700) purchased **1488 Town Plaza (890)**, a 22,000-square-foot center located in The Woodlands (217G), from **Advantage Realty**. The 8-year-old center is 82% occupied with average rents at \$1.75 per square foot. Tenants of the center include **Curves for Woman** and **Mester Miller's Academy**. The buyer was self-represented, while **Patrick Graham** and **David Butler** of **Colliers International** represented the seller.
- **Hobby Lobby** leased 55,000 square feet at **Victory Lakes Town Center (3509)**, a 383,000-square-foot center located at 1820 FM 646 in League City (699A), from **NewQuest Properties** (281-477-4300). The center is currently under construction and is 82% pre-leased. Tenants of the center will include **Best Buy**, **JC Penny**, and **Lowe's**. **Scott Shillings** of **The Staubach Co.** represented the tenant, while **Heather Nguyen** of NewQuest represented the landlord.
- **H Mart** leased 53,000 square feet at **Blalock Center at Westview (816)**, a 69,000-square-foot center located at 1302 Blalock in northwest Houston (450Y), from **Randall's** (713-268-3500). The 19-year-old center is 96% occupied with average rents at \$0.50 per square foot. Tenants of the center include **Bradley's Frame** and **Fundamentally Music**. H Mart will take the place of the Randall's as the anchor for the center. The tenant was self-represented, while **Luke Durrett** of **BPI Realty Service, Inc.** represented the landlord.
- **Palais Royal** leased 40,000 square feet at **Brazos Town Center (2224)**, a 1,000,000-square-foot center located at 24502 Southwest Freeway in Rosenberg (605R), from **NewQuest Properties** (281-477-4300). The newly constructed center is 98% occupied. Tenants of the center include **Target**, **Home Depot**, and **Hobby Lobby**. **Michael Stern** of **The Staubach Co.** represented the tenant, while **David Meyers** of NewQuest Properties represented the landlord.

INDUSTRIAL FACILITIES

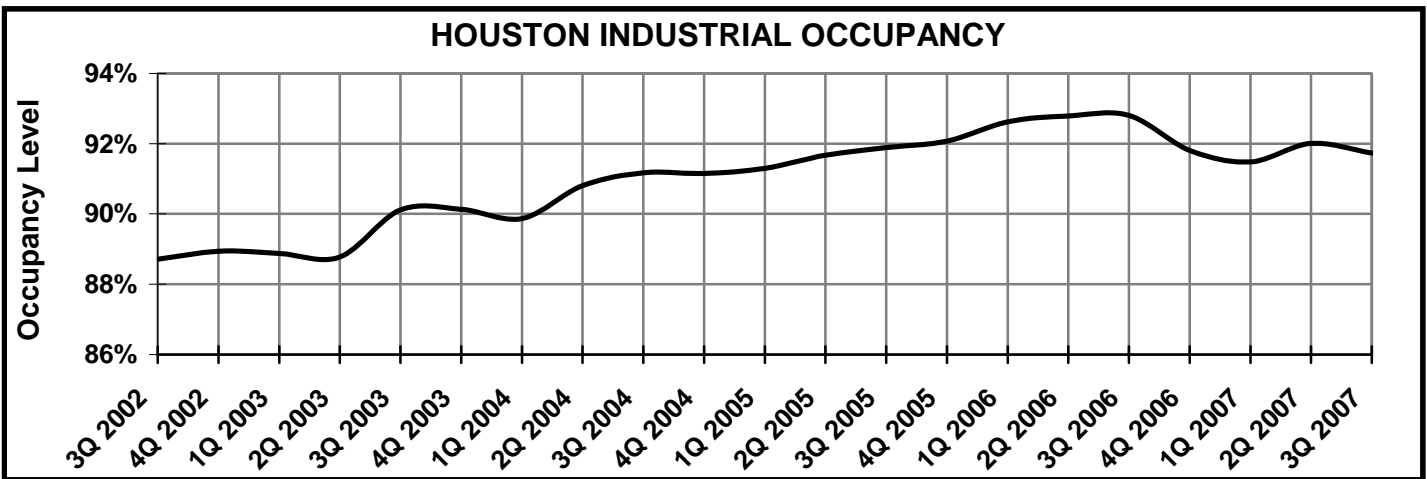
The Houston industrial market is starting to show a slight decline, with occupancy levels down 1.14 points from last year. Overall occupancy was down 0.31 points in the third quarter to 91.73%, with rental rates unchanged from the second quarter at \$0.43 per square foot. Research and Development facility space continues to post higher occupancy rates than the other industrial types. The Far Northeast sector has the highest occupancy, at 98.47%, followed by the Far South sector at 96.51%. The lowest occupancy levels were found in the Mid South sector, at 82.48%.

According to the O'Connor & Associates **Third Quarter 2007 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is **91.73%** (Flex = 89.70%; Bulk = 94.10%; Manufacturing = 91.74%, Service = 85.65%, Distribution = 86.03%, R&D = 98.22%). Occupancy is down 0.31 points from the last quarter and down 1.14 points over the last year. The overall monthly **rental rates** remained flat at **\$0.43 per square foot** (Flex = \$0.45; Bulk = \$0.37; Manufacturing = \$0.36, Service = \$0.57, Distribution = \$0.40, R&D = \$0.58).

Note: The industrial facilities listed herein are followed by their representative identification number as they appear in the O'Connor & Associates **IndustrialLink 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).*

- **Rooms To Go** (813-623-5400) plans to build a 1.25 million-square-foot distribution center (**5313**) at the southwest corner of I-10 and Igloo Rd. in Katy (482D). The center will be built on 118 acres of land and will be third-largest contiguous distribution center in the Houston area once complete. Construction is expected to begin in the first quarter 2008, with completion scheduled within a year.
- **Liberty Property LTD Partnership** (610-648-1700) has broken ground on **Fallbrook Distribution Center (0215)**, a 613,000-square-foot warehouse facility located in northwest Houston (370X). Liberty Property is seeking LEED CS (core and shell) certification for the building, which is expected to be completed in summer 2008.
- **Trammell Crow Company** (713-963-1034) plans to develop **Lakeview Business Park** at the corner of Willow Oak Dr. and Fairway Pines Dr. in southwest Houston (270U). The complex will consist of **Lakeview Business Park Bldg 1 (3837C)**, a 41,000-square-foot warehouse building, **Lakeview Business Park Bldg 2 (3837B)**, a 56,000-square-foot warehouse building, and **Lakeview Business Park Bldg 3 (3837A)**, a 168,000-square-foot warehouse building. Construction on the buildings is expected to begin next month, with completion slated for summer 2008.
- **SAAD Development** (251-478-7223) has broken ground on **FedEx Ground (5272)**, an 80,000-square-foot distribution center located at W. Orem Dr. in far south Houston (574M). FedEx will fully occupy the center, which is expected to be completed in 2008.
- **Southeastern Freight Lines** (713-695-0078) has broken ground on **Southeastern Freight Lines Distribution Center (5275)**, a 60,000-square-foot distribution center located at W. Orem Dr. in far south Houston (574M). Southeastern Freight Lines will fully occupy the center, which is expected to be completed in by the third quarter of 2008.
- **Bimbo Bakeries USA** (409-933-4525) plans to build a 15,000-square-foot distribution center (**0274**) at 3351 W. Hughes Ln in Dickinson (699F). Construction is expected to begin in the first quarter 2008, with completion scheduled within a year at an estimated cost of \$750,000.

The following chart illustrates historical industrial occupancy rates.



- The Koll Co.** purchased a 13-building portfolio, which includes Westport Business Park (2617B, 2617C, 2617, 2617A, 2618M, 2618, and 2620A), Westway Business Center (1089 and 1089A), Pinehill Service Center (1309A and 1326), and Pineway Service Center (1332 and 1333) from Invesco Realty Advisors (972-715-7400). Westport Business Park is a 177,000-square-foot office/warehouse facility located at 6611-6975 Portwest Dr. in the near west sector of Houston (492A). The 25-year-old facility, which features 12- to 16-foot clearance and grade-level loading, has average rents at \$0.95 per square foot. Westway Business Center is a 62,000-square-foot office/warehouse facility located at 10700 Hammerly Blvd. and 2313 W. Sam Houston Pkwy. N. in the far west sector of Houston (449Q). The 25-year-old facility, which features 12-foot clearance and grade-level loading, is 18% occupied with average rents at \$0.92 per square foot. Pinehill Service Center is an 86,000-square-foot service center located at 9000 Clay and 9009 Pinehill Ln. in the near northwest sector of Houston (450G). The 27-year-old facility, which features 16-foot clearance, is 50% occupied with average rents at \$0.48 per square foot. Pineway Service Center is a 55,000-square-foot service center located at 13230-13240 Hempstead Rd. in the near northwest sector of Houston (450H). The 31-year-old facility, which features 14-foot clearance, is 60% occupied with average rents at \$0.60 per square foot. The buyer was self-represented, while Brian Gammill and Jude Filippone of Transwestern Commercial Services represented the seller.
- MWP Colony Crossing Houston, LT** (303-843-6015) purchased **Colony Crossing Business Center (4908M)**, a 156,000-square-foot warehouse facility located at 10207-10215 S. Sam Houston Pkwy. W. in southwest Houston (570F) from **Colony Crossing Holdings, LLC**. The newly built facility, which features 24-foot clearance and grade-level loading, is 40% occupied with average rents at \$0.54 per square foot. **David Boyd** of **Boyd Commercial** and **Darryl Noon** of **Transwestern Commercial Services** represented the buyer, while **Justin Robinson** and **Kyle Valentine** of **Stream Realty Partners** represented the seller.
- Goodman Manufacturing Co., LP** leased 270,000 square feet at the **Jersey Village Corporate Center II (0559A)**, a 324,000-square-foot distribution center located at 7400 Security Way in far northwest Houston (409R), from **Prologis Development Services** (713-682-2292). The under-construction facility will feature 32-foot clearance and is fully leased with average rents at \$0.36 per square foot. The tenant was self-represented, while **Ross Matthews** of ProLogis represented the landlord.

- **LSI Integrated Graphics** renewed its 183,000 square feet lease at **West by Northwest Industrial Park (0716)**, a 266,000-square-foot warehouse facility located at 14902 Sommermeyer in northwest Houston (410W), from **Teachers Insurance & Annuity Associates (TIAA-CREF)** (212-490-9000). The 24-old facility, which features 24-foot clearance, is fully occupied. **J. Michael Hill** of **Michael Hill Properties** represented the tenant, while **Brian Gammill** of **Transwestern Commercial Services** represented the landlord.
- **Bray International, Inc.** leased 84,000 square feet at **Westland I (0008)**, a 263,000-square-foot warehouse facility located at 8323 N. Eldridge Rd. in northwest Houston (408H), from **Duke Realty** (713-353-3200). The newly construction facility, which features 28-foot clearance and dock-level loading, is 68% occupied with average rents at \$0.38 per square foot. The tenant was self-represented, while the landlord was represented in-house by **Cory Driskill**.
- **Tri-Supply Co.** leased 92,000 square feet at **The Houston Telecom Exchange (0582J)**, a 216,000-square-foot distribution center located at 7100 Business Park Dr. in northwest Houston (409U), from **NWP Houston Business** (972-715-7400). The 7-year-old facility, which features 24-foot clearance, is 81% occupied with average rents at \$0.62 per square foot. **Alexander Reilly** and **William “Bo” Pettit** of **Boyd Commercial** represented the tenant, while **Jude Filippone** of **Transwestern Commercial Services** represented the landlord.
- **Willowbrook Court, Inc.** (281-469-5545) purchased **The Trade Center 1 & 2 (0307 and 0307A)**, a 120,000-square-foot office/warehouse facility located at 18121-18231 Ammi Trail in north Houston (373J), from **Ammi Trail Trade Center, LLC**. The 27-year-old facilities are 55% and 93% occupied with average rents at \$0.52 and \$0.47 per square foot, respectively. **Ross Cannizaro** of **Marcus & Millichap** represented both the buyer and seller.
- **Freeman** leased 106,000-square-foot at **Southland Industrial Park I (4360)**, a 341,000-square-foot warehouse facility located at 2774-2798 Holmes Rd. in near south Houston (533U), from **Prologis Development Services** (713-682-2292). The 30-year-old facility, which features 24-foot clearance and dock-high loading, is fully occupied with average rents at \$0.23 per square foot. **Bob Berry** of **The Staubach Co.** represented the tenant, while **Ross Matthews** of ProLogis represented the landlord.
- **University of Texas M.D. Anderson Cancer Center** leased 46,000 square feet at **Corporate Centre Kirby Ph. I (4239)**, a 108,000-square-foot service center located at 9300-9350 Kirby Dr. near the Texas Medical Center (532Y), from **Warehouse Associates** (713-461-9696). The 6-year-old facility, which features 25-foot clearance and dock-level loading, is fully occupied with average rents at \$0.75 per square foot. The buyer was self-represented, while **Walker Barnett** of **Colliers International** represented the landlord.

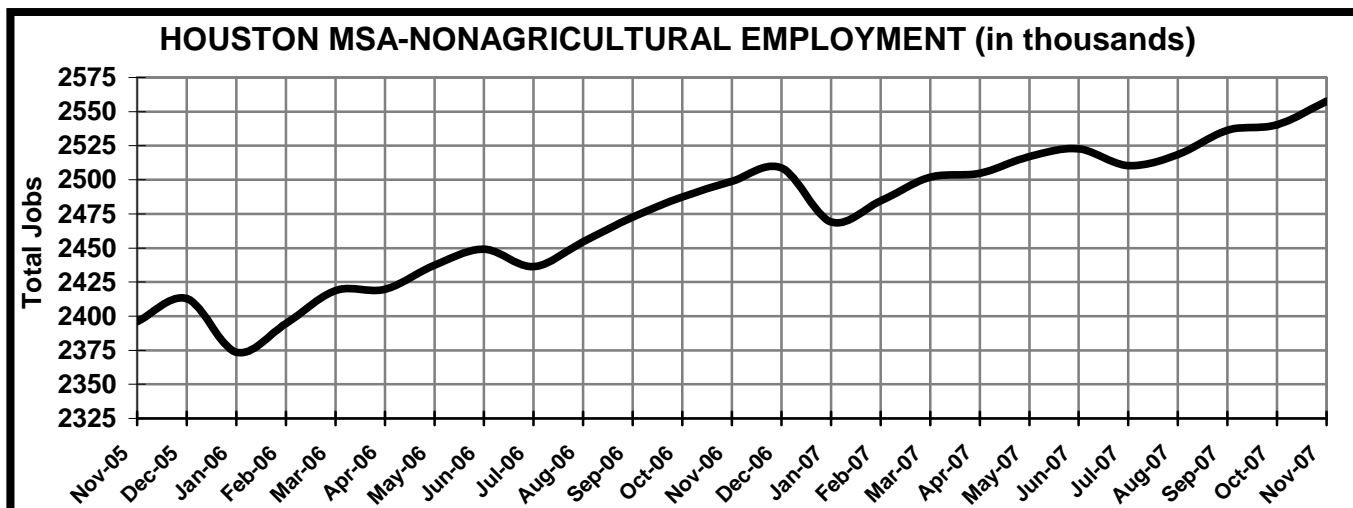
VACANT LAND

- **Fuller Thompson Ten, Ltd.** (713-850-8400) purchased 403 acres of land near Highway 10 and Decker Rd. in Baytown (500C) from **Burnet Bay Ltd.** The buyer currently has no plans to develop the land. **Scott Davis, Larry McWherter,** and **Laura Smith** of **CB Richard Ellis** represented the buyer, while the seller was self-represented.
- **Trammell Crow Co.** (713-963-1000) purchased 168 acres of land located at 14502 Fondren Rd. in Missouri City (570N), from **Stuart L. and Ann W. James.** The company plans to develop a 2.5 million square foot industrial and commercial project on the land with construction expected to start early 2008.
- **Maxwell Pin Oak Group, LLC** purchased 87 acres of land near the intersection of Interstate 10 and Pin Oak Rd. in Katy (484C), from **Barker Venture, Ltd.** Preliminary plans call for 1 million square feet of shops and office space. **Keith Edwards** of **Caldwell Cos.** and **Robert Anthony** of **LandStar Realty Advisors** represented the buyer, while **Mavis P. Kelsey, Jr.** of **Kelsey Properties** represented the seller.
- **XTL, Inc.** (215-365-6200) purchased 35 acres of land near Highway 146 and Red Bluff Rd. within the master-planned **Bayport** complex in Seabrook (620B), from **Jerome Baccus, Tim and Debbie Dittman,** and **Vickie Walker.** The company plans to build a robotic warehouse facility on the undeveloped land. The buyer was self-represented, while **David Lee** of **Transwestern Commercial Services** represented the seller.
- **LTF Real Estate Company, Inc.** (952-947-0000) purchased 17 acres of land near the intersection of Will Clayton and West Lake Houston parkways in Atascocita (377C) from **4 2 WCP, LP.** The company plans to build its fifth **Lifetime Fitness** health club in the Houston area on the site. The buyer was self-represented, while **Mark Wimberly** of **The Betz Cos.** represented the seller.
- **VRG Land Holdings, LLC** purchased 12 acres of land at the intersection of Highway 288 and Holmes Rd. near the Texas Medical Center (533T), from **Kagan Realty Group. Monte Lowery** and **Jeff Jarrad** of **Marcus & Millichap** represented the buyer, while the seller was represented in-house.

ECONOMIC & FINANCIAL NEWS

The total number of nonagricultural wage and salary jobs in the ten-county Houston area increased by 10,800 jobs to 2,557,700 in November 2007, according to the **Texas Workforce Commission**. This month's total is 58,800 jobs more than the 2,498,900 jobs at this time last year. Of nonagricultural employers, the Trade, Transportation, and Utilities sector posted the largest gain over the month at 5,600 jobs, followed by the Government sector, with 2,700 jobs gained. Over the year, the Professional & Business Services sector has had the largest increase in employment, adding 13,100 jobs, followed by the Construction sector, which has added 11,300 jobs.

The following chart illustrates total non-agricultural employment in the Houston MSA.



Source: Texas Workforce Commission (TWC)

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for November 2007 were \$385.8 billion, an increase of 1.2% from October, and up 6.3% from November 2006. Retail trade sales in November were up 1.3% from October, and were 6.3% above last year's level.

Personal income increased \$43.1 billion, or 0.4%, and Disposable Personal Income (DPI) increased \$32.9 billion, or 0.3%, in November 2007, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$110.6 billion, or 1.1% in November 2007. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.6% in November 2007 and is 4.3% higher than in November 2006. Energy, at 5.7%, and Transportation, at 2.9%, posted the largest increases in November 2007.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** increased to 88.6 in December 2007, up 0.8 points from 87.8 in November. The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** decreased 0.4% in November to 136.3. The index is an indicator of direction the economy is expected to take in coming months, relative to a figure of 100 in 1996, the base year.

According to the **Federal Reserve**, industrial production increased 0.3% in November and is up 2.1% over the November 2006 level. Output in the manufacturing sector increased 0.4% in November; output of utilities decreased 1.3% over the month, while output at mines rose 1.1%. The rate of industrial capacity utilization was 81.5% in November, which represents a 0.1-point increase from the previous month's level, and is 0.2 points higher compared to the previous year's level.

Freddie Mac reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.21% in November 2007, which is 0.17 points down from October and down 0.03 points from one year ago. The average for the **15-year FRM** averaged 5.85% in November 2007, which is down 0.19 points from last month and down 0.11 points from November 2006.

The **U.S. Department of Commerce** reports that advance estimates of the real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 4.9% in the third quarter of 2007, up from the 3.8% growth rate recorded in the second quarter of 2007. The increase in GDP in the third quarter primarily reflected positive gains from personal consumption expenditures for services, exports, federal government spending, equipment and software, and state and local government spending.

The **U.S. Department of Commerce** reports that construction spending during November 2007 was estimated at a seasonally adjusted annual rate of \$1,165.1 billion, 0.1% above the revised October estimate. The current figure is 0.1% below the November 2006 estimate of \$1,166.3 billion. Private residential construction was at a seasonally adjusted annual rate of \$484.9 billion in November, 2.5% below the revised October estimate of \$497.1 billion, and 4.8% below the November 2006 estimate of \$589.9 billion.

The **Baker Hughes** count of active domestic rotary rigs stands at 1,782 during the week ending December 28, 2007. The current rig count is up 4.2% from last year's figure of 1,710 rigs. The rotary rig count is a census of the number of drilling rigs actually exploring for or developing oil or natural gas in the United States.

The **National Restaurant Association's Restaurant Performance Index (RPI)** fell 0.7% in October to 100.0. The index is a monthly composite index that tracks the health and outlook for the U.S. restaurant industry. This is the index's lowest level in more than four years. The decline was due in large part to a dramatic drop in the expectations component of the index.

POTPOURRI

The **Gulf Coast Regional Blood Center** has broken ground on a new **Mobile Operations Complex** located at 9990 Fannin in the Texas Medical Center. Construction on the 85,000-square-foot building will begin in early 2008. The building will include many environmentally friendly features such as reflective roofing materials, low energy windows, and low-use water fixtures. The new building will replace its old warehouse that was destroyed by fire in February 2005.

Houston ranked as the 21st most desirable city in walkability, according to a recent study by **Brookings Institute**. Washington, Boston, and San Francisco were the top three most desirable cities for walkability, while San Antonio placed 22nd and Dallas came in at No. 25.

In a recent survey released by **Business Traveler** magazine, **Continental Airlines, Inc.** ranked as the preferred carrier for business travelers in its **2007 Readers' Choice Best in Business Travel Survey**. Continental also ranked first for best flight attendants in North America and best in-flight services in North America.

According to the monthly **Monster Worldwide, Inc.** employment index, online job demand lost a point in the month of November. The Index for Houston had showed a 20 percent increase in the past 12 months. Of 21 occupational categories, 11 posted an increase over the month, while 9 declined and 1 remained unchanged. Military specific occupations posted the largest monthly gain of any category in online job opportunities over the month of November.

According to the November 2007 **Architecture Billings Index**, developed by the **American Institute of Architects**, demand for non-residential construction continues to rise. Following a rebound in October, November reported an index of 55.3 (any score above 50 indicates an increase in billings), up from the 53.2 mark in October. 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.

HomeVestors of America, Inc. has named Houston the best market for residential real estate investing for 2007. Houston ranked first, followed by Atlanta, Dallas, St. Louis, Phoenix, Fort Worth, San Antonio, Minneapolis, Chicago, and Milwaukee.

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