



Your Key to Real Estate Services

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2200 N. Loop West, Suite 200
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713.686.9955

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APARTMENTS

According to www.oconnordata.com, **Third Quarter 2008 O'Connor & Associates data** indicates that Greater Houston apartment market occupancy is continuing its upswing, which began in the first quarter of 2008. Current occupancy is 89.12%, up 0.25% over second quarter 2008 and slightly down (0.26%) from third quarter 2007. Overall rents continue to steadily increase with current per square foot rates up 1.6% from third quarter 2007 (\$0.847) to third quarter 2008 (\$0.861) and up 0.35% from the previous quarter (\$0.858). All classes have enjoyed steady rate increases since third quarter 2007, as Class A is up 1.9% from \$1.133 to \$1.155, Class B is up 0.9% from \$0.820 to \$0.828, Class C is up 1.2% from \$0.696 to \$0.704, and Class D is up 1.0% from \$0.606 to \$0.612. With a continued supply of Class A and Class B complexes entering the market over the coming year, overall occupancy is expected to slip as new projects lease-up.

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

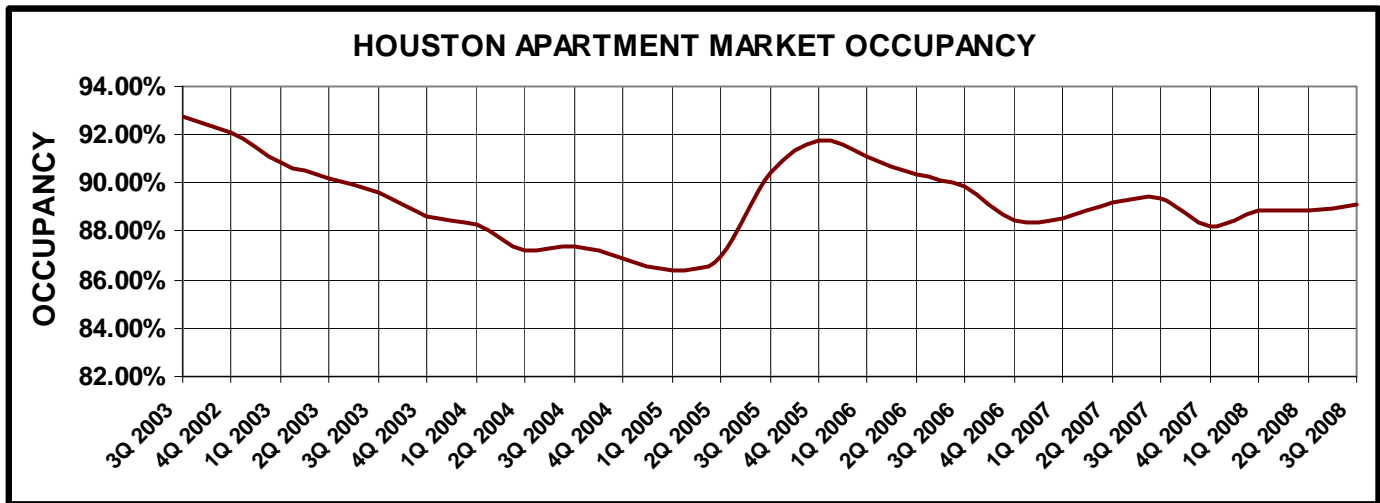
More Owner Contact Information

More User-Friendly

More Comprehensive & Accurate

More Affordable!

The following chart illustrates historical apartment occupancy rates.



Apartment Sales

- **Inland American Communities** (214-739-8184) purchased **Villas At Shadow Creek (17690)** from **Davis Development Inc.** (956-968-4571), a 264-unit Class A complex located at 2020 Business Center Dr. in Pearland (613E). The newly built complex is 98% leased with average rents at \$0.99 per square foot. **David Wylie** of **Apartment Realty Advisors** brokered the deal.
- **SCI Real Estate Investments** (310-470-2600) purchased **Kings Cove (17617)** from **Dinerstein** (832-209-1200) a 192-unit Class A complex located at 4920 Magnolia in Kingwood (337A). The year-old complex is 93% leased with average rents at \$1.10 per square foot. **David Wylie** of **Apartment Realty Advisors** represented the seller.
- **West Parker 137, LLC** (936-321-1078) purchased **Pecan Shadows (1625)** from **Pecan Shadows, Ltd.** (661-255-6303) a 137-unit Class C complex located at 480 W. Parker Rd. in north Houston (412Z). The 34-year-old complex is 85% leased with average rents at \$0.70 per square foot. **Jeff Eisenhardt** of **Hendricks & Partners** represented the seller in the deal.

SINGLE-FAMILY HOUSING

MLS home sales had the biggest year-to-year decline in October, as 4,962 used homes were sold according to the **Houston Association of Realtors (HAR)**. Sales for October 2008 were down 21.6% from October 2007. The median price of a used single-family home sold in October was \$142,000, down 2.7% from the same time last year, while the average home price was \$194,607, which was down 1.6% from the October 2007 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 54% in October to 1,066 from 659 in September but down 34% from October 2007. Realtor co-op sales represented 61.0% of gross sales, down 3% from October of last year. Traffic decreased 34% from last year to 14,547 in October 2008. The inventory of completed speculative homes (1,955) is down 7% from last year. There are 1,915 spec homes under construction, which is down 13% from October 2007. Overall, the 3,870 specs (both completed and under construction) are down 10% from October 2007. *Note: the 24 homebuilders in this survey account for approximately 60% of housing starts in Houston.*

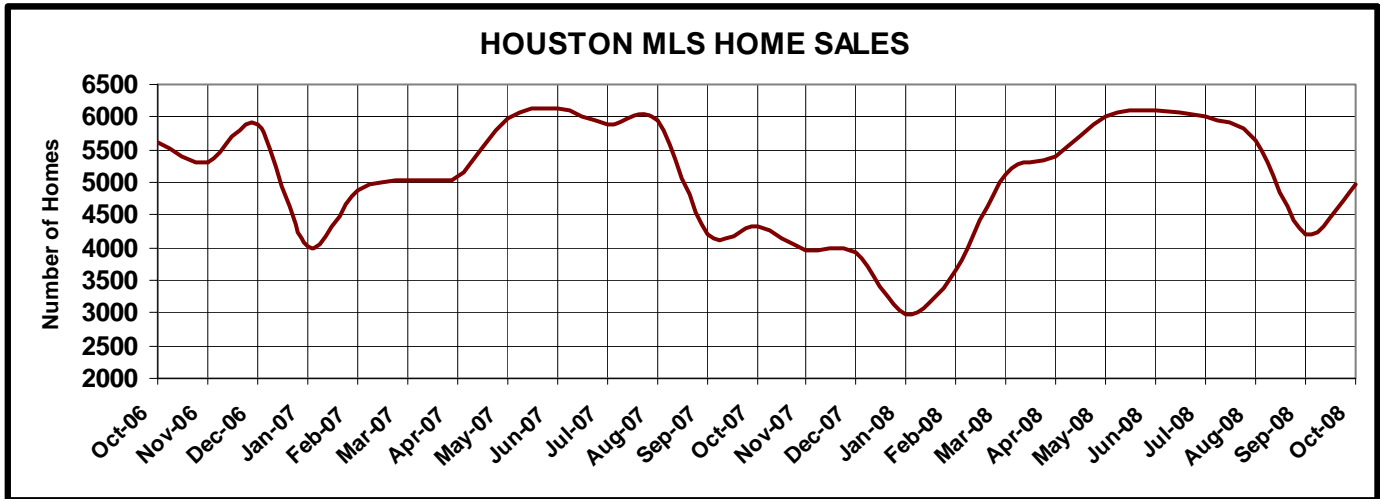
Nationwide sales of new single-family homes decreased in October to a seasonally adjusted annual rate of 433,000, 5.3% below the revised September sales rate of 457,000 and 41.1% below the October 2007 figure, according to a release by the **U.S. Department of Commerce**. The median sales price in October was \$218,000. Privately owned housing starts were at a seasonally adjusted annual rate of 791,000 in October 2008, which is 4.5% below the revised September estimate, and 38.0% below the revised October 2007 rate. Privately owned housing completions were at a seasonally adjusted annual rate of 1,043,000 in October, 10.2% below the revised September figure and 25.6% below the revised October 2007 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, fell to 14 in October, 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 also fell to 14, the index measuring sales expectations for the coming six months had a nine-point loss to 19 and the index measuring the traffic of prospective buyers fell to 11.

According to the **National Association of Realtors (NAR)**, 4,980,000 existing homes were sold in October 2008, down 3.1% from September sales and down 1.6% from the 5,060,000 homes sold in October 2007. The median sale price was \$ 183,300, which represents a 11.3 decrease from sale prices last year.

According to the most recent report by **RealtyTrac**, 279,561 foreclosure filings — default notices, auction sale notices, and bank repossessions — were reported during the month of October. This figure is up 5% from September and up nearly 25% from September 2007. Texas remains among the nation's 26 highest states in total foreclosure filings in September 2008.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

- **Kimball Hill** (342-3318), the 17th-largest homebuilder in the Houston area last year says it will not start any new homes as it completes current starts already under construction. The homebuilder filed for bankruptcy in April and is now in the process of shuttering the business.

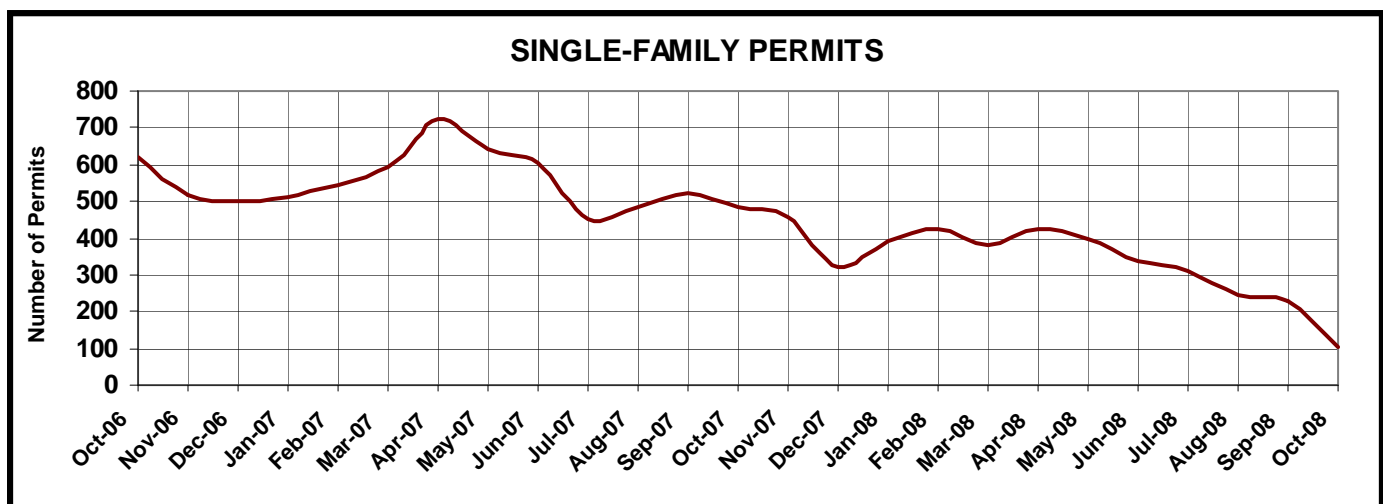
PERMIT ISSUANCE

The **City of Houston** issued permits to build 200 private single-family houses and 8 private multifamily building in October. Demolition permits were issued for 105 private single-family houses and 28 multifamily structures. In addition, 211 permits were issued for privately owned non-residential construction totaling \$286,195,650 and 30 permits were issued for public non-residential construction. Additions, alterations, and conversions totaled \$231,428,302 for the private sector and \$26,015,685 for the public sector.

Cost of Construction*

| | 2006 | 2007 | 2008 |
|------------------|-----------------|-----------------|-----------------|
| Month of October | \$484,856,552 | \$538,796,865 | \$637,226,487 |
| Year-to-Date | \$4,053,597,883 | \$4,692,736,972 | \$5,212,595,684 |

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

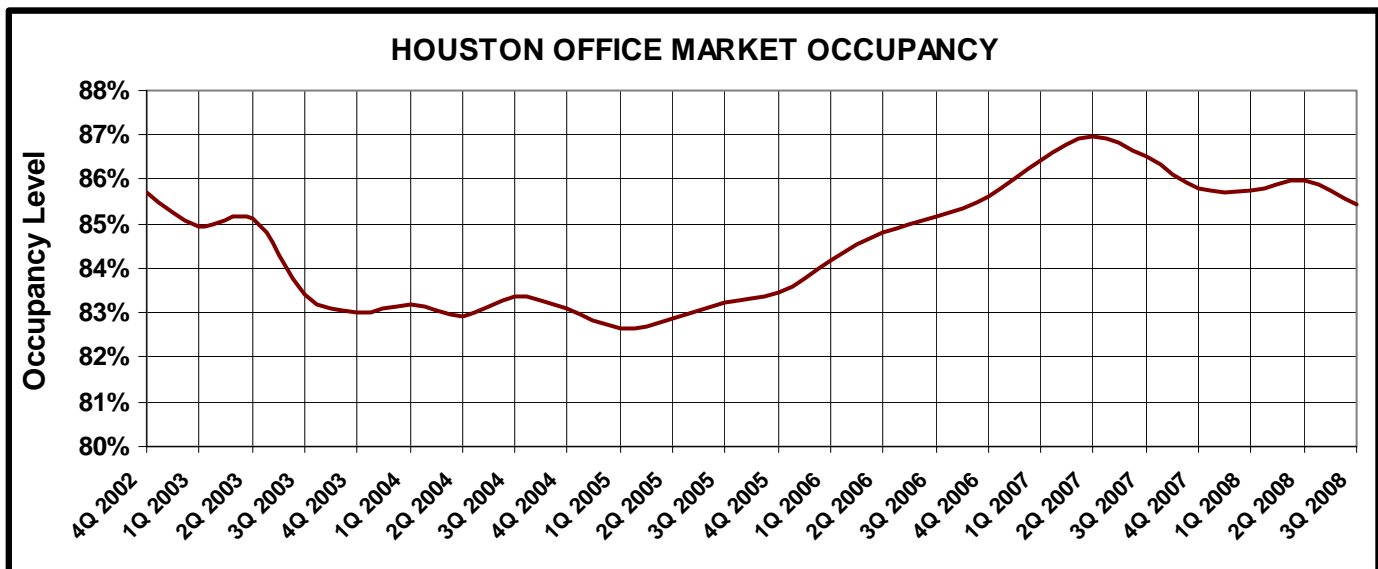


OFFICE BUILDINGS

According to the O'Connor & Associates **Third Quarter 2008 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **85.51%** (Class A = 90.49%; Class B = 82.30%; Class C = 79.84%; Class D = 77.09%). This is slightly lower than the second quarter 2008 citywide rate of 85.92% (Class A = 90.67%; Class B = 83.05%; Class C = 80.17%; Class D = 76.83%). The third quarter 2008 citywide annual multi-tenant office **rental rate** is **\$21.75 per square foot** (Class A = \$26.05; Class B = \$19.23; Class C = \$15.05; Class D = \$12.38), which is down 6.9% from second quarter 2008 when rental rates stood at \$23.37 citywide (Class A = \$29.10; Class B = \$19.68; Class C = \$15.00; Class D = \$12.34).

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).*

The following chart illustrates historical office occupancy rates.



Office Sales

- **Norvin Partners LTD** (212-755-7552) purchased **Memorial Health Center (1528)** from **Memorial Hermann Hospital System** (713-448-5555), a 112,000-square-foot Class A building located at 1111 Hwy. 6 in Sugar Land (568T). The buyer was represented **Eric Johnson** of **Transwestern**.

Office Leases

- **Dominion Exploration & Production** leased 60,522 square feet at **Greenspoint II (591)**, a 169,000-square-foot Class B building located at 16800 Greenspoint Park in north Houston (372R) from **RM Crowe** (214-369-6192). The 27-year-old Class B building is 93% leased with average rents at \$20.75 per square foot. **Jim Arket** and **Mona Williams** of **Grubb & Ellis** represented the tenant, while **Sam Hanson** of **Hines** represented the landlord.

RETAIL CENTERS

According to the O'Connor & Associates **Third Quarter 2008 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **84.64%** (Regional = 86.82%; Community = 87.52%; Neighborhood = 83.35%; Strip = 80.53%). This is slightly lower (0.15 points) than the second quarter 2008 citywide rate of 84.77% (Regional = 86.97%; Community = 87.54%; Neighborhood = 83.54%; Strip = 80.63%). The citywide monthly multi-tenant retail **rental rate** is **\$1.60 per square foot** (Regional = \$2.87; Community = \$1.58; Neighborhood = \$1.20; Strip = \$1.22). Overall rents are unchanged from the last quarter and only down \$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).*

The following chart illustrates historical retail occupancy rates.



Retail Sales

- **Satya, Inc.** (713-789-4443) purchased a **Portfolio of seven retail properties** from **Kagan Edelman** (713-748-2000), totaling 215,000-square-foot with locations throughout the Houston metro area. Four centers are located in north Houston, **Cranbrook Plaza (609)** located at 13331 Kuykendahl (372B), a 37,000-square-foot center with a 92% occupancy rate; **Spring Creek Plaza (657)** located at 6450 Louetta (330M), a 26,000-square-foot center with a 53% occupancy rate; **Champions Forest (1122)** located at 9035 Louetta (330N), a 24,000-square-foot center with a 76% occupancy rate; and **Park 45 (44782)** located at 927 Spring Cypress (292Q), a 21,000-square-foot center with a 66% occupancy rate. The others include **Friendswood Village (2798)** located at 607 FM 518 S. in southeast Houston (656D), a 41,000-square-foot center with an 84% occupancy rate; **Bellcrest Shops (1744)** located at 10600 Bellaire Blvd. in southwest Houston (529G), a 37,000-square-foot center with an 85% occupancy rate; and **Williamsburg (1772)** located at 1801 Mason Rd. in west Houston (485M), a 29,000-square-foot center with a 79% occupancy rate. The buyer was represented in-house, while the seller was represented by **Rusty Tamlyn, Mike Parker and Trent Agnew** of **HFF**.

- A joint venture with the entity name of **WRI HR Venture Properties I, LLC** has been arranged between **Hines REIT** (713-621-8000) and **Weingarten Realty** (713-866-6082) by the Dallas office of **HFF**. This partnership purchased a **portfolio of 12 grocery anchored retail centers in five states** from **Weingarten Realty** (713-866-6082). A subsidiary of **Hines REIT** will acquire 70% interest in the portfolio. Three of the centers are located in the Houston metro area with a total square footage of 547,238. The centers include **Champions Village III (1082)** located at 5203 FM 1960 W. in northwest Houston (370D), a 384,634-square-foot center with a 93% occupancy rate; **Kingwood Shopping Center (378)** located at 1113 Kingwood Dr. in northeast Houston (336A), a 127,523-square-foot center with a 87% occupancy rate; and **Bellaire Boulevard Center (2066)** located at 5130 Bellaire Blvd. in southwest Houston (531G), a fully occupied 35,081-square-foot center.

Retail Leases

- **Chick-fil-A** leased a 48,458 square foot PAD site at the **The Shos at Stone Park (14732)**, a 200,000-square-foot retail center located at the corner of Beltway 8 and Wallisville Rd. in northeast Houston (457U) from **Inwood Property, LLC** (713-439-0788). **Jeff Mallett** of **Mallett & Company** represented the tenant, while **Robert Bailey** of **NewQuest Properties** represented the landlord.
- **Office Max** renewed their lease of 23,500 square feet at **Commons @ Willowbrook (1091)**, a 458,000-square-foot center located at 7502 FM 1960 W. in west Houston (370E) from **Valued Advisor Fund, LLC** (312-819-4300). The 19-year-old center is 86% leased. The tenant was represented in-house, while **Alex Makris** and **Jazz Hamilton** of **CB Richard Ellis** represented the landlord.

INDUSTRIAL FACILITIES

According to the O'Connor & Associates **Third Quarter 2008 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is 84.88% (Flex = 87.19%; Bulk = 85.86%; Manufacturing = 75.56%; Service = 81.56%; Distribution = 73.34%; R&D = 51.22%). This is up 1.25 percentage points from last quarter's rate of 83.63% (Flex = 86.38%; Bulk = 85.60%; Manufacturing = 75.76%; Service = 83.22%; Distribution = 65.20%; R&D = 44.29%). The overall monthly **rental rates** decreased slightly to **\$0.45 per square foot** (Flex = \$0.48; Bulk = \$0.40; Manufacturing = \$0.36; Service = \$0.56; Distribution = \$0.41; R&D = \$0.76).

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).*

The following chart illustrates historical industrial rental rates.



Industrial Sales

- **Hempstead 14620 Properties, LLC** (281-888-5637) purchased **14620 Hempstead Rd. (5269)**, a 43,000-square-foot facility, located in north Houston (410W) from **Drew Investments, LLC** (713-461-2577). The 35-year-old facility is fully leased. **Joshua Lass-Sughrue** of **Marcus & Millichap** represented the buyer in the deal, while **Justin Miller** and **Jerry Goldstein** of **Marcus & Millichap** represented the seller.
- **RuhRPumpen, Inc.** (918-627-8400) purchased **10010 Gulf Frwy. (2014)**, a 30,000-square-foot facility, located in southeast Houston (575D) from **PEL Real Estate Interests** (713-944-9852). The 31-year-old facility is fully leased. **Rob Stillwell** and **Jay Jenckes** of **Grubb & Ellis** represented the seller in the deal.

- **McAllister 2441 Properties, LLC** (281-888-5637) purchased **2411 McAllister Rd. (4220)**, a 27,000-square-foot facility, located in north Houston (451U) from **Drew Investments, LLC** (713-461-2577). The 33-year-old facility is fully leased. **Joshua Lass-Sughrue** of **Marcus & Millichap** represented the buyer in the deal, while **Justin Miller** and **Jerry Goldstein** of **Marcus & Millichap** represented the seller.
- **Breen road LP** purchased **7123 Breen Rd. (5324)**, a 15,000-square-foot facility located in north Houston (411F) from **Retsco, Inc.** (281-931-7171). The 25-year-old facility is vacant. **George Jones** of **CB Richard Ellis** represented the buyer in the deal, while **Coe Parker, Jon Farris, Kelley Parker, III** and **John Littman** of **Cushman & Wakefield** represented the seller.

Industrial Leases

- **SRS Acquisition Corporation** leased **700 Reed Rd. (6638)**, a 53,000-square-foot facility located in southwest Houston (568H), from **Pelec Development, LTD** (713-515-0034). This 18-year-old facility is fully leased. **Doug Nicholson** and **John Nicholson** of **Grubb & Ellis** represented the tenant, while **Ed Frantz** of **Cushman & Wakefield** represented the landlord in the deal.
- **Shred-it USA, Inc.** leased 16,200 square feet at **Techway SW Business Ctr. Bldg. IV (6513)**, a 94,000-square-foot facility located in southwest Houston (529U), from **East Group Properties** (601-354-3555). The newly built facility is 17% leased. **David Cook, Jeff Peden** and **Graham Horton** of **Cushman & Wakefield** represented the tenant, while **John Stavinoha** of **Insite Commercial Real Estate** represented the landlord.
- **Building EMTS** leased **5322 Ashbrook (3109)**, a 15,800-square-foot facility located in southwest Houston (531C), from **H2T, LLC** (713-490-1780). The 43-year-old facility is fully leased. The tenant was represented in-house, while **Kelley Parker, III, John Littman** and **Coe Parker** of **Cushman & Wakefield** represented the landlord in the deal.

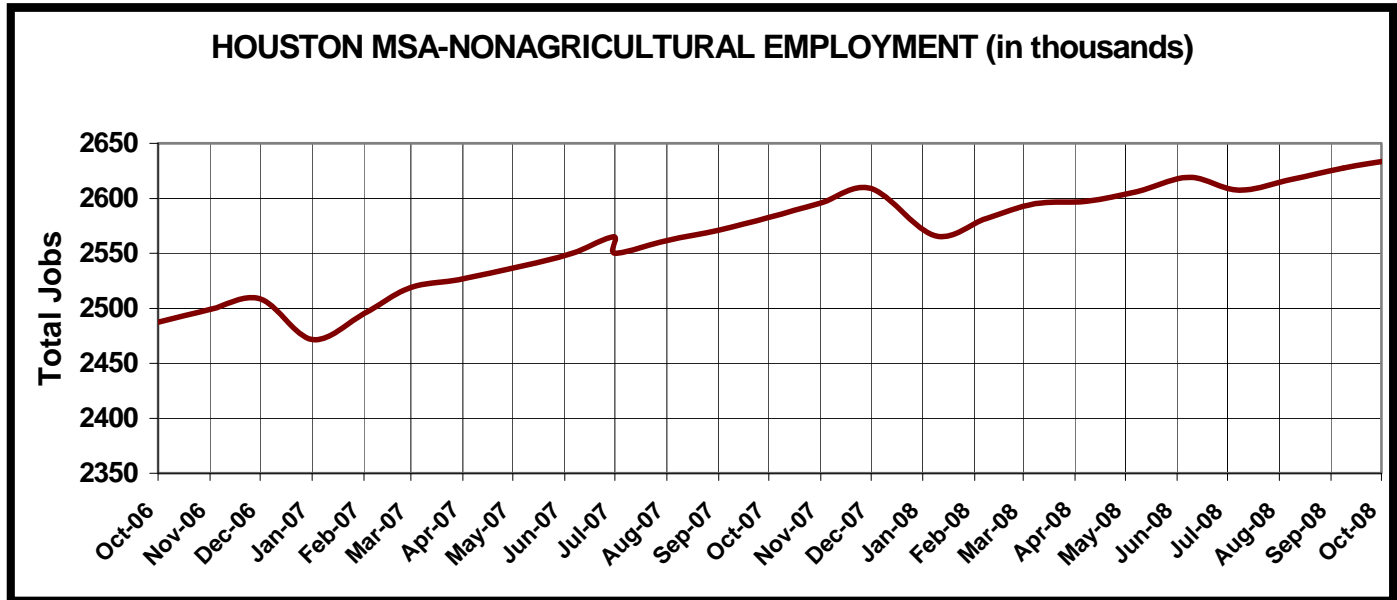
VACANT LAND

- **Arthur A. Presley, Jr.** (713-680-8161) purchased 13.7 acres of land on I-10 and Trinity Bay in Anahuac from **Sonya & J. G. Keeling** (713-947-1881). Both the seller and buyer were represented **Andrew Lockwood** of **Grubb & Ellis**.

ECONOMIC & FINANCIAL NEWS

The total number of nonagricultural wage and salary jobs in the ten-county Houston area increased by 7,600 jobs to 2,634,900 in October 2008, according to the **U.S. Department of Labor**. This month's total is 52,300 jobs more than the 2,582,600 jobs at this time last year. Of nonagricultural employers, the Service Provider sector posted the largest gain over the month at 7,000 jobs, followed by the Government with 6,200 jobs gained. Over the year, the Service Provider sector had the largest increase in employment, adding 40,600 jobs, followed by the Goods Producing sector, which added 11,700 jobs.

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



Source: Bureau of Labor Statistics (BLS)

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for October 2008 were \$363.7 billion, a decrease of 2.8% from September and down 4.1% from October 2007. Retail trade sales in October were down 3.1% from September and were 5.0% below last year's level.

Personal income increased \$42.4 billion, or 0.3%, and Disposable Personal Income (DPI) increased \$45.1 billion, or 0.4%, in October 2008, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) decreased \$102.8 billion, or 1.0% in October 2008. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers decreased 1.0% in October 2008 but is 3.7% higher than in October 2007.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** decreased to an all time low of 38.8 in October 2008, down 22.4 points from 61.4 in September. 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 0.8% in October. The index is an indicator of direction the economy is expected to take in coming months, relative to a figure of 100 in 1996, the base year.

According to the **Federal Reserve**, industrial production increased 1.3% in October 2008 from September 2008 and is down 4.1% over the October 2007 level. Output in the manufacturing sector increased 0.6% in October; output of utilities increased 0.4% over the month and output at mines increased 6.1%. The rate of industrial capacity utilization was 76.4% in October, which is unchanged from the previous month's level but is 1.6 points higher compared to the previous year's level.

Freddie Mac reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.20% in October 2008, which is 0.16 points up from September but down 0.18 points from one year ago. The average for the **15-year FRM** averaged 5.89% in October 2008, which is up 0.25 points from September but down 0.15 points from October 2007.

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, decreased at an annual rate of 0.5% in the third quarter of 2008, this decrease is due reflected negative contributions from personal consumption expenditures (PCE), residential fixed investment, and equipment and software.

The **U.S. Department of Commerce** reports that construction spending during October 2008 was estimated at a seasonally adjusted annual rate of \$1,072.6 billion, which is 1.2% below the revised September 2008 estimate. The current figure is 4.6% below the October 2007 estimate of \$1,124.2 billion. Private residential construction was at a seasonally adjusted annual rate of \$338.8 billion in October, 3.5% below the revised September estimate of \$351.2 billion.

The **Baker Hughes** count of active domestic rotary rigs stands at 1,971 during the week ending October 31, 2008. The current rig count is up 11.99% from last year's figure of 1,760 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)** remained soft in October with a rating of 97.1. The index is a monthly composite index that tracks the health and outlook for the U.S. restaurant industry. This is up 0.4% from September's lowest level on record of 96.7.

POTPOURRI

According to the monthly **Monster Worldwide, Inc.** employment index, online job demand had a ten-point decrease in the month of October and remains down 20.0% from October 2007. Of 23 occupational categories only 1, the Education, Training, and Library category posted an increase over the month. Real estate, leisure and hospitality and retail trade industries register strongest monthly declines in online job availability, while opportunities in mining and utility industries show continued expansion.

According to the November 2008 **Architecture Billings Index**, developed by the **American Institute of Architects**, demand for non-residential construction plummeted to its lowest level since the survey began in 1995. October reported an index of 36.2 (any score above 50 indicates an increase in billings). The project inquiries index is 39.9.

Bridgewood Property Co. (713-623-6767) proposes the **Village of the Woodlands**, a 188 senior living residential community. The 250,000 square foot Class A complex will offer both independent and assisted living apartments.

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