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# Houston Real Estate Trends

Office • Retail • Apartment • Industrial

Edited by Stuart Showers

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## APARTMENTS

According to [www.oconnordata.com](http://www.oconnordata.com), **Fourth Quarter 2008 O'Connor & Associates data** indicates that Greater Houston apartment market occupancy has dropped more than half a percentage point for the first time in 2008. Current occupancy is 88.56%, down 0.57% over third quarter 2008 and slightly down (0.22%) from fourth quarter 2007. Overall rents have continued to increase with current per square foot rates up 1.6% from fourth quarter 2007 (\$0.852) to fourth quarter 2008 (\$0.866) but relatively unchanged from the previous quarter (\$0.861). All classes have enjoyed steady rate increases since fourth quarter 2007, as Class A is up 1.6% from \$1.139 to \$1.157, Class B is up 0.9% from \$0.823 to \$0.830, Class C is up 1.1% from \$0.699 to \$0.707, and Class D is up 1.2% from \$0.607 to \$0.614. While rental rates have been increasing at a steady pace, the current financial outlook could begin to exert downward pressure on all classes.

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  
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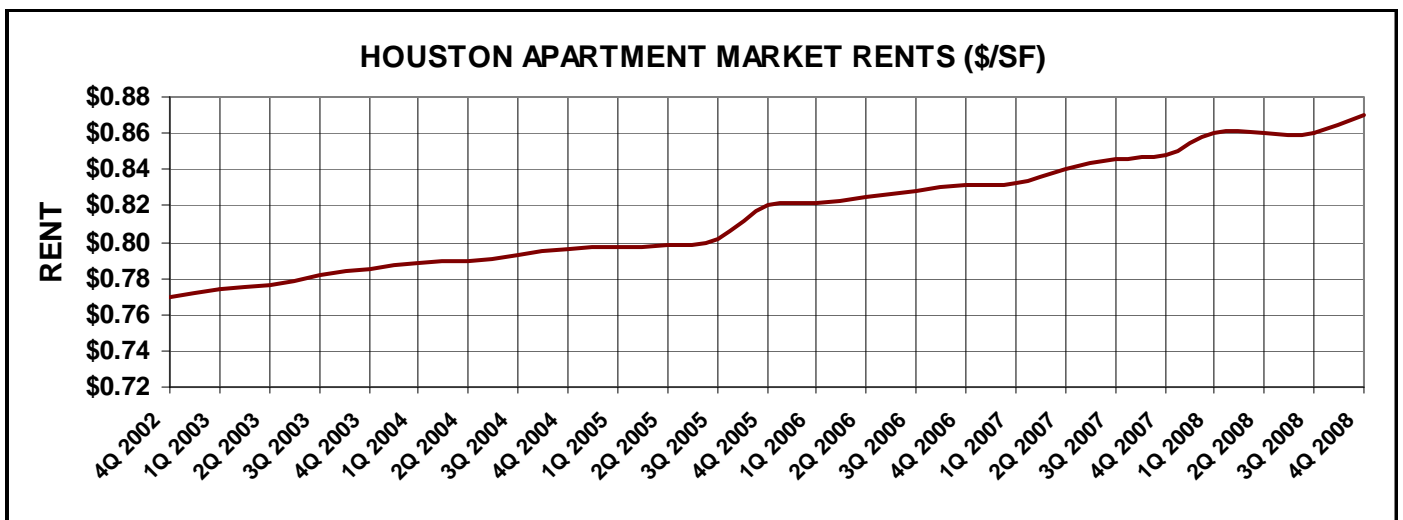
More Comprehensive  
& Accurate

**More Affordable!**

## Apartment Developments

- **Archstone** (303-708-5959) completed construction on the **The Amalfi at Hermann Park (17014)**, a 420-unit Class A complex located at 3 Hermann Museum circle in the Museum District of Houston (533B). There are one-, two- and three-bedroom units with square footages ranging from 643 square feet to 1,562 square feet and rents ranging from \$1.18 per square foot to \$1.89 per square foot.
- **Duval Copperfield Partners, LTD** (512-658-0417) completed construction on **The Falls at Copper Lake (17828)**, a 374-unit Class A complex located at 9140 Highway 6 N. in northwest Houston (408C). There are one-, two- and three-bedroom units with square footages ranging from 740 square feet to 1,426 square feet and rents ranging from \$1.09 per square foot to \$1.24 per square foot.
- **Northside Redevelopment Center** (713-228-3778) completed construction on the **Costa Verde (17890)**, a 188-unit Class B complex located at 101 Verde Dr. in Clute (884Q). There are one- and two-bedroom units with square footages ranging from 1,009 square feet to 1,551 square feet and rents ranging from \$0.61 per square foot to \$0.75 per square foot.

The following chart illustrates historical apartment rental rates.



## Apartment Sales

- **HM-Equity Management** (832-668-5970) purchased **Casa Verde (1474)** from **LSF5 Phoenix Crossing, LP** (214-754-8430), a 384-unit Class C complex located at 2 Goodson Dr. in north Houston (373Z). The 36-year-old complex is 90% leased with average rents at \$0.70 per square foot. **Lindsey Kroll** of **Lifestyles Unlimited** represented the buyer, while **Tre Banks, Craig LaFollette, Todd Stewart** and **Todd Marix** of **CB Richard Ellis** represented the seller.
- **Hayden Properties** (503-697-3188) purchased **Woodland Hills Village Ph I and Ph II (1276 and 1277)** from **CGCMT 2006-CS Lake Hills Apartments** (305-695-5500), a 260-unit Class B complex located at 2135-2139 Lake Hills Dr. in Kingwood (296Y). The 32-year-old complex is 50% leased with average rents at \$0.73 per square foot. **Jim Hurd** of **Houston Income Properties** represented the seller.
- **West Park 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 36-year-old complex is 85% leased with average rents at \$0.71 per square foot. **Jeff Eisenhardt** of **Hendricks & Partners** represented the seller.

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# SINGLE-FAMILY HOUSING

**MLS** home sales decline in November as 2,833 used homes were sold according to the **Houston Association of Realtors (HAR)**. Sales for November 2008 were down 28.3% from November 2007. The median price of a used single-family home sold in November was \$125,200, down 8.7% from the same time last year, while the average home price was \$164,694, which was down 12.1% from the November 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 decreased 6% in November to 951 from 1,016 in October and down 26% from November 2007. Realtor co-op sales represented 66.0% of gross sales, up 1% from November of last year. Traffic decreased 32% from last year to 15,489 in November 2008. The inventory of completed speculative homes (1,822) is down 9% from last year. There are 1,706 spec homes under construction, which is down 12% from November 2007. Overall, the 3,528 specs (both completed and under construction) are down 10% from November 2007. *Note: the 24 homebuilders in this survey account for approximately 60% of housing starts in Houston.*

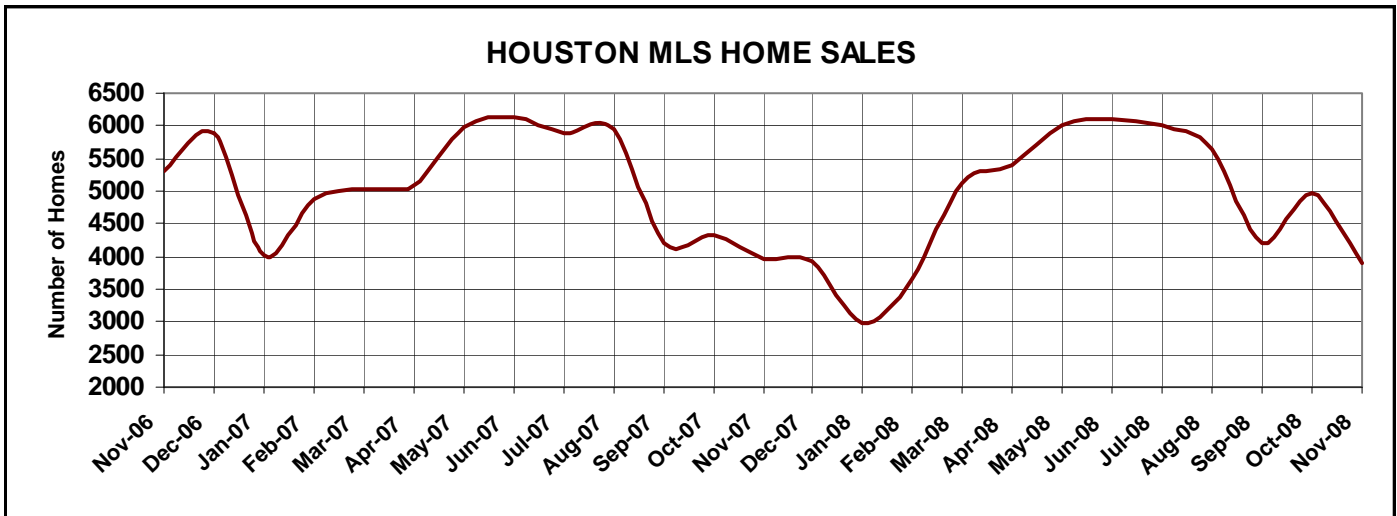
Nationwide sales of new single-family homes decreased in November to a seasonally adjusted annual rate of 407,000, 2.9% below the revised October sales rate of 419,000 and 35.3% below the November 2007 figure, according to a release by the **U.S. Department of Commerce**. The median sales price in November was \$220,400. Privately owned housing starts were at a seasonally adjusted annual rate of 625,000 in November 2008, which is 18.9% below the revised October estimate, and 47.0% below the revised November 2007 rate. Privately owned housing completions were at a seasonally adjusted annual rate of 1,084,000 in November, 3.3% above the revised October figure but 22.8% below the revised November 2007 figure.

The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, fell to 9 in November, 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 9, the index measuring sales expectations for the coming six months also declined to 18 and the index measuring the traffic of prospective buyers fell to 7.

According to the **National Association of Realtors (NAR)**, 4,490,000 existing homes were sold in November 2008, down 8.6% from October sales and down 10.6% from the 5,020,000 homes sold in November 2007. The median sale price was \$ 181,300, which represents a 13.2 decrease from sale prices last year.

According to the most recent report by **RealtyTrac**, 259,805 foreclosure filings — default notices, auction sale notices, and bank repossessions — were reported during the month of November. This figure is down 7% from October but up nearly 28% from November 2007. Texas remains among the nation's 26 highest states in total foreclosure filings in November 2008.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

**Marquette Land Investments** (847-289-3758) is continuing its plans with **The Preserve at West Beach**, a community of 4,000 residential units. The development is located on the west end of Galveston Island (775H). Hurricane Ike and the economic crisis have not stopped the plans to build on Galveston Island, only slowed the development schedule for the largest planned development in the island's history. A new public notice is being issued in January for a two-week public comment period if people want to weigh in on the development.

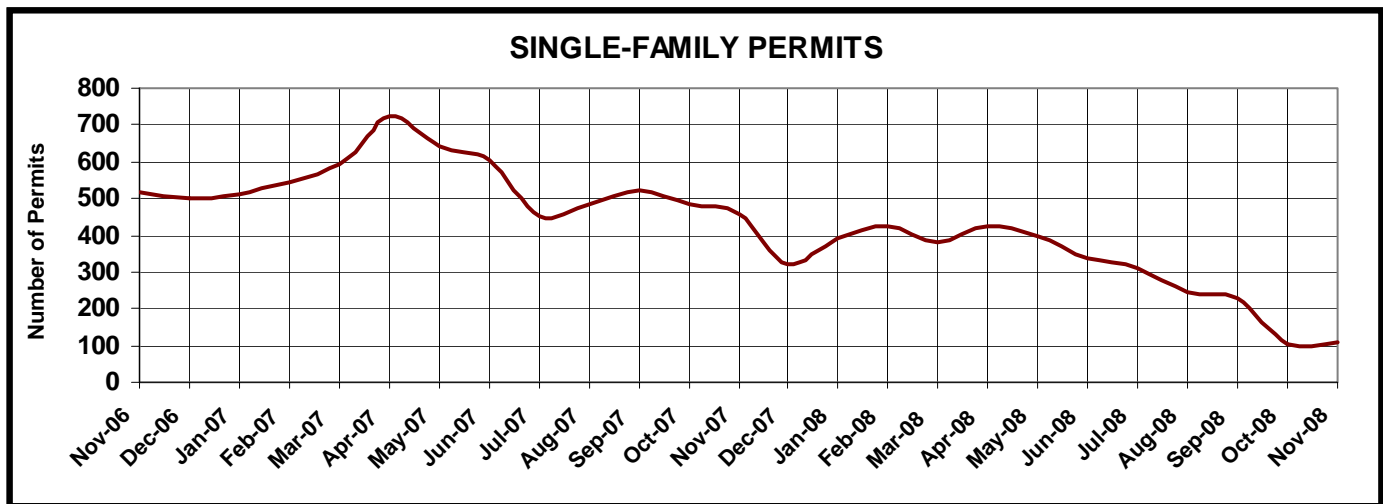
# PERMIT ISSUANCE

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 November	\$344,282,616	\$405,824,052	\$315,128,152
Year-to-Date	\$4,730,156,017	\$5,098,561,024	\$5,527,723,836

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



# OFFICE BUILDINGS

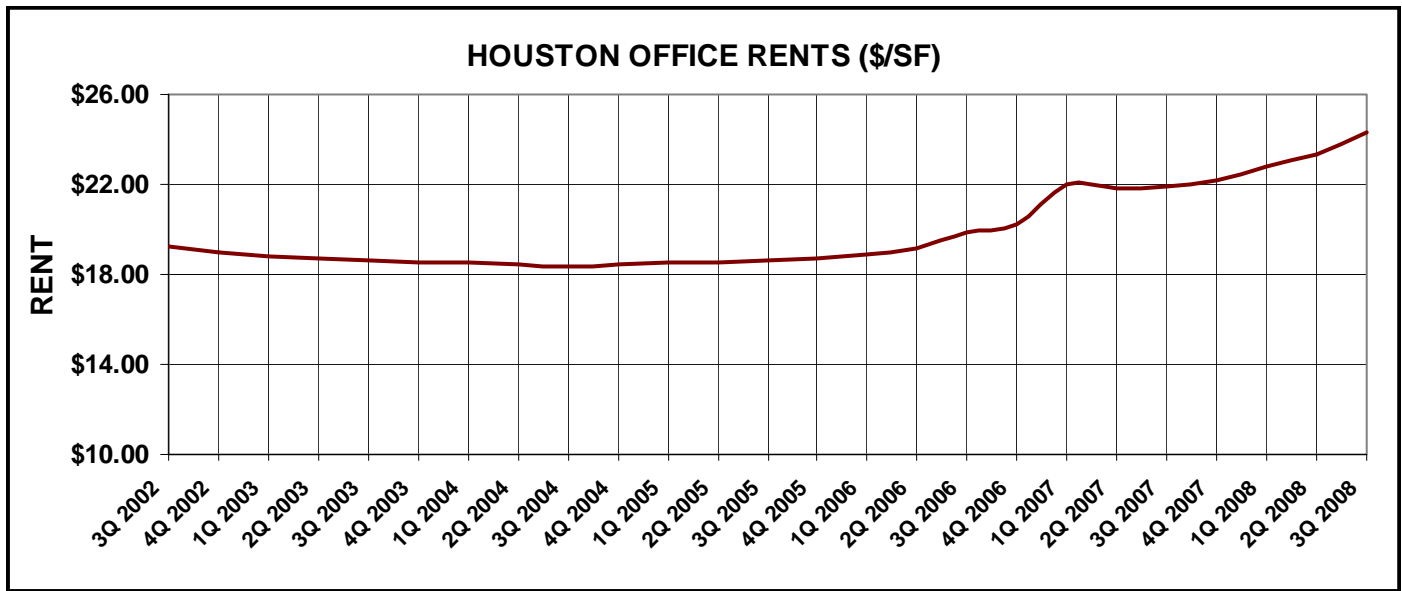
According to the O'Connor & Associates **Third Quarter 2008 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **85.46%** (Class A = 90.37%; Class B = 82.18%; Class C = 80.22%; Class D = 77.09%). The citywide annual multi-tenant office **rental rate** is **\$24.29 per square foot** (Class A = \$31.40; Class B = \$19.24; Class C = \$15.05; Class D = \$12.38).

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).

## Office Developments

- K Realty Development, LLC (281-793-3312) is developing Bay Creek I & II (10919), an office complex with approximately 350,000-square-foot located at 200-220 Rice Creek Lane in Webster (658F). The project is currently under construction with an estimated completion date early 2009.

The following chart illustrates historical office rental rates.



## Office Sales

- **UrbanAmerica, LP** (212-612-9092) paid \$485 million to purchase a portfolio of 13 office buildings and one industrial property located throughout the country from **Rubicon GSA** (703-748-7400) that included one building from the Houston area. The **Post Oak Center (526)** is a 125,000-square-foot Class B building located at 1433 West Loop S. in the Galleria area of Houston (491R). **Tom Robinson** of **North Star Realty** in Atlanta, while the seller was represented by **Steven Buss, Tom Holtz** and **Ryan Watts** of the Minneapolis office of **CBRE**.

## Office Leases

- **Thompson & Horton** leased 10,700 square feet at **Pennzoil Place (93)**, a 1,410,000-square-foot Class A building located at 711 Louisiana in Central Business District of Houston (493L) from **Sunbelt Management Co.** (561-265-1300). The 34-year-old building is 97% leased with average rents at \$38.27 per square foot. **Tommy Wilson** and **Jay Cliburn** of **CB Richard Ellis** represented the tenant, while **Ben Quinton** of **Hines** represented the landlord.
- **Gallup, Inc.** leased 10,650 square feet at **Willowbrook Med. Office Bldg. (2210)**, a 66,000-square-foot Class A building located at 13215 Dotson Rd. in northwest Houston (369H) from **B & W Holdings, LTD** (281-444-3440). The 3-year-old building is 51% leased with average rents at \$18.62 per square foot. **Jim Pratt** of **NAI Houston** represented the tenant, while **Mary Caldwell** of **Caldwell Cos.** 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 84.65% (Regional = 86.82%; Community = 87.53%; Neighborhood = 83.35%; Strip = 80.60%). Occupancy is down slightly (0.15 points) over the last quarter and down 0.03 points over the past 12 months. 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 but 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).*

## Retail Developments

- **Woodcreek Pin Oak, Ltd.** (281-497-8101) has proposed the **Katy Main Street (44783)**, a 263,500-square-foot retail center located at the southwest corner of Katy Frwy. and Pin Oak Rd. in Katy (484G). Walgreens has begun to develop a PAD Site at this location but the retail center has no scheduled start date at this time.
- **Everson Development** has developed the **Technology Plaza at Research Forest (3831)**, a 20,000-square-foot retail center located at 4223 Technology Forest Blvd. in The Woodlands (217X).

The following chart illustrates historical retail rental rates.



## Retail Sales

- **Southcrest Plaza, Inc.** (713-660-0919) purchased the **Court of Kingwood** from **Woodland Hills Venture I** (713-524-4681), a 28,000-square-foot building located at 3001 Woodland Hills Dr. in Humble (396Z). **Artie Tripoli** represented the buyer, while **Marshall Clinkscapes** of **Colliers International** represented the seller.

## Retail Leases

- No retail leases of 10,000 square feet or greater were certified for the month of December.

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# 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 = 81.56%; Bulk = 85.88%; Manufacturing = 75.56%, Service = 81.56%, Distribution = 73.34%, R&D = 51.22%). Occupancy is up 1.24 points from the last quarter and up 1.44 points over the last year. 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).

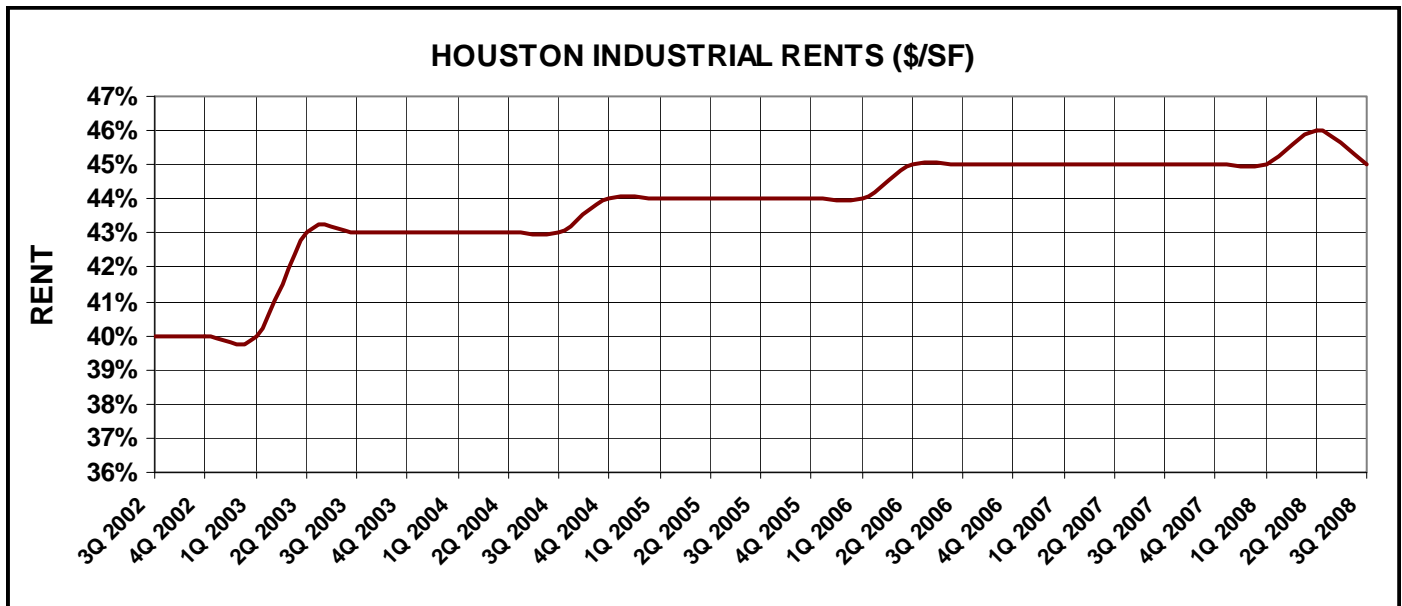
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Note: The industrial facilities listed herein are followed by their representative identification number as they appear in the O'Connor & Associates **IndustrialLink Online Data** platform and are provided for subscriber cross-referencing. *The property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

## Industrial Developments

- **Baker Hughes** (713-934-4100) recently completed the **Center for Technology Innovation (CTI) (26348)**, a 209,000-square-foot Research and Development facility located at 14990 Yorktown Plaza Dr. in north Houston (333F). This is an owner occupied facility.

The following chart illustrates historical industrial rental rates.



## Industrial Sales

- **AMPAK Investment, LLC** (281-537-1579) purchased **13401-13411 Gulf Frwy. (2902, 2905)**, a 156,000-square-foot office/warehouse facility, located in north Houston (576U), from **Finger Consolidated Partnership** (713-723-2014). The buildings range in age from 25 to 52-years-old and are operated as a single tenant property. **Aron Grenader** of **First Houston Properties** represented the buyer in the deal, while **Michael Hill** of **Michael Hill Properties** represented the seller.

- **GSL Investments, Inc.** (713-952-7000) purchased **14000 Westfair Dr. E. (4918)**, a 64,000-square-foot warehouse facility, located in north Houston (408G), from **Varn International, Inc.** (281-469-6200). The 22-year-old facility is vacant. The buyer was represented in-house, while **Bill Rudolf** and **Gray Gilbert** of **CB Richard Ellis** represented the seller.
- **4549 Aldine Bender, LLC** (616-538-5000) purchased **Interwood Business Park (6571)**, a 15,000-square-foot office/warehouse facility, located in north Houston (374Y), from **BRG Cornerstone Development & Construction** (281-471-1930). The newly built facility is vacant. **John Feruzzo** and **Travis Land** of **NAI Houston** represented the seller.

## Industrial Leases

- **Virgo Engineers** leased 65,000 square feet at **Stafford Distribution Center (6386)**, a 241,000-square-foot facility located at 10225 Mula Rd. in Stafford (569L), from **Duke Realty** (713-353-3200). This newly built facility is 85. **Kyle Fox** of **Staubach Retail** represented the tenant, while **Cory Driskill** of **Duke Realty** represented the landlord in this deal.
- **Gaffney-Kroese Energy, LLC** leased 46,801 square feet at **Clay Rd. Distribution Center (5519)**, a 194,000-square-foot warehouse located in northwest Houston (449M), from **Carson Co.** (949-725-6525). The 10-year-old facility is fully leased. **Andy Sowell** of **Boyd Commercial** represented the tenant, while **Walter Menuet** and **Ryan Cropper** of **Vantage Companies** represented the landlord in the deal.

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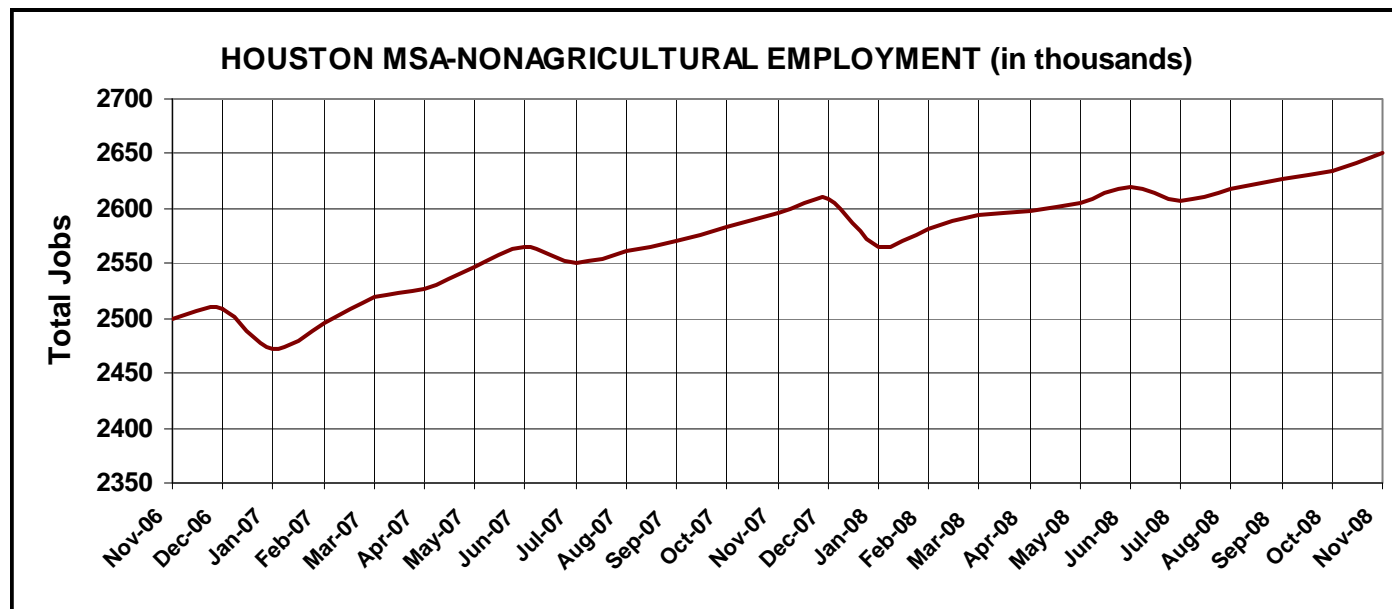
# VACANT LAND

- **A private investor** purchased 63.43 acres of land on Northwest Lake Business Park in northwest Houston (368S), from **Wyman-Gordon Forgings, Inc.** (281-856-3392). The buyer was represented in-house, while **Kelley Parker** of **Cushman & Wakefield** represented the seller.
- **Grant Prideco, LP** purchased 5.43 acres of land in Northwest Lake Business Park in northwest Houston (368S), from **Duke Realty** (713-353-3200). The buyer was represented in-house, while **Todd Edmonds** of **Colliers International** represented the seller .

# ECONOMIC & FINANCIAL NEWS

The total number of nonagricultural wage and salary jobs in the ten-county Houston area increased by 13,500 jobs to 2,650,100 in November 2008, according to the **U.S. Department of Labor**. This month's total is 54,300 jobs more than the 2,595,800 jobs at this time last year. Of nonagricultural employers, the Service Provider sector posted the largest gain over the month at 11,800 jobs, followed by the Government with 2,300 jobs gained. Over the year, the Service Provider sector had the largest increase in employment, adding 42,200 jobs, followed by the Government, which added 11,900 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 December 2008 were \$343.2 billion, a decrease of 2.7% from November and down 9.8% from December 2007. Retail trade sales in December were down 2.7% from November and were 7.7% below last year's level.

Personal income decreased \$20.7 billion, or 0.2%, and Disposable Personal Income (DPI) decreased \$11.8 billion, or 0.1%, in November 2008, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) decreased \$102.6 billion, or 1.0% in November 2008. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers decreased 1.7% in November 2008 but is 1.1% higher than in November 2007.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** decreased to an all time low of 38.0 in December 2008, down 6.7 points from 44.7 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. The index is an indicator of direction the economy is expected to take in coming months, relative to a figure of 100 in 1996, the base year.

According to the **Federal Reserve**, industrial production decreased 0.6% in November 2008 from October 2008 and is down 5.5% over the November 2007 level. Output in the manufacturing sector decreased 1.4% in November; output of utilities increased 1.6% over the month and output at mines increased 2.5%. The rate of industrial capacity utilization was 75.4% in November, which is down 0.6% from the previous month's level and is 1.5 points lower compared to the previous year's level.

**Freddie Mac** reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.09% in November 2008, which is 0.11 points down from October but down 0.12 points from one year ago. The average for the **15-year FRM** averaged 5.79% in November 2008, which is down 0.10 points from October and down 0.05 points from November 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 to 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 November 2008 was estimated at a seasonally adjusted annual rate of \$1,078.4 billion, which is 0.6% below the revised October 2008 estimate. The current figure is 3.3% below the November 2007 estimate of \$1,115.3 billion. Private residential construction was at a seasonally adjusted annual rate of \$328.3 billion in November, 4.2% below the revised October estimate of \$342.6 billion.

The **Baker Hughes** count of active domestic rotary rigs stands at 1,935 for November 2008. The current rig count is up 0.7% from last year's figure of 1,798 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 96.7. The index is a monthly composite index that tracks the health and outlook for the U.S. restaurant industry. This is down 0.4% from October's level and is the 13<sup>th</sup> consecutive month below 100.

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# POTPOURRI

According to the monthly **Monster Worldwide, Inc.** employment index, online job demand had a 7-point decrease in the month of November and down 22.0% from November 2007. Of 20 industry categories only 1 reported an increase, the Agriculture, forestry, fishing and hunting category posted an increase over the month. Professional, scientific, and technical services industries register the strongest monthly declines in online job availability.

According to the December 2008 **Architecture Billings Index**, developed by the **American Institute of Architects**, for the second month in a row demand for non-residential construction plummeted to its lowest level since the survey began in 1995. November reported an index of 34.7 (any score above 50 indicates an increase in billings). The project inquiries index is 38.3.

**Trademark Properties Co.** (817-870-1122) has stopped construction on **High Street**, a mixed-use project located on Westheimer just inside the loop. Started earlier this year with expected completion next fall, it will remain on hold for the foreseeable future. When it is completed the project will include 100,000 square feet of retail space, 80,000 square feet of office space and 233 residences.

**Real estate developers** are asking for government bailouts as massive debt looms. With \$160 billion in loans coming due in the next year, real estate developers are warning policymakers that thousands of office complexes, hotels, shopping centers and other commercial buildings are headed into defaults, foreclosures and bankruptcies. Industry representatives have asked lawmakers to explore the idea of setting up a separate program aimed at boosting lending to commercial real estate only.

**Grandbridge Real Estate Capital** (678.244.9510) has acquired **Live Oak Capital**. Houston-based **Live Oak Capital**, a debt and equity placement and loan servicing company for the commercial real estate industry was founded in 2000 by **W. G. (Gary) Dunkum, III; John Fenoglio; David Aaronson; Robert LaRue; James Richards, Jr.;** and **Harold Holliday**. According to the company website, **Live Oak Capital** had approximately 18 employees.

Please direct any questions regarding content in the *Houston Real Estate Trends* to Stuart Showers at 713-375-4356 or [sshowers@poconnor.com](mailto:sshowers@poconnor.com)