



Published by:
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HOUSTON APARTMENT PERFORMANCE UPDATE

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\$499 PER YEAR

VOLUME 9 NUMBER 4

FOURTH QUARTER 2005

Absorption Patterns

- **6,974 units absorbed in 4Q 05**
- **32,727 units absorbed over the past 12-month period**

Occupancy Levels

- **91.83% overall in 4Q 05**

Rent Growth

- **Overall rents up \$0.016 to \$0.817 psf in 4Q 05**

Employment Growth¹

- **13,400 jobs gained in December 2005**
- **Annual job growth up 1.6%**

Throughout 2005, low interest rates and the attractiveness of real estate compared to other investments helped fuel a rush of investors on Houston's apartment market, while historically low cap rates drove up sales prices. Sales in Greater Houston were especially brisk as more than 200 properties traded hands over the course of the year. Some of the areas seeing the most activity include Southwest Houston where at least 26 properties sold in 2005, the Champions/FM 1960 area where 20 sales were recorded over the year, and the Inner Loop approximately 30 properties sold in 2005.

It's not surprising that Inner Loop properties were highest in demand. While the prospect of gas prices nearing \$3 per gallon does not seem to have deterred Houston's sprawl, a growing number of Houstonians have decided that they no longer want to commute from Fulshear. Investors took notice as several properties in-town, in particular in the Museum District and Medical Center, traded for prices well in excess of \$100,000 per unit. These sales figures are significantly greater than the figures recorded in any other area in Houston in 2005.

And as job growth in the Medical Center (and also in downtown and the Galleria) continues to expand, the residential acquisition prospects will only get brighter. Thus, it does not appear that the appreciation on prime in-town properties will stall anytime soon. In a city notorious for traffic congestion - sitting in traffic ranks somewhere between golf and pilates as a participatory sport - proximity to jobs will only become more important in selecting a place to live.

1. Texas Workforce Commission, 12/05
Total Non-agricultural Jobs

ABSORPTION

Overall absorption remained strong over the fourth quarter at 6,974 units, as the effects of the arrival of hurricane evacuees in Houston carried over. Absorption was strong in October and weakened in November. Absorption picked back up again in December with local officials' push to move evacuees out of hotels and into apartments. Total absorption for the year stands at an unprecedented 32,727 units.

Houston Apartment Market Absorption (12-month period)

Year Ending	Class A	Class B	Class C	Class D	Overall
4Q/03	4,950	-1,557	-4,663	-313	-1,583
4Q/04	8,907	640	-3,026	-968	5,553
4Q/05	13,897	12,648	5,798	384	32,727

The **Class A** market slowed down in the fourth quarter, absorbing -115 units after recording the strongest absorption of all classes in the third quarter. It was the only class to post a decrease in absorption in December, recording a negative absorption of more than 300 units over the month.

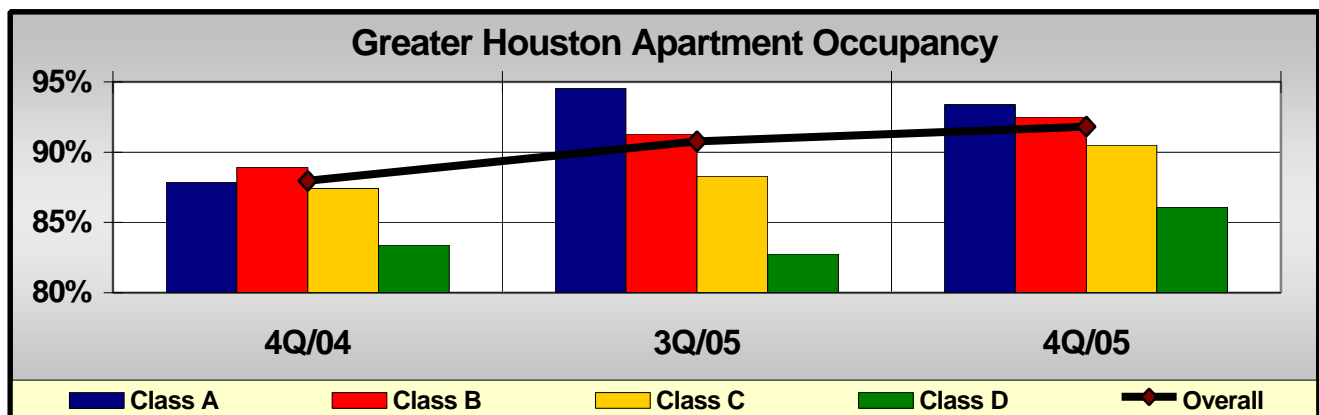
Absorption in **Class B** was indicative of the market as a whole, as absorption was strong in the months of October and December. While overall absorption over the quarter stood at 2,982 units, less than 100 units were absorbed in November, with October and December recording absorption of more than 1,000 units.

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Class C was the only class to post an increase from the third quarter, with 3,681 units absorbed in the fourth quarter. Absorption increased steadily throughout the quarter, reaching a peak in December with 1,671 units absorbed.

The **Class D** market continued its turnaround, absorbing 384 units over the quarter. Absorption was fairly steady through October, November, and December, ranging between 100 and 200 units.



OCCUPANCY

Overall occupancy gained 1.14 points to 91.83% over the last quarter, and picked up 4.55 points over the last year. Earlier this year, occupancy levels were grim as they reached the lowest level on record at 86.88% in the first quarter of 2005. Since then, occupancies have climbed 4.95 points. Despite a slight decrease in occupancy in Class A over the last quarter, the market posted a substantial overall increase thanks to increases in Classes B, C, and D.

Greater Houston Apartment Market Occupancy

Quarter	Class A	Class B	Class C	Class D	Overall
4Q/04	85.78%	88.47%	87.43%	83.40%	87.28%
3Q/05	93.93%	91.20%	88.30%	84.39%	90.69%
4Q/05	93.38%	92.50%	90.51%	86.09%	91.83%

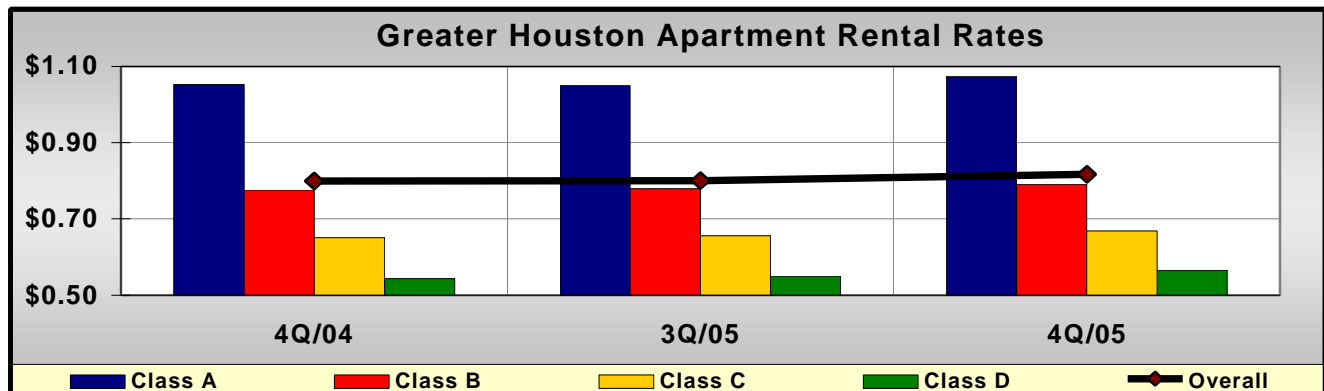
Class A occupancy cooled off in the fourth quarter, decreasing 0.55 points, after posting huge gains last quarter. Occupancy in the class has jumped 7.60 points in the past year and stands at 93.38%. The **Baytown** and **NASA - West** sectors reported the highest occupancy levels at 98.70% and 97.57%, respectively.

The **Class B** market again recorded substantial gains, increasing 1.30 points in the fourth quarter, and is currently at 92.50%. The **Central Business District** posted the highest occupancy in the class, at 98.20%.

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After finally reversing the trend of declining occupancy in the third quarter, the **Class C** market recorded another quarter of increasing occupancy. Occupancy increased 2.21 points over the last quarter and now stands at 90.51%. The **Central Business District** and **Galena Park - East** sectors reported the highest occupancy levels.

Class D occupancy recorded its second straight quarter of substantial gains, rising 1.70 points. Occupancy has increased 2.69 points in the past year and now stands at 86.09%. The **Sharpstown - Southwest** sector, with 26 Class D complexes, reported an occupancy of 91.63%.



RENTAL RATES

Rents continued to creep upward in the fourth quarter. Average rental rates were up \$0.016, and currently stand at \$0.817 (per square foot). Class A recorded the largest increase in rents, despite decreasing occupancy levels in the fourth quarter. Over the last year, overall rents are up \$0.021 psf from \$0.796.

Greater Houston Apartment Market Rental Rates

Quarter	Class A	Class B	Class C	Class D	Overall
4Q/04	\$1.053	\$0.776	\$0.651	\$0.544	\$0.796
3Q/05	\$1.050	\$0.778	\$0.656	\$0.550	\$0.801
4Q/05	\$1.073	\$0.789	\$0.669	\$0.565	\$0.817

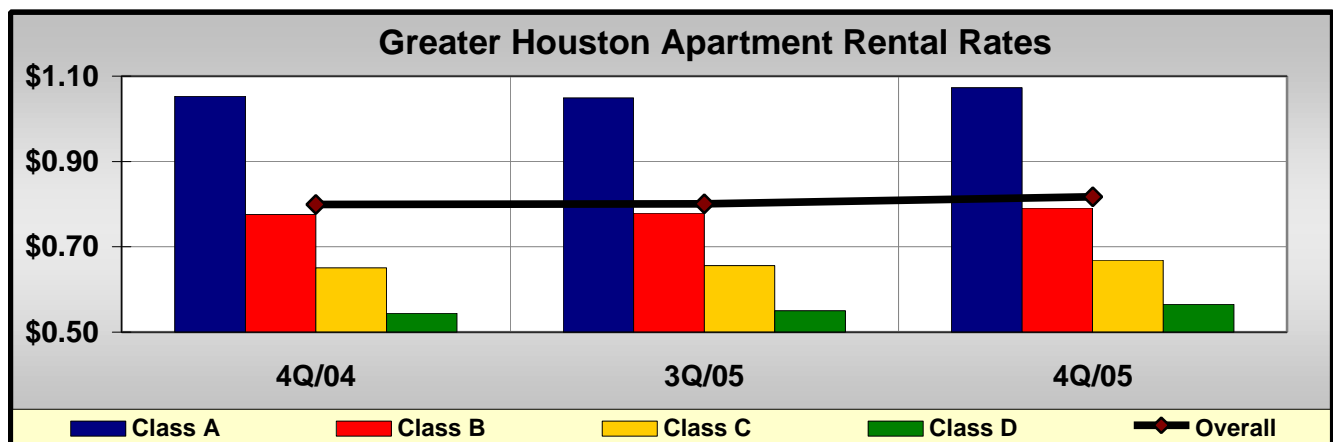
Class A rents were up \$0.023 psf over the last quarter, after remaining relatively unchanged through most of the year. The **Central Business District** posted the highest rents at \$1.562 psf. Rents in the **Fringe Area - East** sector, which borders the Central Business District, continued to rise, increasing \$0.010 to \$1.330 psf.

Rents in the **Class B** market increased \$0.011 psf in the fourth quarter, and currently stand at \$0.789. The **Greenway/Montrose** and **West Loop** sectors continue to post some of the highest rents in the city, while the lowest rents are found in the **Near Northeast** sector, at \$0.646 psf.

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The **Class C** market recorded an increase of \$0.013 psf in rents over the last quarter, and rents are up \$0.018 psf over the year. The highest rents are found in the **Fringe Area - North** and the **Fringe Area - Northwest** sectors, at \$0.819 psf and \$0.776 psf respectively.


Class D rents were up \$0.015 in the fourth quarter to \$0.565 psf. Rents in the Class D market have increased \$0.021 since last year. The **South** sector commanded the highest rents, at \$0.667 psf, while rents were as low as \$0.421 psf in the **Fringe Area - Northeast** sector.





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