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HOUSTON APARTMENT PERFORMANCE UPDATE

EDITED BY RICHARD ZIGLER | $499 PER YEAR | VOLUME 9 NUMBER 3 | THIRD QUARTER 2005

Absorption Patterns

- **20,179 units absorbed in 3Q 05**
- **25,294 units absorbed over the past 12-month period**

Occupancy Levels

- **90.61% overall in 3Q 05**

Rent Growth

- **Overall rents up $0.002 to $0.802 psf in 3Q 05**

Employment Growth[1]

- **18,600 jobs gained in September 2005**
- **Annual job growth up 1.8%**

1. Texas Workforce Commission, 9/05 Total Non-agricultural Jobs

The magnitude of the impact from Hurricane Katrina is beginning to come into focus as September numbers on the apartment market and employment are being released. The influx of evacuees has no doubt had a dramatic short-term impact on the Houston apartment market with 10 times the normal absorption rates and surging occupancy levels. The initial effects will not likely be sustained, although occupancies are expected to remain elevated, as many evacuees remaining in shelters and (especially) hotels will eventually need a more permanent form of housing in the months to come.

With an estimated 125,000 people displaced from their homes, schools, and jobs living in the Houston area, more than just the apartment market has been affected. Nearly 16,000 students have been enrolled in Houston area school districts as a result of the hurricane. Local school districts added 1,700 more jobs than last September to provide additional schools for the displaced students, and government as a whole added 18,500 jobs in the month of September. Leisure and hospitality, which usually sees a seasonal decline following the summer months, lost fewer than normal jobs, likely due to the tens of thousands of evacuees still living in hotels.

Ultimately, we will have to wait and see what happens to the Bayou City, as a few people are already moving back to New Orleans and other areas of Louisiana. Certainly, some will stay and many will go, but the aftermath and effects of Hurricane Katrina will remain etched in our minds in the years to come.

ABSORPTION

Multifamily demand recorded unprecedented absorption over the third quarter as a result of the influx of hurricane evacuees. With more than 20,000 units absorbed over the third quarter, annual absorption totals 25,294 units. In the month of September alone, 17,496 units were absorbed.

Houston Apartment Market Absorption (12-month period)

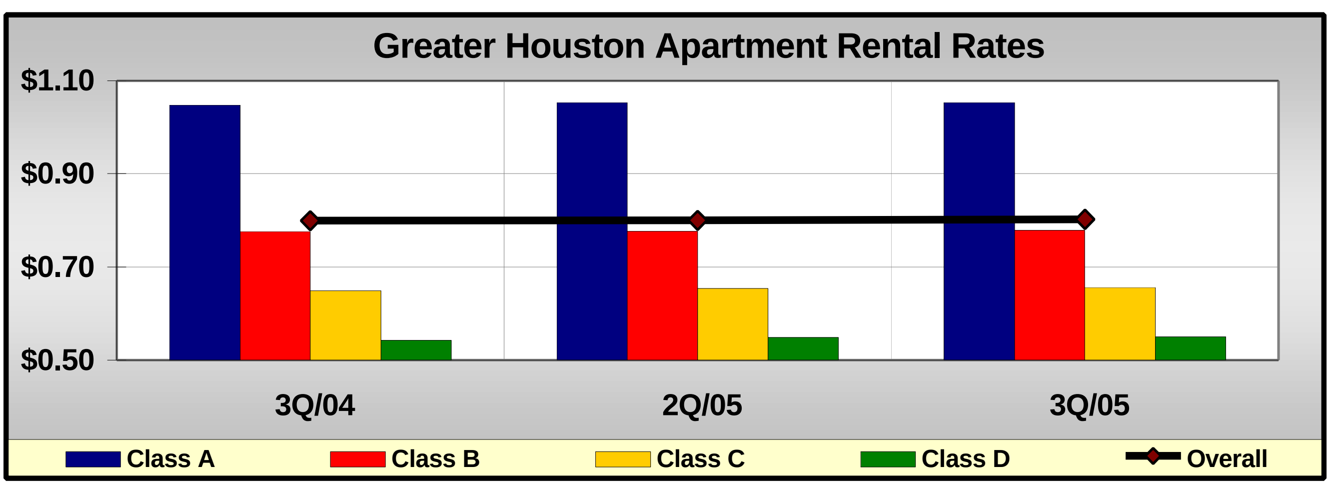
Year Ending	Class A	Class B	Class C	Class D	Overall
3Q/03	2,395	-559	-3,508	-163	-1,835
3Q/04	9,395	834	-3,533	-578	6,118
3Q/05	**15,225**	**9,173**	**1,165**	**-268**	**25,294**

The **Class A** market posted impressive gains over the quarter, absorbing 8,979 units. While quarterly absorption was remarkable, monthly absorption trends before September were also impressive. Even before Katrina, the Class A market recorded stronger absorption in July and August combined, with 3,551 units absorbed, than any quarter in the last five years.

Class B absorbed 8,151 units over the quarter, although monthly absorption prior to September was somewhat weak. More than 8,000 units were absorbed in September, while only 10 units were absorbed in July and 625 units were absorbed in August.

Katrina reversed a continuing slide in the **Class C** market, which was on its way to recording negative absorption with -838 units absorbed in July and August. September absorption brought quarterly Class C absorption to 3,001 units. Over the last year, 1,165 units were absorbed.

Class D absorption barely made it into the black with 48 units absorbed over the quarter, marking the first quarter of positive demand since the fourth quarter of 2003. Class D was the only class to record negative annual absorption.



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OCCUPANCY

Overall occupancy has exceeded 90% for the first time in seven quarters, gaining 3.33 points over the last quarter and 2.83 points over the last year. Occupancy bottomed out in the first quarter of this year at 86.85%, and has since picked up 3.86 points. Increases in Classes A and B were the driving force behind this quarter's dramatic increases, despite the losses recorded in Class D.

Greater Houston Apartment Market Occupancy

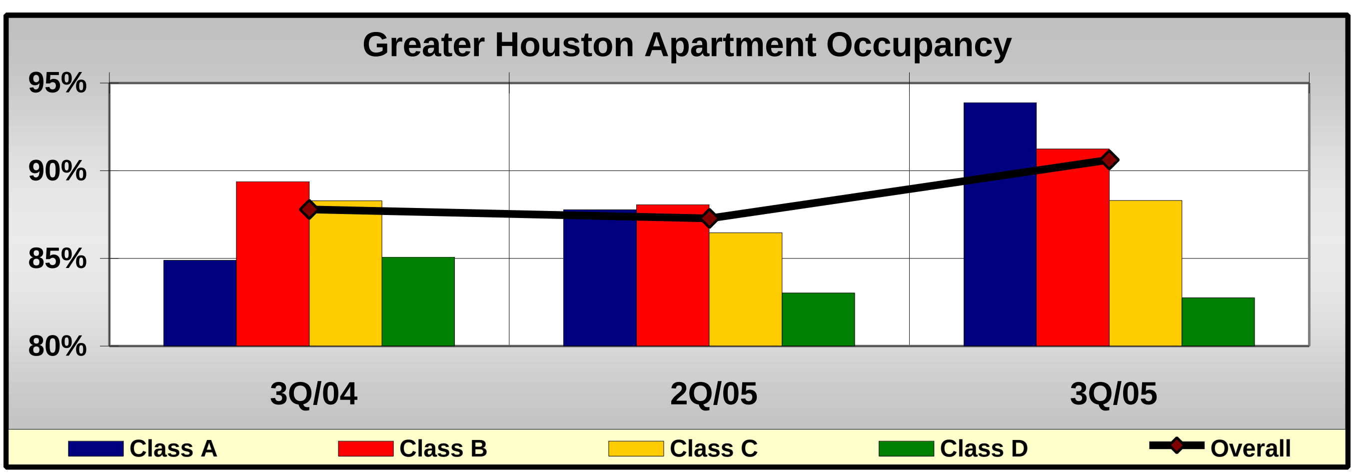
Quarter	Class A	Class B	Class C	Class D	Overall
3Q/04	84.89%	89.37%	88.28%	85.08%	87.78%
2Q/05	87.77%	88.06%	86.45%	83.03%	87.28%
3Q/05	**93.88%**	**91.24%**	**88.30%**	**82.75%**	**90.61%**

Class A occupancy picked up a staggering 6.11 points over the quarter and 8.99 points over the last year to reach its highest level at 93.88% since this time four years ago. Occupancy is more than 10 points higher than in the second quarter of 2004 when the lowest level recorded at 83.30%. The ***Greenway/Montrose*** and ***Baytown*** sectors reported the highest occupancy levels at 97.91% and 97.74%, respectively.

Gaining more than 3 points over the last quarter, **Class B** occupancy reached 91.24% and is currently 1.87 points above levels one year ago. Some areas are nearly fully occupancy with the ***Central Business District***, ***Almeda - Southwest,*** and ***Near North*** sectors recording occupancy levels above 97%.

The **Class C** market reversed its 13-quarter trend of declining occupancy, picking up 1.85 points over the last quarter. At 88.30%, occupancy levels are just above levels one year ago.

Despite gains recorded in all other classes, the **Class D** market recorded a loss of 0.28 points over the last quarter. Currently occupancy levels at 82.75% are 2.33 points lower than levels one year ago.



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RENTAL RATES

Overall rents increased slightly over the last quarter, up $0.002 to $0.802 psf (per square foot). Classes B and C, both of which recorded $0.002 increases, drove the increase. Over the last year, rents are up $0.008 psf from $0.794.

Greater Houston Apartment Market Rental Rates

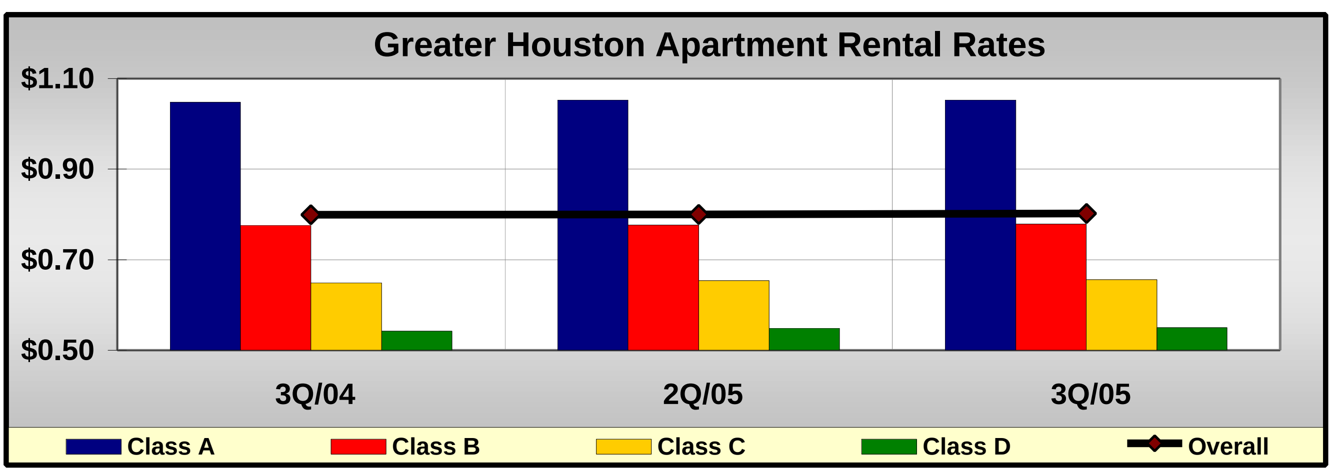
Quarter	Class A	Class B	Class C	Class D	Overall
3Q/04	$1.048	$0.776	$0.649	$0.542	$0.794
1Q/05	$1.053	$0.777	$0.654	$0.549	$0.800
3Q/05	**$1.053**	**$0.779**	**$0.656**	**$0.550**	**$0.802**

Class A rents remained unchanged over the last quarter at $1.053 but are up $0.005 from $1.048 since this time last year. The ***Central Business District*** continues to post the highest **Class A** rents, increasing $0.036 over the quarter to $1.476 psf. Although rents have declined $0.061 over the last three quarters, the ***Greenway/Montrose*** sector remains one of the priciest areas in the city.

Class B rents reached $0.779 psf after a $0.002 gain over the last quarter. Over the last year, rents have picked up $0.003 psf. The ***Greenway/Montrose*** and ***Fringe Area - Northeast*** sectors are commanding the highest rents, at $0.928 and $0.939 psf, respectively. Rents reach as low as $0.649 psf in the ***Near Northeast*** sector.

The **Class C** market gained $0.002 psf over the quarter and are up $0.007 psf over the last year. Rents are as high as $0.819 psf in the ***Fringe Area - North*** sector and as low as $0.592 psf in the ***Fort Bend*** sector.

The **Class D** market posted a $0.001 increase in rents over the last quarter, bringing rents up to $0.550 psf. **Class D** rents have recorded the largest annual gains of all the classes, up $0.008 psf since this time last year.



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