



THE SITUS COMPANIES



**O'Connor & Associates
Land Forecast Luncheon
October 22, 2008**

Trusted InSight into Global Real Estate

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- Represent individuals, institutions, and public companies buying, selling, leasing and repositioning commercial properties
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 - Investment Sales
 - Project Leasing
 - Tenant Representation
 - Asset Repositioning / Dispositions
 - Entitlement & Development
 - Sealed Bid Sales
 - Note Sales
 - Highest & Best Use Analysis
 - Asset Management

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Desired Outcome of Today's Discussion



- Review the dynamics of activity in Houston from the 1980s through today
- Discuss role of land and land development in Houston's future

Note: This presentation has been modified slightly from the version presented at the O'Connor luncheon to include new text slides that provide additional color on the charts

Flight to the Suburbs (1946 – 1980)



The suburban transformation began in 1946 when the GIs returned home from World War II

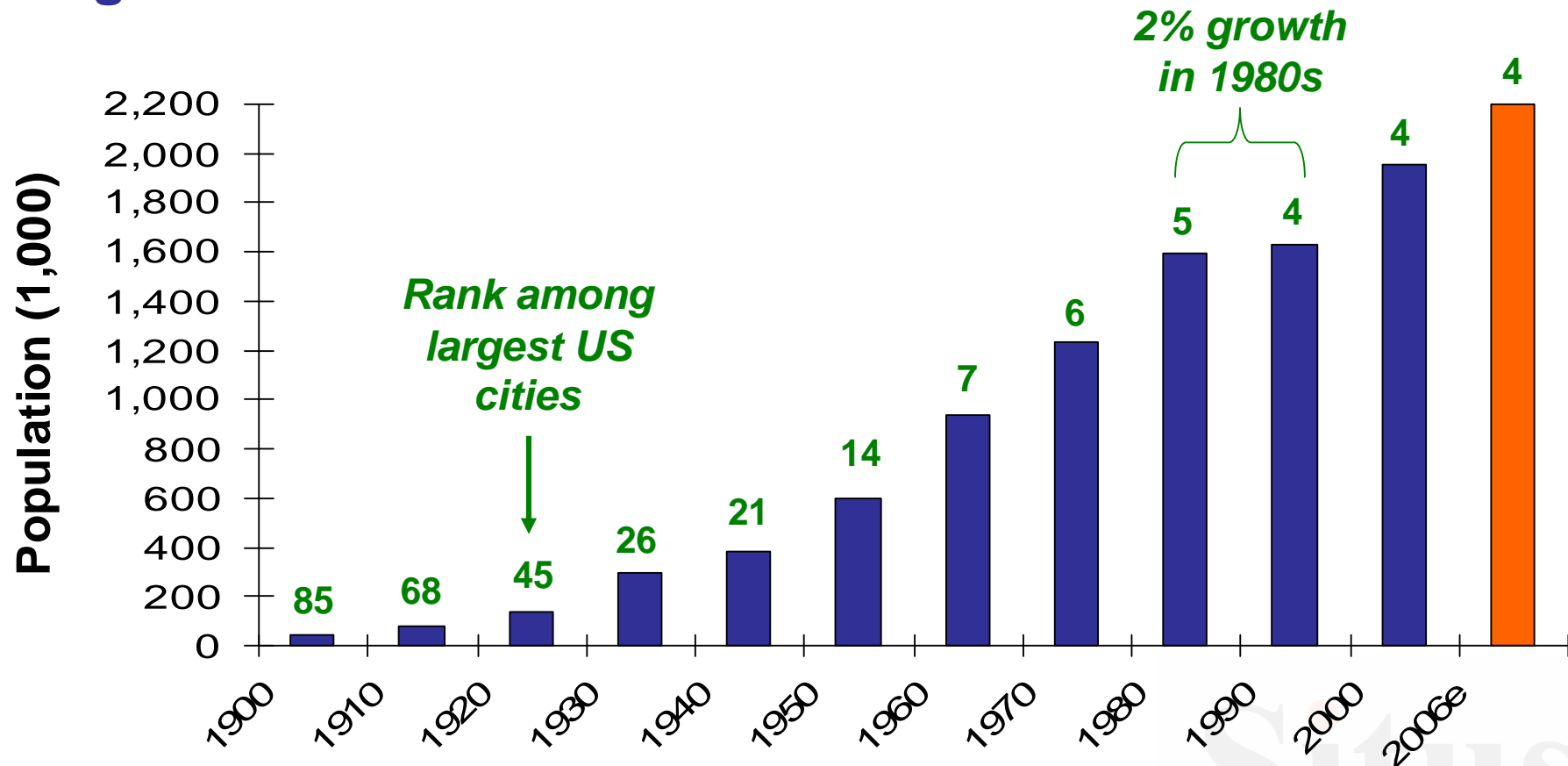
- Prior to this time, people lived, worked and played in the inner city
- First people, then retail, then jobs moved out of the city and into new subdivisions, malls, and office parks in suburban areas
- As families moved to the suburbs, they left behind out-of-fashion real estate, a poorer residential base, and rising crime
- Once-thriving central-city retail districts were decimated by the regional suburban malls
- By the mid-1970s, Houston newcomers generally had little alternative but to locate in the suburbs for desirable neighborhoods and quality public schools

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Houston Population

Since 1950, Houston's* population has increased an average of 33% per decade, resulting in explosive growth



* Figures represent the City of Houston and not the MSA
Source: U.S. Census Bureau (2007)



A Tale of Two Cities (1980 – 1990)



The 1980s offered Houston the best and worst of times – a boom and a bust

Boom

- Early-1980s saw a significant level of suburban residential development
- Suburban retail and office development followed
- A major catalyst was unrealistic optimism that the oil boom would continue – oil bust began in 1982

Bust

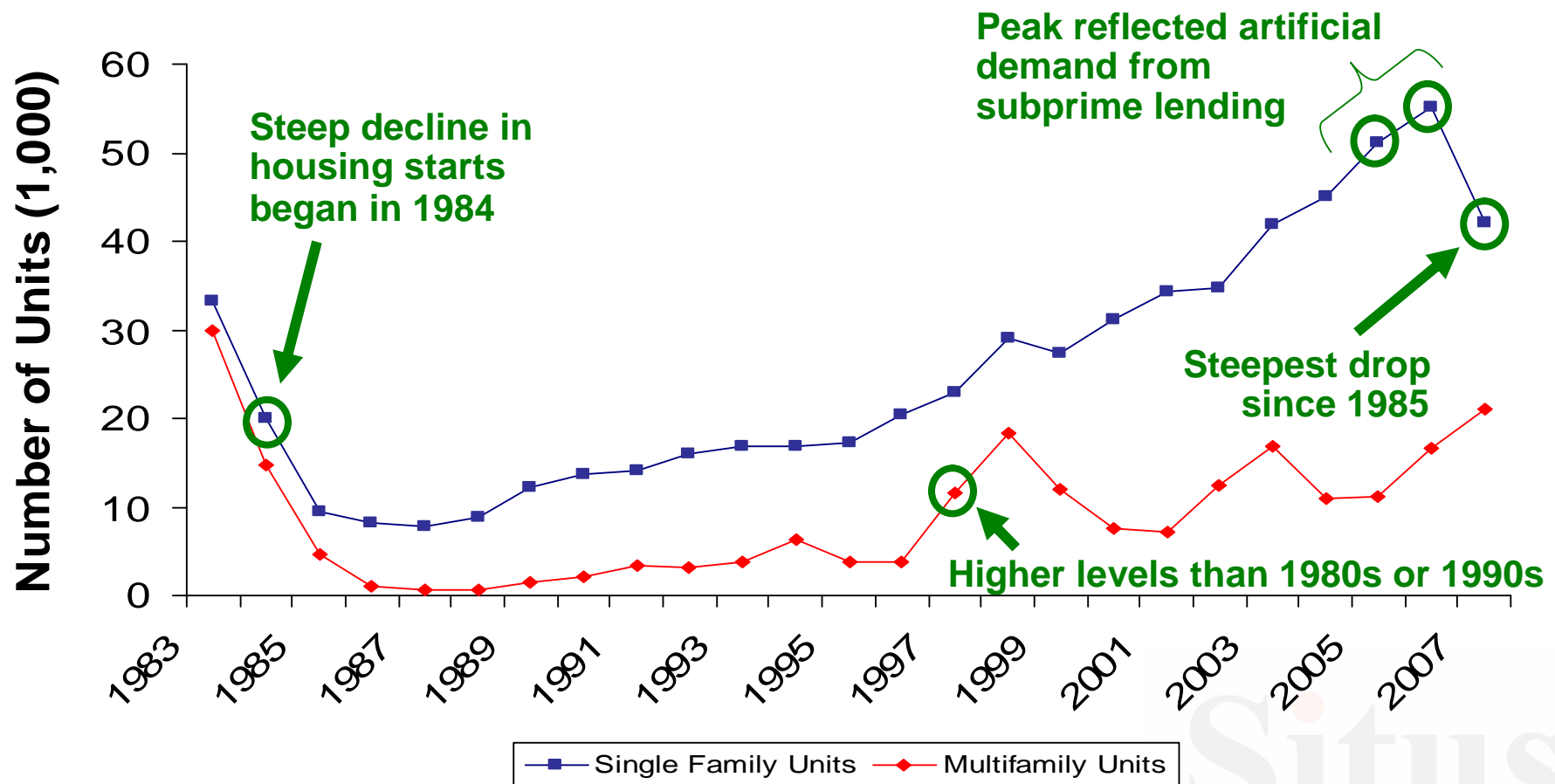
- 1985 was the beginning of the S&L crisis that led to creation of FADA & RTC
- Real estate industry was further exacerbated by the *Tax Reform Act of 1986* and national recession in the early-1990s

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Housing Starts

Relatively speaking, there was little new residential land development in the early-to-mid 1990s



Source: Texas RECenter (2008)

Distressed Land Sales (1990 - 1995)



Distressed asset sales by RTC, FDIC, etc. were the catalyst for much of the activity during this time frame

- RTC, created in 1989, began mass liquidation of assets taken back from failed thrifts through sealed bid sales and auctions
- Many properties, including commercial and residential land, were acquired at distressed prices that were significantly below the cost of developing new raw land
 - Finished lots
 - Partially developed subdivisions
 - Commercial reserves
- Commercially, there was not a lot of significant construction as the market was absorbing existing office and retail
- Many out of state buyers that were new to Houston

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Distressed Land Sales (1990 - 1995)

[continued]



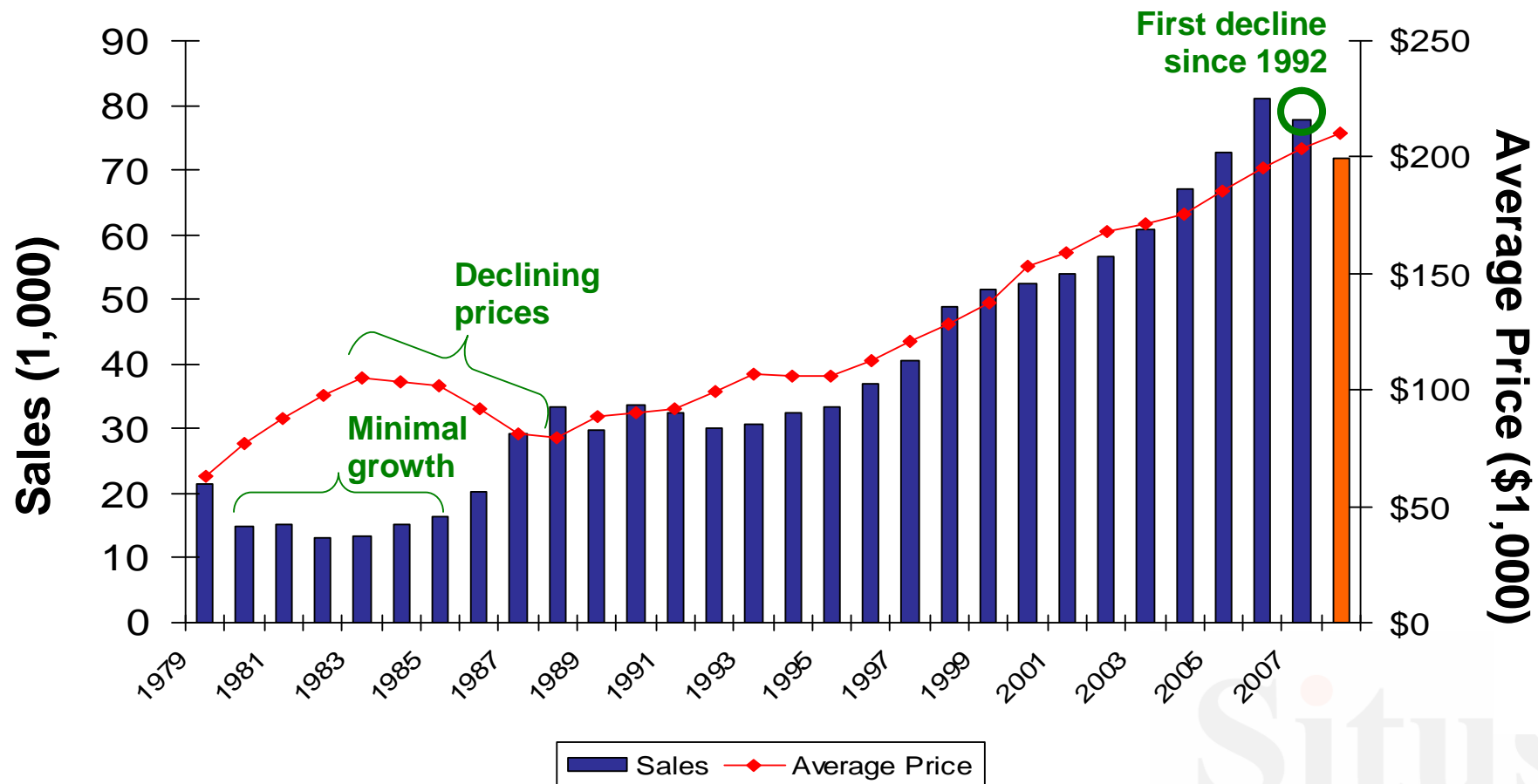
The sheer volume of land sold during this period had an effect in subsequent years

- Many raw tracts of land acquired during the early-1990s were later developed in the late-1990s and early-2000s
- As pressure increased on homebuilders to produce more lots in the early 2000s, residential builders entered land development business
- From 2001-2006, homebuilders drove up the price for residential land

Houston MLS Residential Housing Activity



As a result of the rising costs related to land, infrastructure, and construction, the average home sales price has continued to increase



Source: Texas RECenter (2008)

The Inner City's Comeback (1995 – 2007)



Residential

- Many residents – old and new Houstonians – have moved to the core
- Reasons for moving include traffic issues, proximity to work, and a desire for diverse culture
- Tremendous price appreciation in “older” neighborhoods

Commercial

- Pent-up demand for urban property is evident in pricing
- Inner loop commercial land has been selling for 6 to 10 times more per square foot than similar suburban sites
- Many older properties have been purchased at land value for redevelopment as higher-density commercial and residential

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Still Moving to the Suburbs (1995 – 2007)



Residential

- Affordability enables people to buy bigger homes on larger lots
- Many suburbanites prefer to live in new homes in master-planned communities
- Desire for quality public schools
- Proximity to employment centers

Commercial

- The residential growth in the suburbs has resulted in significant commercial growth
- Desire for suburban living has increased due to the existence of suburban employment centers
- Prevalent trend of locating companies closer to employees

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Surging Commercial Land Prices (2000 – 2007)



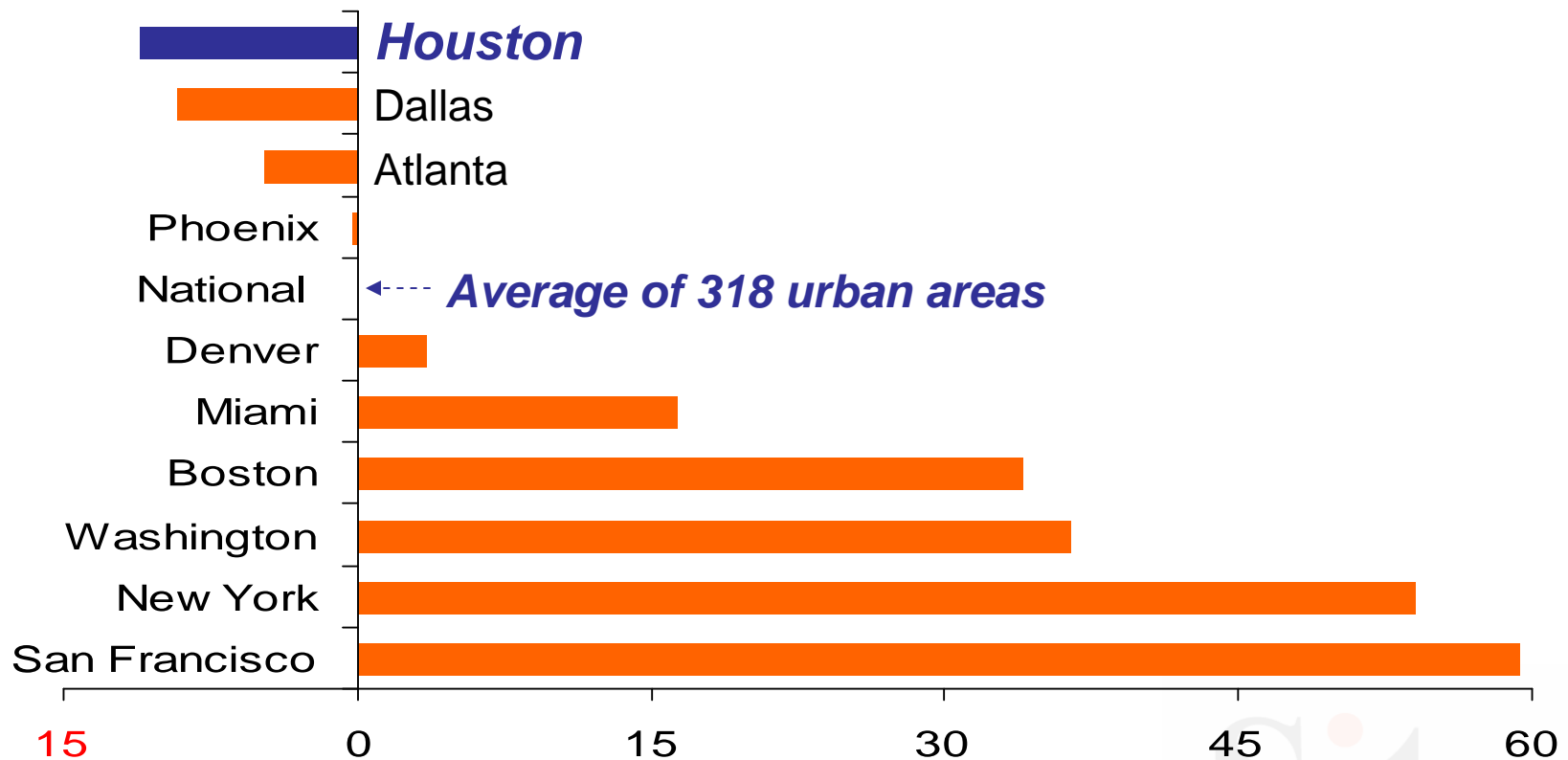
Commercial land prices were driven up over the past several years

- Competition for prime corners and sites significantly drove up prices
- Pricing was no longer based on comparables; rather, it was based on planned use
- Flow of information (transparency) has impacted how business is done
- Expectations among buyers and sellers have risen

Cost of Living Index for US Metro Areas (Q2 2008)



Houston's overall after-taxes cost of living is 11% below the national average, largely due to housing costs that are 23% below the average



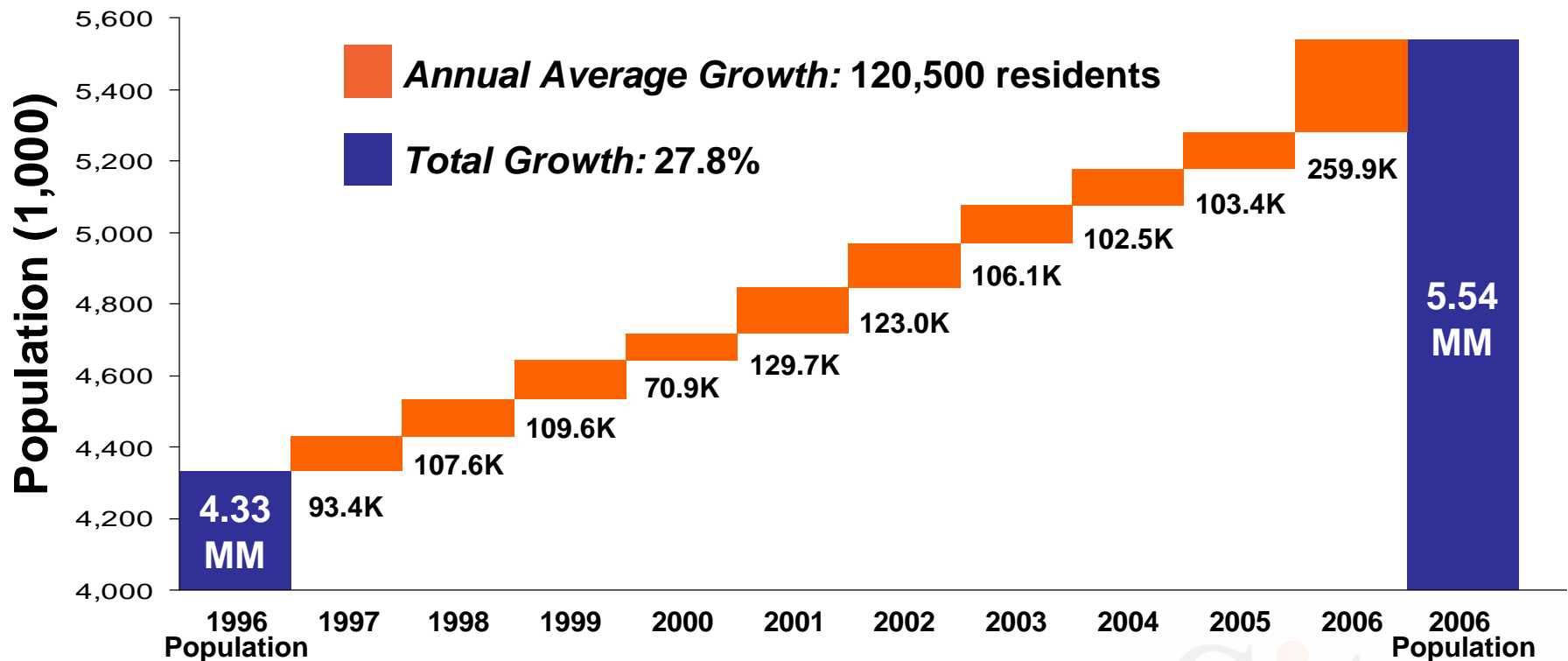
Source: ACCRA (2008 Q2)



Houston MSA Residential Population Growth (1996–2006)



Houston has experienced steady growth over the past decade, with the largest one-year surge occurring in 2006



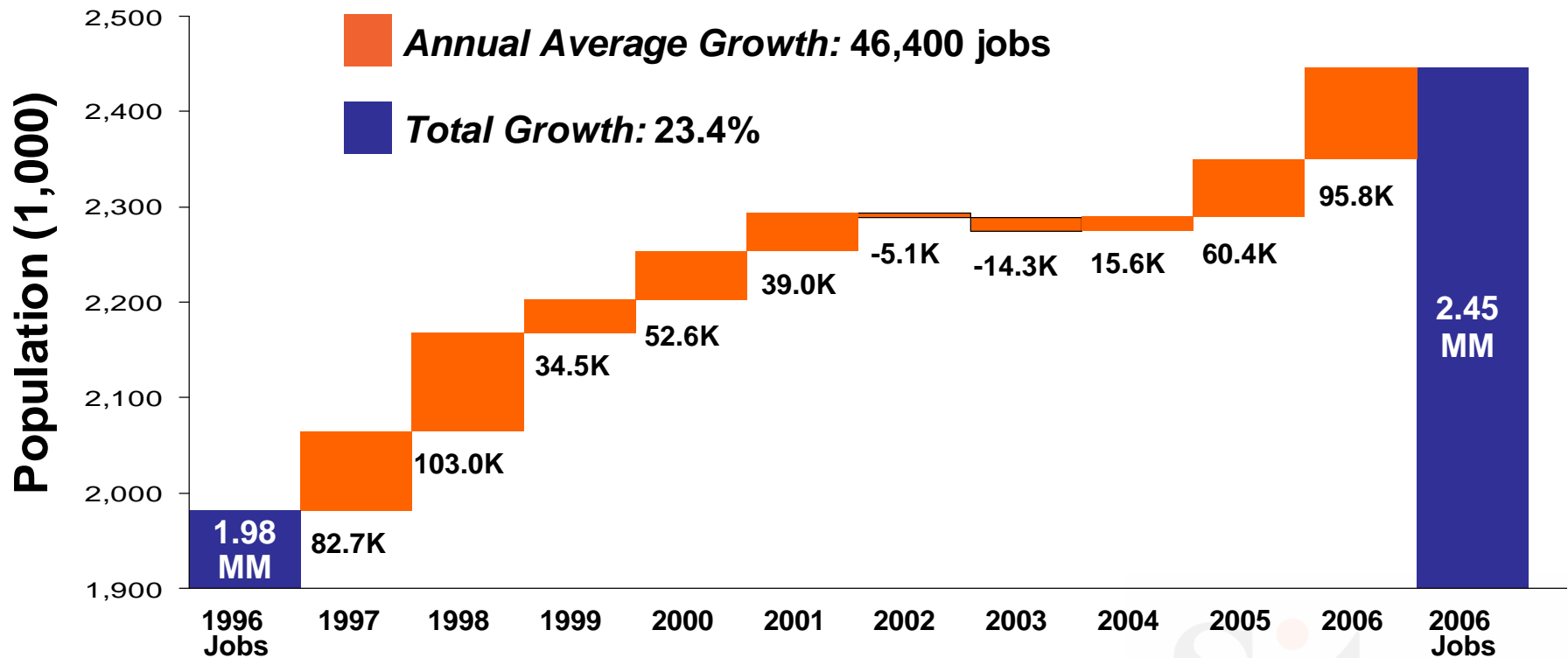
Source: U.S. Census Bureau (2007)



Houston MSA Employment Growth (1996–2006)



Houston’s residential growth correlates directly to its strong employment growth over the same period



Source: Texas Workforce Commission and Real Estate Center at Texas A&M University (2007)

How Long Will This Last? (2008 – ?)



We expect some commercial real estate trends to continue for an unknown period of time

Trends

- Risk being re-priced
- Cap rates increasing
- "Easy" financing no longer available
- Financing only available for strong and experienced borrowers
- Retailers slowing growth with some closing stores
- Banks and drug stores pulling back
- Housing starts slowing
- Foreclosures / REO properties increasing



Impact

- Land prices decreasing
- Contract terms softening
- Sales activity slowing
- Development activity decelerating
- Transactions being re-traded
- Owner financing on horizon
- Investors with cash on sidelines, waiting to see how far prices drop

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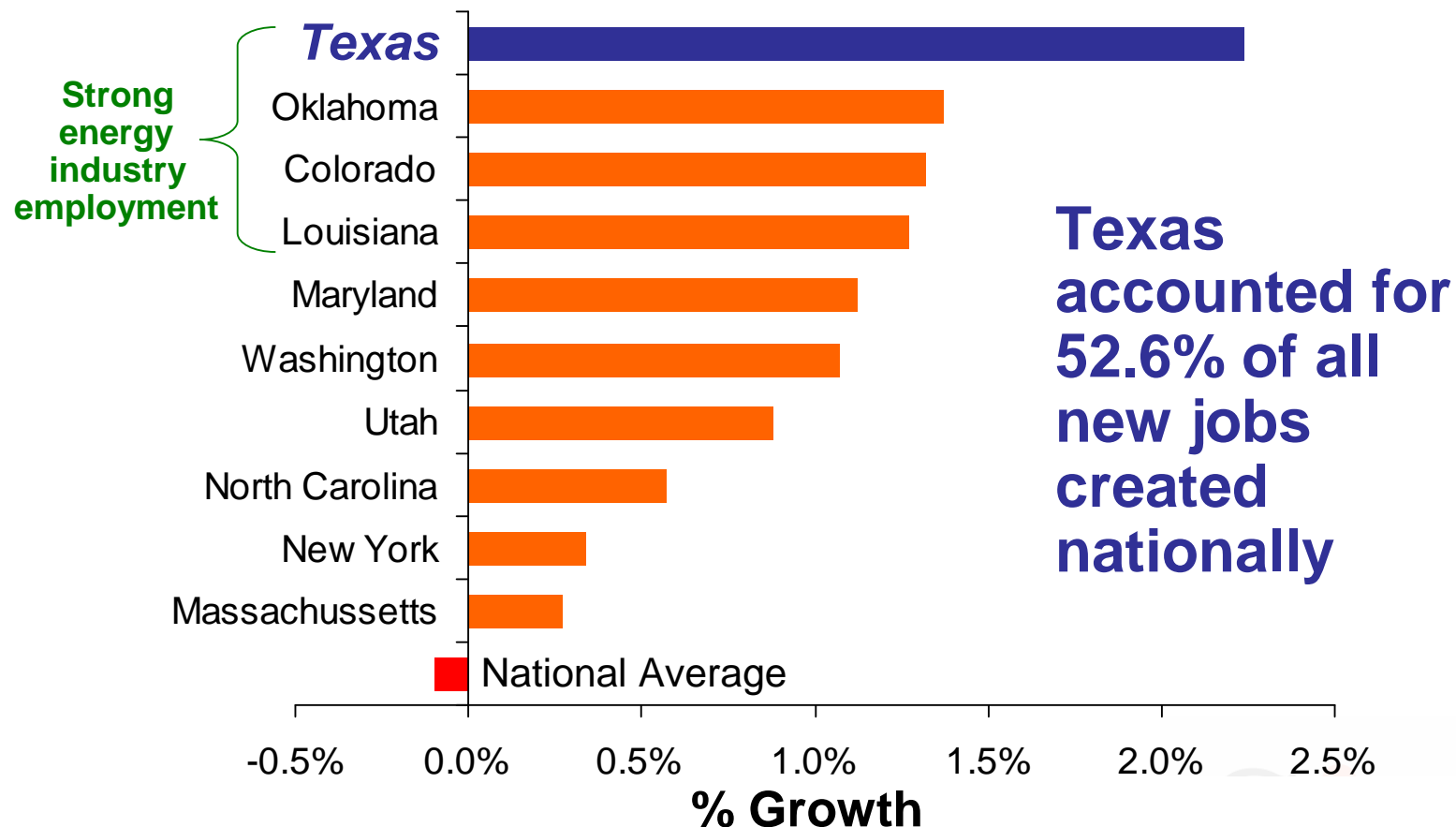


Reasons for Optimism



Job Growth by State

Over the past year, Texas has led the nation in highest job growth among states



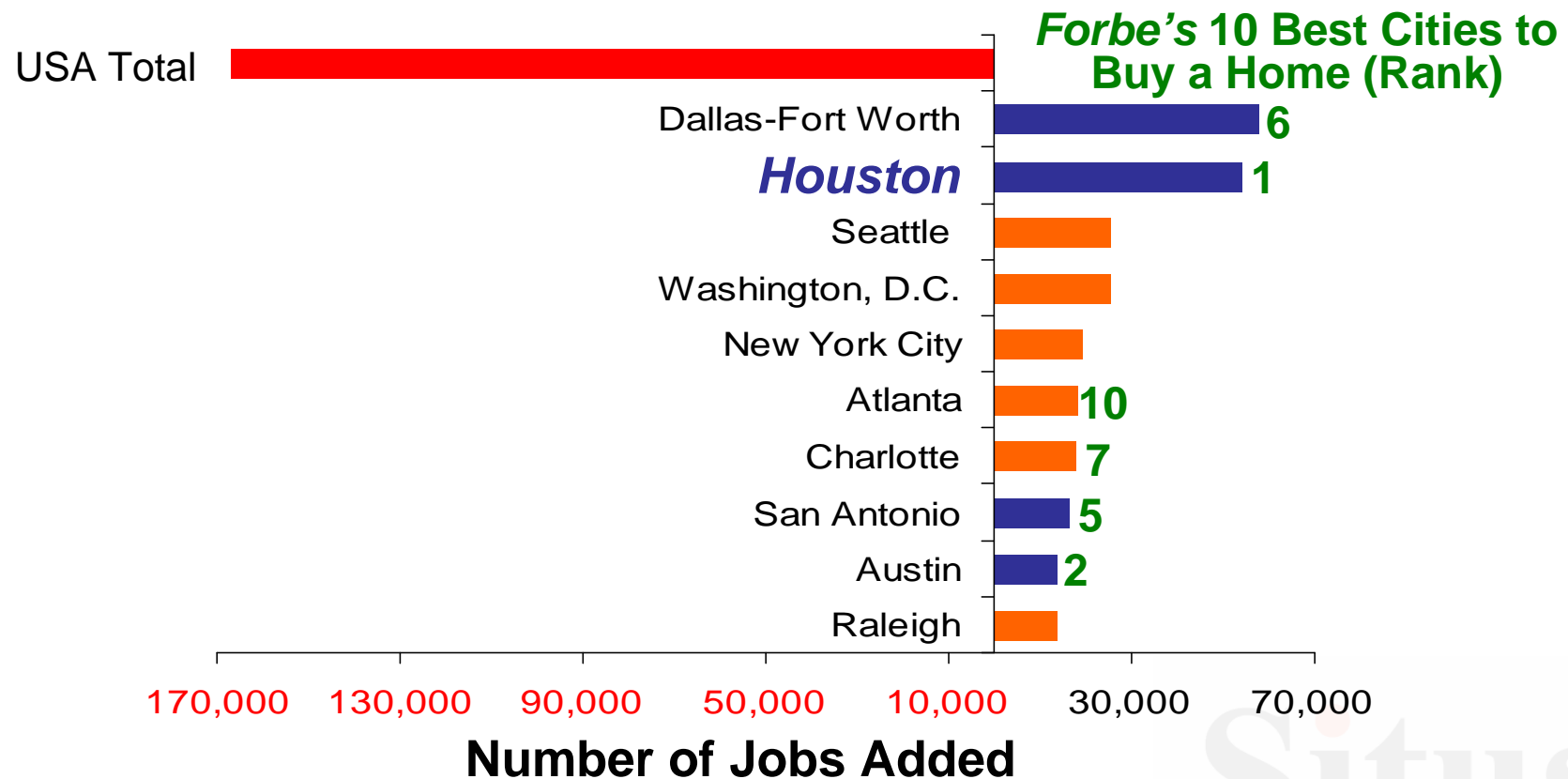
Source: Texas State Data Center (2007)



Job Growth by MSA & Best Cities to Buy a Home (2007)



Over the past year, Houston was among 4 Texas cities to rank in the top 10 nationally in job growth and to make *Forbe's* list of the *10 Best Cities to Buy a Home*



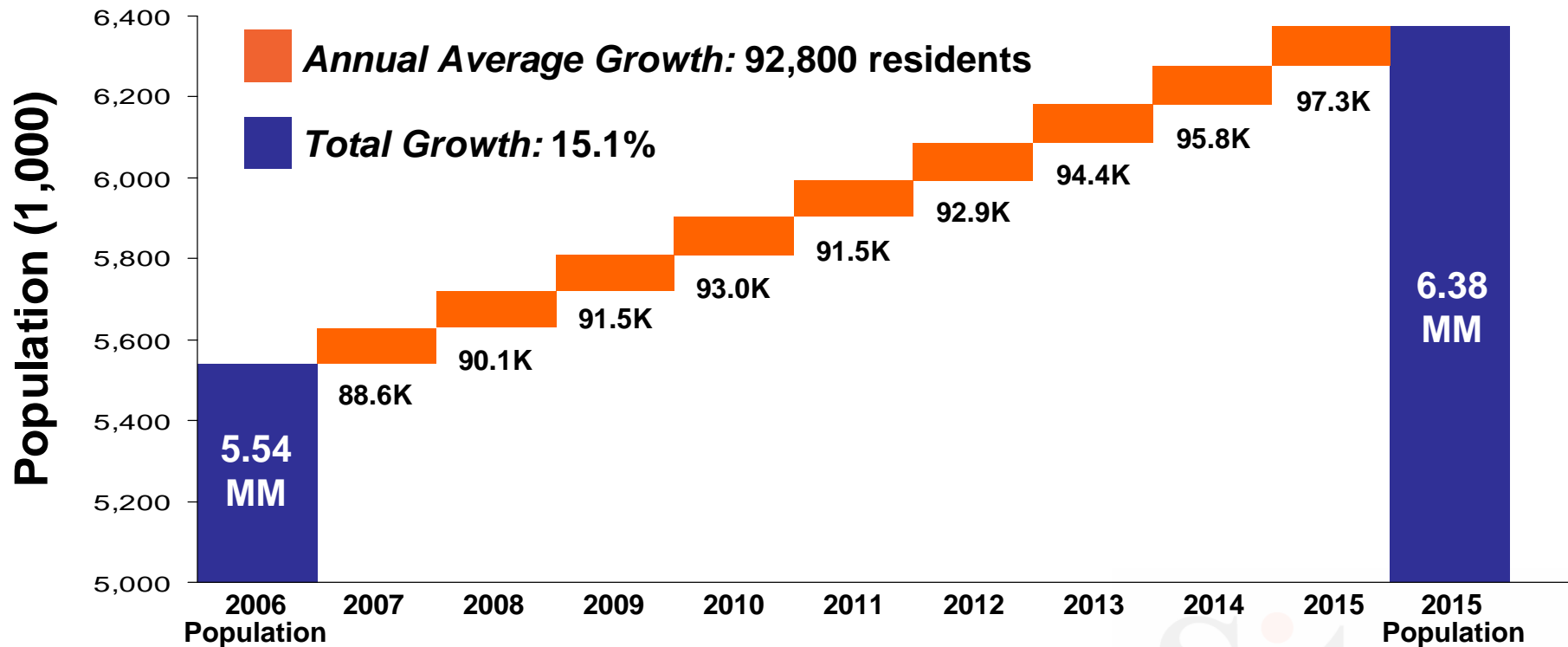
Source: Texas State Data Center (2007)



Houston MSA Projected Residential Population Growth (2006–2015)



Growth is expected to continue with solid population increases forecasted



Source: Texas State Data Center (2007)



Diversification



Energy

- Since 1981, the percentage of local economy tied to energy has dropped from 84% to 48%
-

Texas Medical Center

- Grown to encompass:
 - 73,600 employees
 - 37 million sq. ft. of physical space (including construction)
 - \$2 billion of construction underway
-

Port of Houston

- 10th in the world in total tonnage
- 60 million people live within 700 miles
- Intermodal transportation - ample truck, rail and air connections
- Weak dollar has bolstered exports

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Houston's Glass is Half Full

Key Employment Centers

- World center of oil & gas industry
- World's largest medical center
- One of world's largest ports

Affordability

- Enabled by relatively short land entitlement process
- Key driver of population growth
- Housing affordability is attractive to major employers

Great Place for Business

- Home to second largest number of *Fortune 500* companies
- Taxes are relatively low to other parts of country
- International & domestic relocation destination

Resources

- Proximity to oil & gas wells and refineries
- Access to water
- Texas' electricity grid has limited interconnection with other states

Thank You



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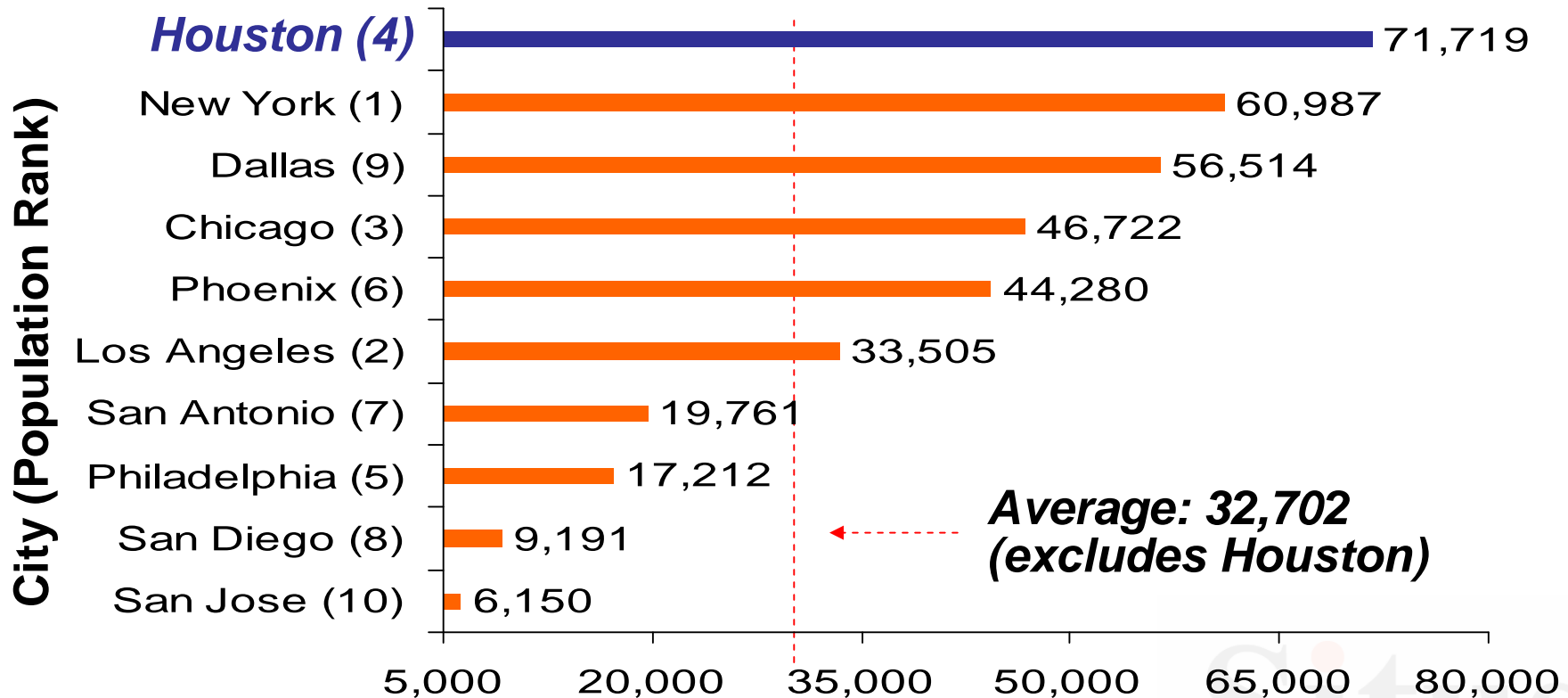


Appendix

Residential Construction Permits for Top 10 US Metro Areas (2006)



In 2006, Houston issued over twice as many construction permits than the average issued by the other top 10 US metro areas



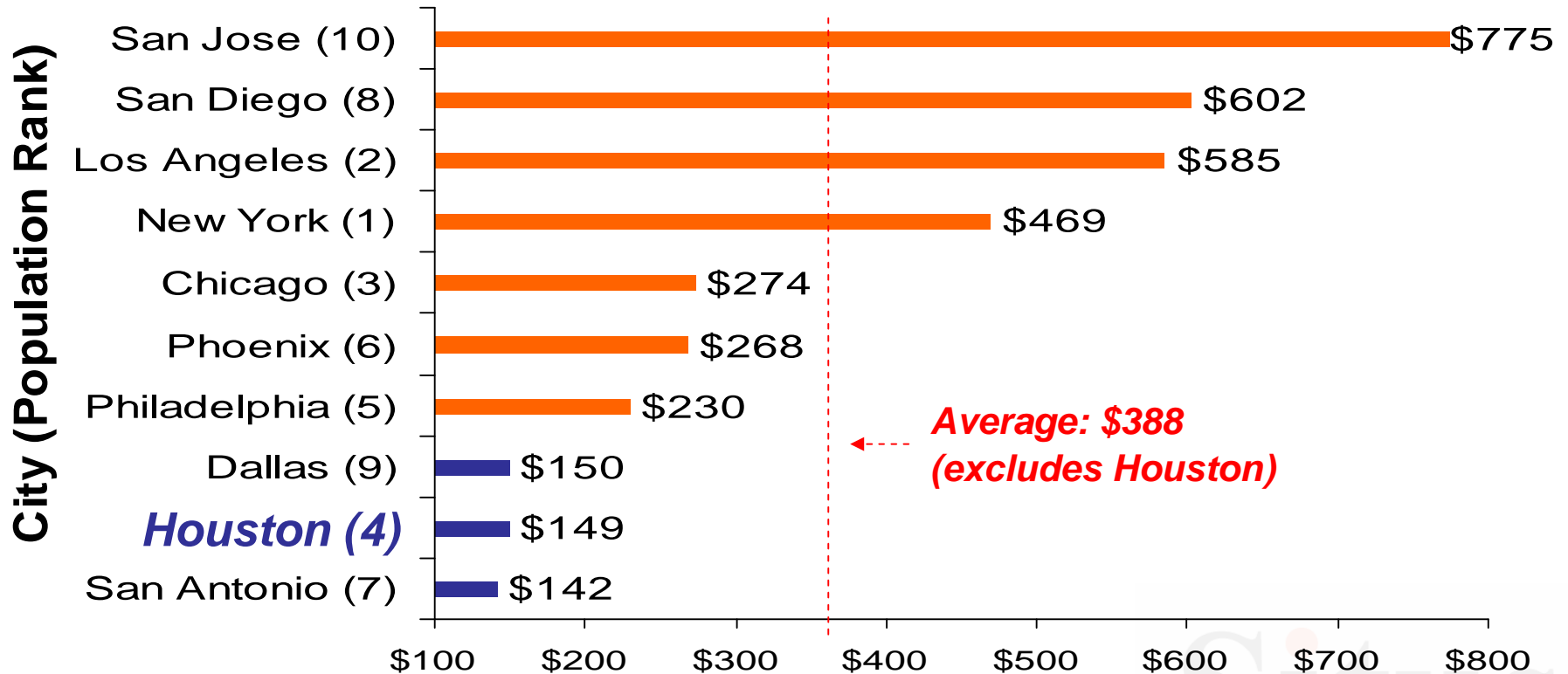
Source: U.S. Census Bureau (2007)



Median Home Prices for Top 10 US Metro Areas (\$1,000)



Median home prices in Houston are less than half of the average median cost for homes in other large US metro areas



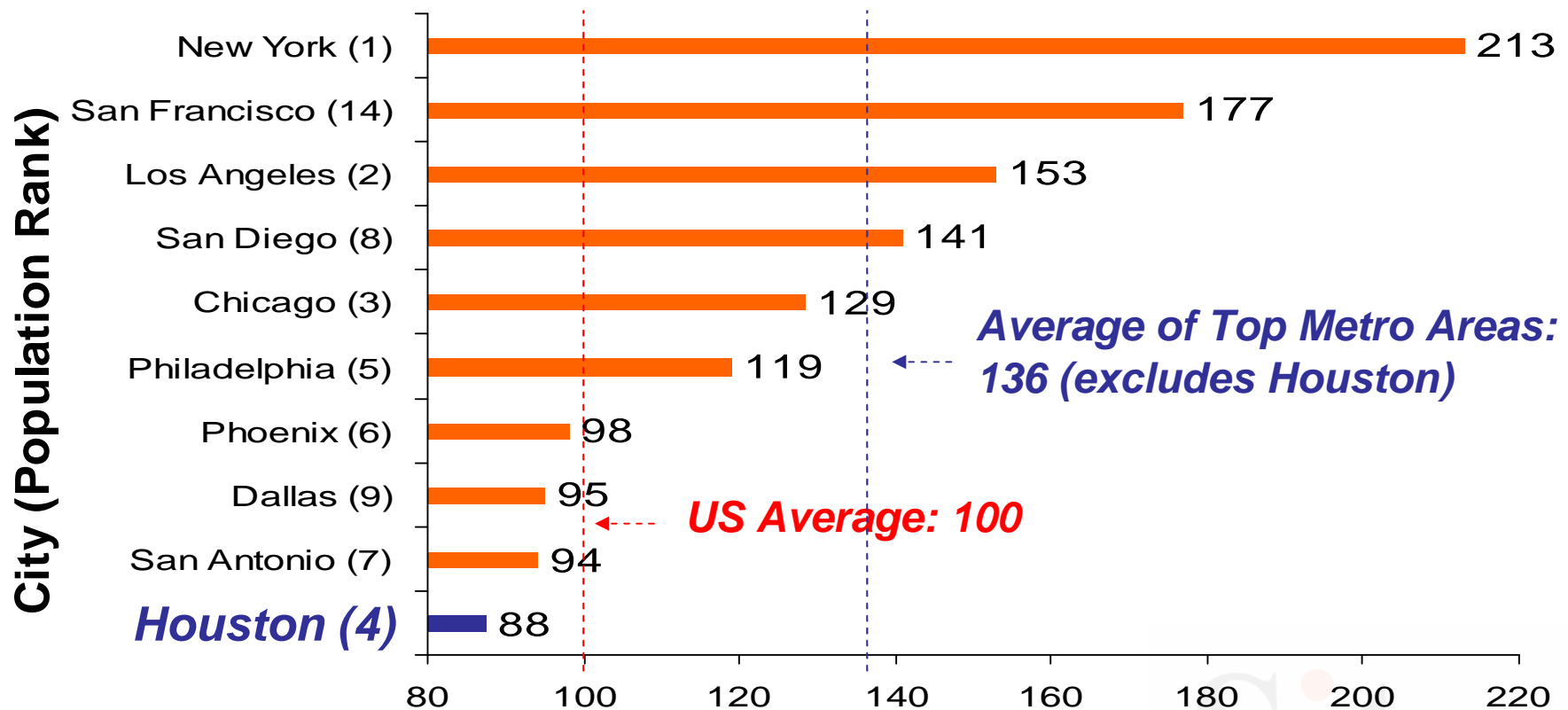
Source: U.S. Census Bureau (2007)



Cost of Living Index for Top US Metro Areas (2005)



Low home prices are a key factor in Houston's favorable Cost of Living Index



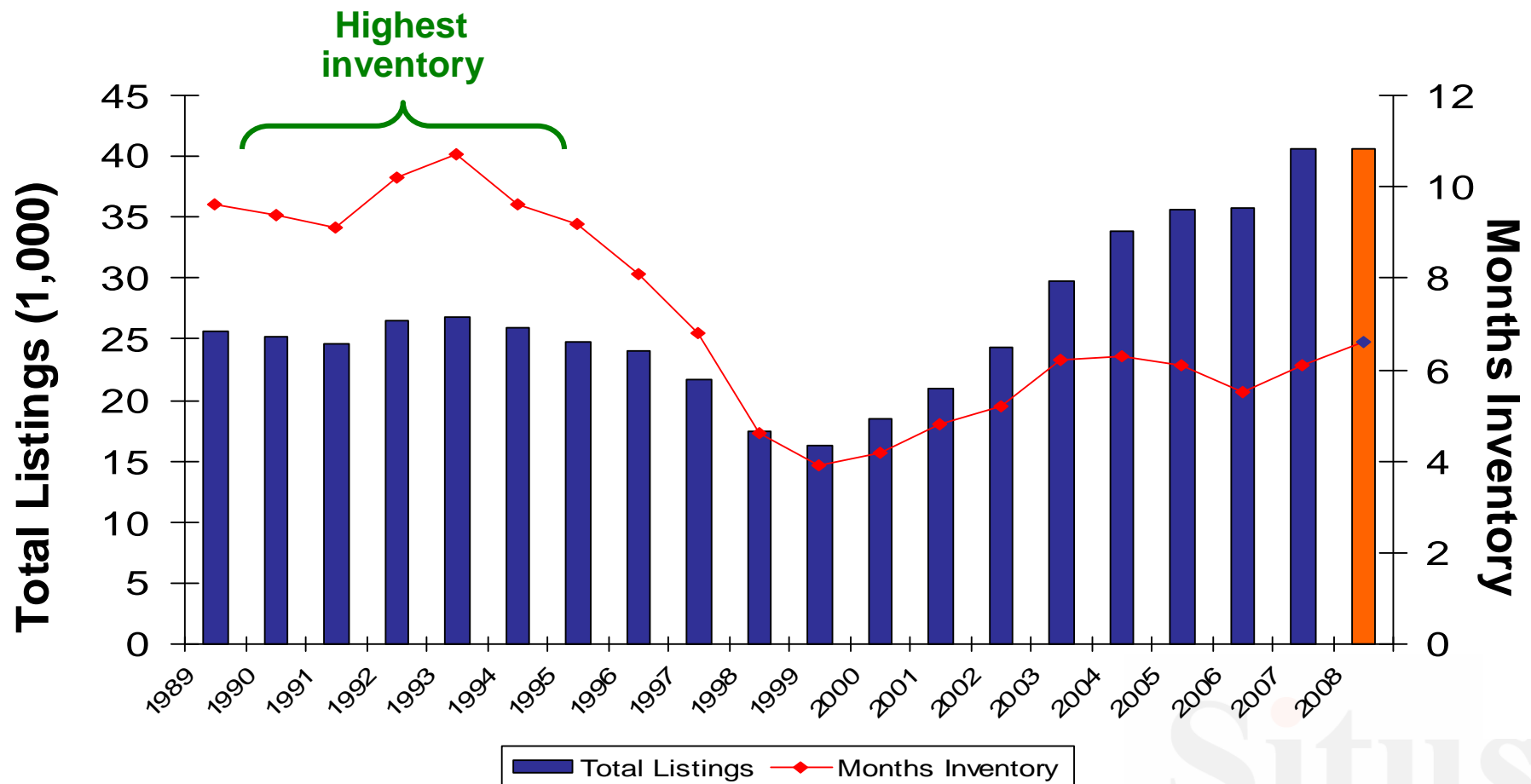
Source: ACCOR (2006)



MLS – Number of Listings & Months Inventory



Housing inventory was at its highest level during the early-1990s



Source: Texas RECenter (2008)

Energy Industry



While Houston’s dependence on energy has decreased since the 1980s, the city’s prospects are still closely tied to the industry’s health

84	In 1981, percentage of local economy tied to energy
48	Today, percentage of local economy that is related to energy
3,000+	Number of energy-related establishments that are located within the Houston MSA, including more than 500 E&P firms and 150 pipeline transportation companies
43	Number of publicly traded oil and gas E&P firms (out of 144 total) with a presence in Houston, including 10 of the top 25
29	Percentage of the nation’s jobs in crude petroleum and natural gas extraction
15	Number of the nation's top 20 natural gas transmission companies with corporate or divisional headquarters in Houston
12	Number of the nation’s top 20 oil pipelines that have corporate or divisional headquarters or ownership interests in Houston



Texas Medical Center



The Texas Medical Center is a hub of activity

5.5 million	Approximate patient visits per year
10,000+	Number of international patients
6,500	Number of beds
10,000+	Number of MDs, PhDs and other doctorates
26,000+	Number of RNs, LVNs, clinical caregivers, technicians, and medical support staff
73,600	Number of employees
13,500	Number of volunteers
108,150	Number of full-time (33,150) and part-time (75,000) students
1,000	Number of acres in the South Main area plus other locations throughout Houston and internationally
46	Collection of hospitals (14), research centers, and medical schools (2) comprising Texas Medical Center
37 million	Number of square feet of existing, under construction, and programmed physical plant space
\$2 billion	Approximate cost of buildings under active construction
52,500+	Number of existing parking spaces and those under construction



Port of Houston



The Port of Houston is ranked tenth in the world in total tonnage, and is growing at a strong pace

- Among U.S. ports, ranked first in foreign waterborne tonnage and second in total tonnage
- During 2007, it had the second highest growth rate among U.S. ports relative to the previous year
- Centrally located on the Gulf Coast, Houston is a strategic gateway for cargo originating in or destined for the U.S. West and Midwest.
 - More than 17 million people live within 300 miles of the city, and approximately 60 million live within 700 miles
- Fuel prices have increased the importance of intermodal transportation
 - Ample truck, rail and air connections allow shippers to economically transport their goods between Houston and inland points
- Houston stands to benefit from the Panama Canal expansion

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