

HOUSTON, TEXAS

COMMERCIAL REAL ESTATE SUMMARY

1ST QUARTER, 2008

REAL ESTATE MARKETS:

(SOURCES: ECONOMY-TEXAS WORKFORCE COMMISSION, HOUSTON ASSOCIATION OF REALTORS, STDBONLINE, RETAIL – CoSTAR FIRST QUARTER 2008 & O'CONNOR & ASSOCIATES, OFFICE - CoSTAR FIRST QUARTER 2008 HOUSTON OFFICE REPORT, INDUSTRIAL – CoSTAR FIRST QUARTER 2008 HOUSTON INDUSTRIAL REPORT, APARTMENTS -APARTMENT DATA SERVICES)

Trailing-12 mo. job growth (Mar. 07 – Mar. 08)	80,100 jobs gained	3.2% growth rate over the past 12 months (vs. 0.4% nationally)
Single-Family Property Sales (Mar. 07 – Mar. 08)	67,273 homes sold	\$1.2 billion worth of property was transacted in the Houston area in the trailing 12 months, which was an decrease of -16.7% from a year ago
YR 2008 Forecast - Greater Houston Partnership	52,000 new jobs	The only factors expected not to post net gains are information and, in the wake of the subprime debacle, real estate and rental and leasing.
YR 2008 Forecast - Univ. of Houston	51,323 new jobs	That is a 2.21% increase and high energy prices are the primary contributor to the increased employment projections among energy sector employers.
YR 2008 Forecast – Federal Reserve Bank of Dallas	85,000 new jobs	This forecast is primarily due to energy prices remaining strong and nonresidential construction continuing to grow.
<i>Key to Houston's job growth is in goods producing industries in aggregate grew 3.9 percent over the previous twelve months. The manufacturing sector increased of 2.6 percent, or 4,300 jobs, the natural resources & mining grew 5.6 percent on an increase of 4,200 jobs and construction expanded by 3,200 jobs, or 4.8 percent, and</i>		

RETAIL

Current Inventory	218,316,123 SF	Includes 7,705 centers
1 st Qtr 2008 Occupancy	91.20%	Houston's retail vacancy rate did not change in the first quarter 2008, ending the quarter at 8.8%.
1 st Qtr 2008 Avg. Rental Rate/Yr	\$16.54/SF	The rental rates are down 0.9% compared to 4Q07 rental rates of \$16.69.
YTD 2008 Absorption	+664,252 SF	1Q08 is down from 4Q07 net absorption of 2,083,111 SF.
1 st Qtr 2008 Under Construction	3,781,638 SF	Apr. '08 pre-leasing for UC is currently 59%. During the first quarter 2008, 24 buildings totaling 837,862 SF were completed in the Houston retail market.
Avg. Household Income 2007 (estimate)	\$80,446	5-Yr projection of Avg. HH Income is \$99,184
<i>Total retail building sales activity in Q407 was up compared to Q307. The market saw 19 retail sales transactions with a total volume of \$190,065,000. The price per square foot averaged \$120.70. That compares to 23 transactions totaling \$182,568,952 in the fourth quarter 2007. The price per square foot averaged \$95.83. Cap rates have been higher in 2007, averaging 7.72% compared to the same period in 2006 when they averaged 7.70%. The top area grocers are: 1. Wal-Mart (50 stores- 28.5% Mkt share), 2. Kroger (101 stores – 25.2% Mkt share), 3. H.E.B. (47 stores – 15.4% Mkt share), 4. Randall's/ Safeway (36 stores – 6.4% Mkt share), 5. Others (24.54% Mkt share). Mkt. Share based on All Commodity Volume- Shelby Publishing Co., Inc.</i>		

OFFICE

Current Inventory	283,936,235 SF	3,946 Buildings; does not include buildings that are planned or under construction
1 st Qtr 2008 Overall Occupancy	88.2%	Includes 1,430,695 SF of sublet space
1 st Qtr 2008 SF Under Construction	9,445,690 SF	Apr. '08 pre-leasing for UC is currently 22%. In 1Q08 there were 10 buildings totaling 1,038,189 SF completed in the Houston market area.
YTD 2008 Absorption	(153,673) SF	That compares to positive 1,030,304 square feet in 4Q07.
1 st Qtr 2008 Avg. Rental Rate	\$23.27/SF	4.8% increase from 4Q07 (\$22.21/SF)
<i>Total office building sales activity in Q407 was down compared to Q307. The market saw 18 office sales transactions with a total volume of \$219,711,700. The price per square foot averaged \$99.49. That compares to 23 transactions totaling \$1,099,813,240 in the third quarter 2007. The price per square foot averaged \$155.82. Cap rates have been lower in 2007, averaging 7.28% compared to the same period in 2006 when they averaged 8.12%. Houston's downtown office market led the nation in rent gains in 2007, according to a survey of the Class "A" office markets by Colliers International. Houston, boosted by solid job growth and health in the energy industry, registered a 52% gain in downtown Class "A" rental rates in 2007, as rents rose from \$23.90 to \$36.42/psf.</i>		

INDUSTRIAL and FLEX

Current Inventory	451,606,308 SF	11,893 buildings; all Ind/Flex including owner-occupied
1 st Qtr 2008 Overall Occupancy	93.6%	Includes sublet space. Up .02% from 4Q07
1 st Qtr 2008 Under Construction	6,717,404 SF	Apr. '08 pre-leasing for UC is currently 20%. In 1Q08 there were 27 buildings totaling 1,447,570 SF completed in the Houston market area
YTD 2008 Absorption	+329,192 SF	4Q07 absorption was 3,038,446 SF
1 st Qtr 2008 Avg. Gross Rental Rate	\$5.47/PSF	This is a 1.4% decrease in rental rates from 4Q07, when rents were reported at \$5.55/PSF
<i>Total industrial building sales in Q407 was up compared to Q307. The market saw 32 industrial transactions closed with a volume of 101,660,000. The 32 buildings totaled 2,378,256 square feet and the average price per square foot equated to \$42.75. Cap rates have been lower in 2007, averaging 8.17%, compared to the twelve months of last year when they averaged 8.252%.</i>		

APARTMENTS

Current Inventory	540,073 Units	In 2,761 projects
Current Occupancy	87.3%	Down 0.1% from Q4 2007
Total Currently Under Construction	19,815 Units	This represents 66 properties
YTD 2008 Absorption	+3,125 Units	This is an increase of 5,482 units from 4Q07
1 st Qtr 2008 Avg. Rental Rate	\$0.805/SF	Up 1.0% from Q4 2007
<i>Class A product demonstrates an 85.5% occupancy rate with average rents of \$1.15 per square foot. Class B product demonstrates an 89.7% occupancy rate with average rents of \$.82 per square foot. Class C product demonstrates an 86.4% occupancy rate with average rents of \$.65 per square foot.</i>		

Houston, Texas Houston MSA Overview 4TH QUARTER 2007



OVERVIEW

Counties:	Harris, Galveston, Brazoria, Ft. Bend, Liberty, Chambers, Waller, Montgomery, Austin, San Jacinto	
Population:	5,620,734	(STDBonline, 2007 estimate)
Labor Force:	2,763,200	(Texas Workforce Commission, March 2008)
3Q07 YTD Total Gross Sales:	\$143,698,037,920	(Texas Comptroller of Public Accounts)
3Q07 YTD Retail Sales:	\$33,051,582,306	(Texas Comptroller of Public Accounts)
Average Household Income:	\$80,446	(STDBonline, 2007 estimate)
Single Family Permits:	34,652 Houses (2,385 issued in Feb)	(RECON, Feb 2008)
Multifamily Permits:	17,606 Units (831 issued in Feb)	(RECON, Feb 2008)

EMPLOYMENT

- Job Growth (Greater Houston Partnership, April 2008)
March 2008 3.2% (+80,100 new jobs)

- Unemployment Rate (Texas Workforce Commission, March 2008)
Current 4.1%
12 Months Ago 4.1%

- Projections (from March 2008) (Institute for Regional Forecasting - University of Houston)
2008 Annual % Change 2.21% or +51,323 employees
2010 Annual % Change 2.99% or +74,193 employees
2020 Annual % Change 1.87% or +54,838 employees

POPULATION

- Current 5,620,734 (STDBonline, 2007 estimate)

- Population Growth
Since 2000 Census 4,715,407 +905,327 or +1.9% (STDBonline)

- Population Projections
2012 Projection 6,265,747 +645,013 or +1.1% (STDBonline)

TOP TEN PRIVATE EMPLOYERS

(Texas A&M Real Estate Center)

<u>EMPLOYER NAME</u>	<u># EMPLOYEES</u>
Wal-Mart Stores	29,554
Administaff	19,851
Continental Airlines	19,661
Exxon Mobil Corp	16,732
Memorial Hermann Healthcare System	16,248
Kroger Co.	12,803
Halliburton	11,868
Shell Oil Company	11,780
The Methodist Hospital System	10,054
Baylor College of Medicine	9,143

ECONOMIC DRIVERS

- Twenty-five companies on the 2008 Fortune 500 list are headquartered in Houston.
- There are 76,452 small businesses (with 100 or fewer employees) in the Houston region. These small businesses employ one in four area workers (574,800) and provide \$20.2 billion in annual payroll, according to *The Greater Houston Partnership*.

ECONOMIC BASE

(Greater Houston Partnership)

- *Upstream energy* (oil and gas exploration and production, oilfield equipment manufacturing, pipeline transportation) 33.9% of economic base – up 6.0%.
- Today, upstream sectors represent about a third of Houston's economic base jobs, versus more than half in the mid-'80s recession.
- *Downstream energy* (refining, chemicals manufacturing) 15.5% of economic base – up 2.1%.
- *Diversifying energy-independent sectors*, which were less than a quarter of base employment in '86, topped the 50 percent mark in late '99. Since '86, the energy-independent portion of Houston's economic base has grown at a compound annual rate of 6.9 percent.
- Diversifying sectors account for 83% of net job growth in the base since 1986.

DIVERSITY

(Greater Houston Partnership)

- Substantial structural alteration in Houston's economy over the past 25 years has reduced Houston's vulnerability to downturns in upstream energy, which nonetheless continues to influence Houston far more than it does the nation as a whole.
- Houston ranks second among metro areas (MSAs and CMSAs) in the number of Fortune 500 headquarters at, behind New York (43), and ahead of Dallas-Fort Worth (12), Chicago (12) and Atlanta (9).
- Of the world's 100 largest non-U.S.-based corporations, more than half have operations in Houston.
- Nineteen 2007 Fortune 100 Fastest growing companies area headquartered in Houston.
- According to the *Houston Chronicle* dated 11/21/07, HOUSTON — The Texas Medical Center is in the midst of the largest amount of construction in its history, with planned projects through 2014 totaling more than \$7 billion. The current work force of 73,000 is expected to increase by more than 30,000 by 2014. There is more construction going on at the medical center than the rest of Houston combined, with about 60 percent of the construction cranes in the city at the world-renown facility.

EXPORTS

(Greater Houston Partnership)

- Houston is the fourteenth largest port in the world; first in the nation in terms of volume of foreign waterborne tonnage and second in total tonnage.
- Approximately 215 million tons of cargo moved through the Port of Houston in 2006.
- According to the *Houston Chronicle* dated 1/24/08, Exports rise 28% as city keeps No. 2 rank Houston's exports jumped 28 percent to \$53.3 billion in 2006.

Current Trends

- The Houston Association of Realtors®' Multiple Listing Service recorded 6,098 closings in March 2008, -17.27% from March 07. The median price of a single-family home was \$151,000, and the average single-family home price came in at \$208,105, changing from last year of 2% and 0%, respectively.
- The Houston Airport System passed a noteworthy landmark in February as its 12-month total passenger volume surpassed 52 million. That's more than the combined populations of the five Pacific states and Nevada.
- Hotel occupancy in Houston averaged 68.1 percent in '07, little changed from 68.5 percent in '06, according to data published by PKF Consulting. Five of the 13 Houston submarkets averaged occupancy greater than 70 percent last year, when 902 rooms were added to inventory, putting the total at 67,926.

- Just behind Dallas and Atlanta, Houston is the No. 3 in projected growth of the number of area millionaires. The Houston area is home to 58,569 millionaire households, according to the data from market research firm Claritas Inc., according to the *Houston Business Journal* 7/13/07
- The ACCRA Cost of Living Index shows that Houston's overall after-taxes living costs are 13% below the nationwide average, largely due to housing costs that are 26% below the average, and 23% lower grocery costs as of the third quarter 2007.
- The U.S. Census Bureau has listed the top 100 fastest growing counties in the United States (based on population growth from July 1, 2004 to July 1, 2005) and two Houston area counties have made the list. During that time frame, Fort Bend County grew 4.8%, which ranked 47th on the national list. Fort Bend County, southwest of Houston, includes the City of Sugar Land, Missouri City, and Richardson. Montgomery County grew 4.4%, which ranked 63rd. Montgomery County, just north of Houston, includes The Woodlands and Conroe.
- The Houston Airport System served a record 52 million passengers in 12 months trailing February 2008; air passenger volume is estimated to be 80 million by 2020. Air passenger volume was up a solid 5.0 percent from February '07, with gains of 4.0 percent in domestic and 10.7 percent in international passenger volumes. The robust February performance (which received a minor boost from the leap year day) put total passengers for the first two months of the year at 8.0 million, up 3.2 percent from the same period last year. February also brought gains of 5.8 percent in the number of landings and takeoffs (which generates fees) and 9.0 percent in air freight.
- Capital spending budgets by major energy companies – 2008

Chevron	\$22.9 Billion (+ 16.8%, \$17.5B-Upstream & \$4.1B-Downstream)
Conoco Phillips	\$14.3 Billion (+16.3%)
Royal Dutch Shell	\$24-\$25 Billion (+14.3%)
Exxon Mobil	\$25 Billion (+19.1%)
BP	\$21-\$22 Billion (+40%)

These increases are predominantly in the upstream (research, exploration and development) areas, which translate into increased office employment and positive demand for office space, as well as higher paying jobs that impact the retail, residential and multifamily markets.

- Houston was ranked fifth best cities for relocating singles and ranked in the top 25 for best cities for relocating families according to Worldwide ERC.
- Houston was named in the South's Ten Top Headquarters Relocation Markets by SB&D.
- *Wall Street Journal* notes that Houston is leading the pack when it comes to the search for alternative energy sources.
- The Port of Houston should enjoy rapid growth in coming years with the opening of the Bayport container terminal. Houston City Council member Carol Alvarado noted that the \$1.4 billion terminal is expected to create 32,000 jobs when it's complete, which is expected to take 15 to 20 years.
- Primary Market Rankings
 - #2 by Grubb & Ellis / Top US Office Market 2008-2012
 - #2 by Grubb & Ellis / Top US Industrial Market 2008-2012
 - #5 by Grubb & Ellis / Top US Retail Market 2008-2012
- Houston is now the nation's sixth largest metropolitan area which gained 187,380 residents between July 1, 2005 and July 1, 2006, edging past Miami into the sixth rank among the nation's MSA's.
- Three suburban counties grew faster than Harris County: Fort. Bend, up 5.8 percent; Montgomery, up 5.1%; and Brazoria, up 3.6 percent. Among the 247 U.S. counties with populations exceeding 250,000, Fort Bend and Montgomery respectively had the sixth and ninth highest growth rates between 2000 and 2006.
- According to an article in the *Houston Chronicle* dated June 28, 2007, Texas tops nation's population growth. Six Texas cities were in the top 25 in the U.S., and three, including Houston, were in the top10, with San Antonio the seventh-largest and Dallas the ninth. "What you're seeing is verification that, numerically, Texas continues to be the fastest-growing state in the nation," said state demographer Steve Murdock, whom President Bush has nominated to be Census Bureau Director. As of July, 1 2006, Texas edged out California as the state with the largest population growth, gaining

2.7 million people since 2000 while California gained 2.6 million. In that time period, Texas grew at a 12.7 percent rate, compared with California's 8 percent.

- According to the *Dallas Business Journal* dated June 6, 2007, Houston, along with Phoenix, Dallas, Atlanta and Charlotte, offer America's most compelling model for urban greatness according to a study released this week. The study, "Opportunity Urbanism: An Emerging Paradigm For the 21st Century," finds that these cities, more than any others, will be successful because they are approaching the future with a mind to providing broad-based opportunities for the masses rather than simply catering to the elite.
- On behalf of Greystar, they have carefully surveyed their 22,000 unit, seventy-three (73) property Houston portfolio regarding reasons residents gave for move out from April 1, 2006, through August 1, 2006 compared to the move out reports for the same period in 2007. Their findings were as follows:
 - Class "A" communities: Number of residents moving out due to home purchase decreased by 18%
 - Class "B" communities: Number of residents moving out due to home purchase decreased by 15%
 - Class "C" communities: Number of residents moving out due to home purchase decreased by 20

Greystar is also noting that each of their properties, particularly those in suburban locations, have several residents per month coming back to apartments due to foreclosures.

- According to the *Greater Houston Partnership* dated January 2008, Upstream Energy Outlook Bright Baker Hughes' counts of active domestic and international rigs are both a bit more than 5 percent above year-earlier levels, but that figure doesn't begin to convey what upstream industries especially energy exploration and production and oilfield services are contributing to the Houston economy. Drilling increasingly employs sophisticated technology and techniques, ramping up demand for oil and gas field support services an industry that saw employment in Houston grow roughly 12 percent in '06 and another 10 percent in '07. E&P managed job growth exceeding 7 percent in both years. These two industries are Houston's most highly compensated, and their extraordinarily rapid job growth has made a major contribution to gains in Houston metro area total personal income, which increased 9 percent in '06 well above what would have been needed to keep pace with the combined effects of population growth and inflation.

Last year's sharp rise in oil prices clearly was a contributor to the health of the local economy, and the odds are good that '08 will be another year when Houston benefits from high energy prices to an extent that no other metropolitan area will. In its December *Short-Term Energy Outlook*, the Energy Information Administration forecasts that West Texas Intermediate, the benchmark U.S. light crude oil, will average \$84.83/bbl this year, up 17.7 percent from \$72.05 in '07. While prices above \$80 throughout this year represent a steep rise from last year's average, they're well below the peak of \$99.16 reached on November 20.

Even in Houston, where high oil prices are usually a plus for the overall economy, not everyone will benefit. EIA anticipates that average retail prices for gasoline nationwide will peak above \$3.40 per gallon this spring and average \$3.11 for the year—a 10.7 percent increase on the heels of 9.0 percent last year.

- According to the *Houston Chronicle* dated 1/11/08, HOUSTON — *Houston manufacturing jobs outpace rest of state, country.* Manufacturing jobs nationwide have been on a downward track since 1990, while such jobs in Houston have been going the opposite direction -- up.

Data compiled by the Greater Houston Partnership from 1990 through November 2007 shows that Houston has nearly 13 percent more manufacturing jobs than it did in 1990, while the nation lost about 22 percent of those jobs during that time.

- According to the *Greater Houston Partnership*, Between January '07 and January '08, the Houston-Sugar Land-Baytown Metropolitan Statistical Area gained more jobs than any other U.S. metropolitan area and

added jobs at a faster rate than any other major metropolitan area, according to estimates published today by the U.S. Bureau of Labor Statistics.

Houston accounted for more than 10 percent of the nation's net job growth over that period. Texas' four major metropolitan areas--Houston, Dallas-Fort Worth, San Antonio and Austin--together accounted for nearly 25 percent of the nation's job growth.

- Below is the Houston Snapshot and Forecast from the *Houston Chronicle* dated 4/27/08 –*The Quarterly*
 - Oil Prices – The first quarter of \$100+ oil likely won't be the last at \$101.58 in the 1Q08.
 - Natural Gas Prices – The seasonal winter price spike was unusually large at \$10.101 in the 1Q08.
 - Homebuilding – Revised fourth-quarter numbers confirm a slowdown with 7,041 starts in the 4Q08.
 - Office Market – Vacancy rates have stayed below 13% for a year at 12.6% in 1Q08.
 - Office Rents – Rates continue to show consistent growth trend.
 - Auto Sales – Fewer cars and trucks rolled off the lots compared with a year ago with 86,348 auto sales in 1Q08.
 - Job Growth – Hiring has slowed, but growth is still strong at 80,100 in the trailing twelve months from March '07 to '08.
 - Unemployment – The area rate has stayed in a narrow range displaying a rate of 4.1% in March.
 - Home Sales – Year-over-year sales have been down seven straight months with 5,113 sales in March.
 - Home Prices – After strong growth, the median home price is stable as \$150,000 in March.
 - Apartments – Occupancy rates stay rock solid at 87.3% in March.
 - Apartment Demand – Renters are increasingly filling Houston-area units with a change of 1,932 units leased in March.
 - Apartment Rents – Average lease rates are teetering on the \$700 mark with an average monthly rent of \$693 in March.
 - Hotel Room Rates – Innkeepers are raising prices on area accommodations with average ADR at \$125.66 in February.
 - Hotel Occupancy – Business at hotels has been seasonally steady with occupancy rates at 71.3% in February.
 - Retail Sales – Area stores have seen year-over-year sales growth with \$20.2B in retail trade in the Houston area in 3Q07.
 - Airport Traffic – Business at the airport was relatively normal with 4.62 million passengers traveling through Bush & Hobby each month as of March.
 - Airline Income – Continental Airlines had a solid 2007.