

## HOUSTON METRO SNAPSHOT AT YEAR-END 2008

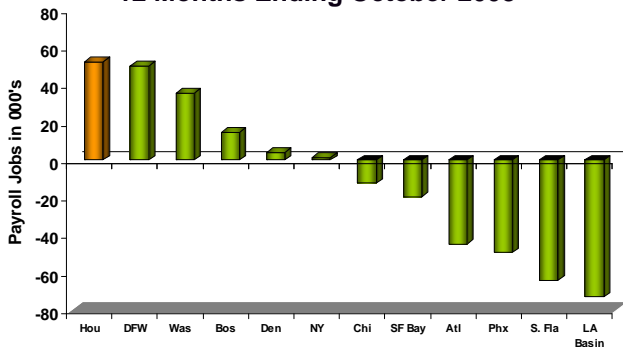
### Economy: Among the Nation's Best

- 12-month payroll job growth through October: 52,300.
- Unemployment rate: 5.4% in October. National unemployment rate in October: 6.5%.
- Energy, Construction, and Trade sectors continue to drive growth, though energy prices have declined.

### Office Market: Slowing Down

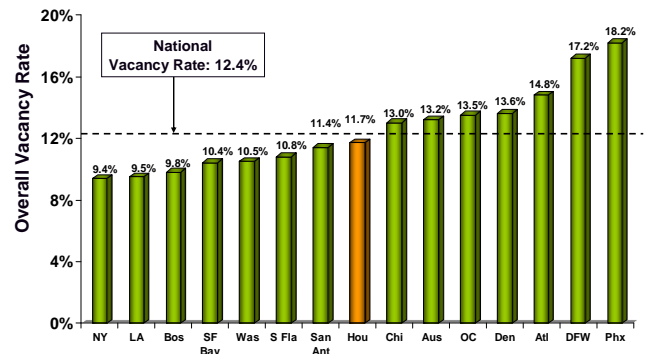
- Net absorption: 1.2 million SF in the 4<sup>th</sup> quarter; 3.2 million SF in all of 2008.
- Overall vacancy rate: 11.7%, up from 11.4% in the 3<sup>rd</sup> quarter and 10.9% a year ago.
- Rents: Growth eases.

**Payroll Job Growth  
Large Metro Areas  
12 Months Ending October 2008**



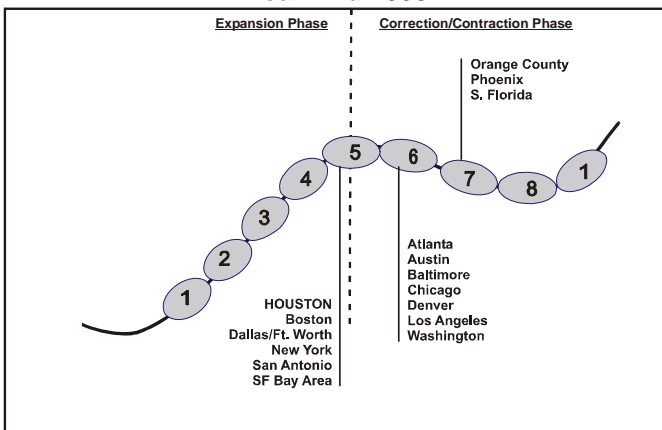
Source: Bureau of Labor Statistics, Delta Associates; December 2008.

**Office Vacancy Rates  
Selected Metro Areas  
Year-End 2008**



Source: CoStar, Delta Associates; December 2008.

**Office Market Position Index  
Year-End 2008**



Source: Delta Associates; December 2008.

Metro Houston's office market momentum is slowing, and landlord conditions are weakening, suggesting the following strategies:

- **Tenants:** Renew in place; defer major move/expansion until new product delivers, if possible.
- **Developers:** Still-low vacancy creates favorable conditions, but developers should watch costs. Enter selectively as vacancy rises.
- **Investors:** Investors should selectively pursue quality buildings with an eye toward the long term.

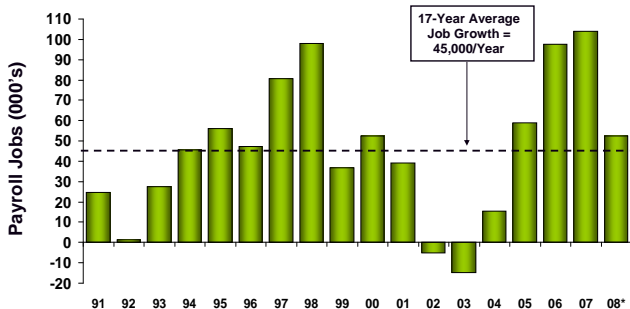
## THE HOUSTON METRO ECONOMY

### A National Leader

Total payroll employment grew by 52,300 jobs in Houston – a 2.0% rate of growth – for the 12 months ending October 2008. This exceeds Houston’s long-term average employment growth of 45,000 jobs.

The Houston metro unemployment rate was 5.4% in October 2008, up from 4.0% a year ago but still well below the cyclical high of 7.6% in the summer of 2003. In comparison, the national unemployment rate was 6.5% in October, up from 5.7% one year earlier.

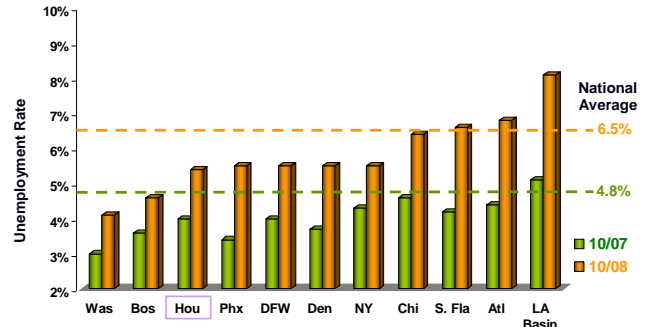
### Payroll Job Growth Houston Metro 1991 Through October 2008



Source: BLS, Delta Associates; December 2008.

\*12 months ending in October 2008.

### Unemployment Rates Large Metro Areas October 2007 vs. October 2008



Source: Bureau of Labor Statistics; December 2008.

Metro Houston's core industries continue to demonstrate strong fundamentals. Energy demand, manufacturing output, and trade volume all remain sturdy despite a national economic slowdown. During the 2<sup>nd</sup> half of 2008, energy demand and oil prices retreated from their recent peaks. Houston's medical sector continues its swift expansion with new clinics, research facilities, and jobs. While the medical/educational sector represents 4% of Houston's economic output, we expect this sector's share of the GRP will grow significantly in the coming 24 months.

### Core Industries Houston MSA 2007

Core Industries	\$(Bil)	% GRP
Energy	\$71	27%
Financial, Professional, Tech	\$36	13%
Construction	\$23	8%
Federal & State Government	\$21	8%
Manufacturing	\$17	7%
Medical/Educational	\$11	4%
Trade/Transportation	\$11	4%
Total Core Industries:	\$190	71%
Other	\$76	29%
<b>Total GRP:</b>	<b>\$266</b>	<b>100%</b>

Note: Subcomponents of core industries were redefined in June 2007.  
Source: GMU Center for Regional Analysis, Delta Associates; December 2008.

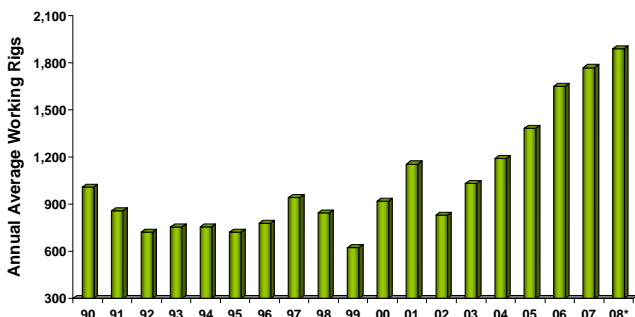
GRP = Gross Regional Product

The **Energy** sector continues to add jobs at a healthy rate. Houston's employment in the Natural Resources sector grew by 6,400 jobs in the 12 months ending October 2008, a 7.4% increase. After passing 2,000 earlier this year, the U.S. rotary rig count has fallen back to 1,852 in early December, about 1% more than the 1,828 rigs a year ago. The price of crude oil peaked at \$147 per barrel in July 2008, pushing the national average price for a gallon of regular gas to \$4.11, according to the U.S. Energy Information Administration. Gasoline prices have fallen dramatically since then, however, and oil fell below \$45 per barrel in November for the first time since 2005. Weaker demand and the economic slowdown appear to be trumping supply-side concerns, including OPEC's recent moves to cut production.

Rice Village after being unable to secure financing for two years.

Houston's **Manufacturing** sector added 200 jobs in the 12 months ending October 2008. The Houston Purchasing Managers Index, a short-term leading indicator of production, fell sharply from 60.6 in June 2008 to 49.0 for the month of November. The index dipped below the contraction threshold of 50, indicating some weakness in the local manufacturing industry due to a national manufacturing slowdown and unbalanced wage differentials compared to overseas manufacturers.

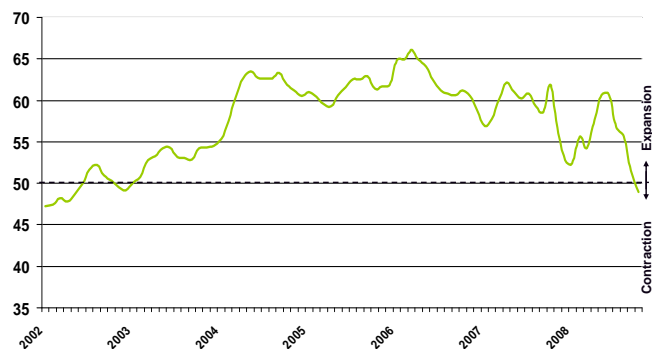
**U.S. Rotary Rig Count  
1990 Through December 2008**



Source: Baker Hughes, Inc.; December 2008.

\*YTD average as of 12/5/08.

**Houston Purchasing Managers Index  
2002 Through November 2008**



Source: ISM - Houston; December 2008.

The **Construction** sector gained 5,100 jobs over the 12-month period ending in October – a 2.6% increase. Construction workers remain in demand for projects that are already underway or that had financing commitments before the economic downturn and the credit market crisis. According to the *Houston Business Journal*, GID Urban Development plans to start construction in early 2009 on its Regent Square project on Allen Parkway, which will have 225,000 SF of retail space, 150,000 SF of office space, and 635 apartments. Other developers have canceled or scaled back many projects, however. For example, Lamesa Properties and Randall Davis recently canceled their Sonoma mixed-use project in

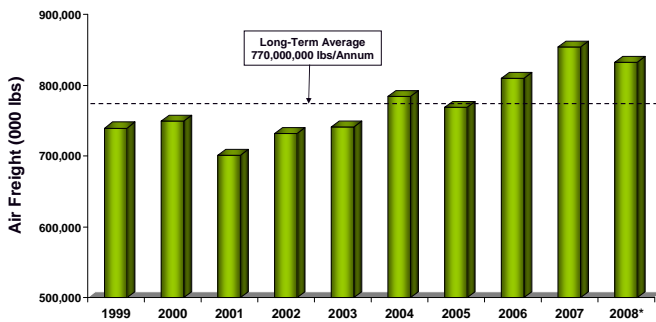
The **Health/Education** sector continues to fuel job growth in Houston, as it added 7,400 jobs – a 2.6% increase – in the 12 months ending October 2008. Hospital officials in the Houston area are cautiously optimistic that tight conditions in the financial markets will not affect their construction projects and technology acquisitions. The *Houston Business Journal* reports that St. Luke's Hospital System plans to continue building hospitals in suburban Houston, and Baylor College of Medicine recently began construction on a new hospital in Texas Medical Center.

The **Trade** sector in Houston is expanding, but at a slower pace, as Trade/Transportation/Utilities grew by 8,300 jobs, or 1.6%, over the 12 months ending October 2008. Air freight traffic at Houston's airports peaked in 2007 at 854 million pounds, and the 2008 volume is only slightly off that high. This level of activity is attracting

related development, such as the 60,000 SF building that is under construction for Aries Freight Systems near Bush Intercontinental Airport. The *Houston Business Journal* reports that the company will locate its headquarters there, along with its freight forwarding, transportation, export packaging, and bonded warehousing operations.

remain strong, growth is decelerating along with the national economic slowdown. Through 2010, we project that job growth will average 25,000 per year (including the finalized figure for 2008), below the long-term average. Even at that rate of growth, Houston would be among the nation's top performers.

### Houston Airport System Air Freight 1999 Through October 2008



Source: Houston Airport System; December 2008.

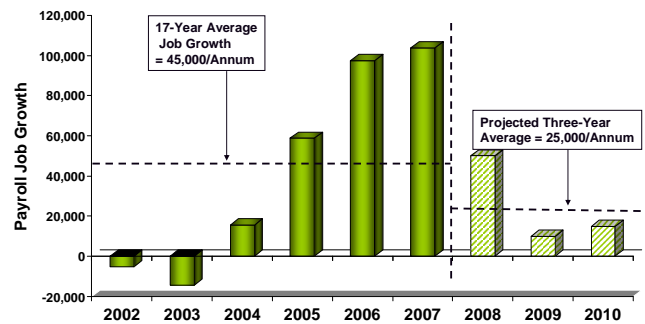
\* YTD annualized.

Houston's **Residential Real Estate** market is now showing signs that national economic conditions are having a negative impact as in other major cities across the nation. Sales of single-family homes in Houston numbered 4,962 units in October 2008, 22% less than the same month last year. In addition, the market has seen some erosion in single-family home prices. The average price of a single-family home was \$194,607 in October 2008, a 1.6% decrease from \$197,751 one year earlier.

### THE HOUSTON METRO AREA ECONOMIC OUTLOOK

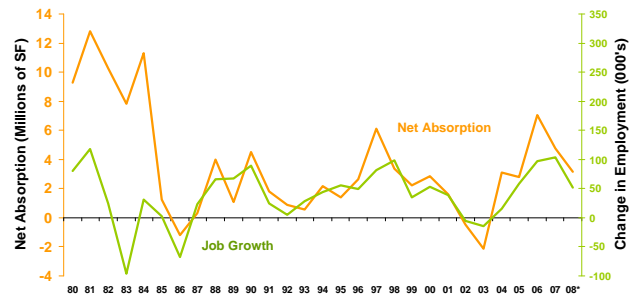
The Houston economy gained 52,300 jobs in the 12 months that ended in October 2008. The region's predominant core industries recorded employment growth from one year earlier, although at a slower pace than in the 1<sup>st</sup> half of the year. Houston's unemployment rate rose to 5.4% in October 2008, but it is still the third-lowest among large U.S. cities. While regional conditions

### Job Forecast Houston Metro Area 2008 Through 2010



Source: BLS, Delta Associates; December 2008.

### Office Absorption and Employment Houston Metro Area 1980 Through 2008



Source: BLS, Delta Associates; December 2008.

\*12-month job growth ending Oct. 2008.

## THE HOUSTON METRO OFFICE MARKET

### Office Market Growth Slowing

The Houston office market grew in the 4<sup>th</sup> quarter of 2008, but the overall vacancy rate edged up to 11.7%. This reflects the delivery of 2.1 million SF of new space during the quarter, tempered by slower job growth and concerns about the future performance of the energy sector, Houston's largest core industry. Rent growth has decelerated, and the construction pipeline fell to 10.2 million SF, a 6% decrease from the previous quarter. Investment sales volume was sluggish.

### Net Absorption: Higher

Net absorption of all classes of office space in the Houston Metro area rose in the 4<sup>th</sup> quarter of 2008, totaling 1.2 million SF. However, this figure was buoyed by deliveries of preleased space, which accounted for about 1 million SF of net absorption. Total net absorption for 2008 is 3.2 million SF, about 500,000 SF below the long-term average annual absorption of 3.7 million SF.

Notable leases include: Aetna took 52,000 SF at 3 Sugar Creek Blvd. in the E. Fort Bend County / Sugar Land submarket; Foxconn Technology Group leased 40,000 SF at 20455-20475 Hwy. 249 in the FM 1960/Hwy 249 submarket; and Silver Express renewed 35,000 SF at Regency Square Office Park in the Southwest/Hillcroft submarket.

### Net Absorption in Selected Areas:

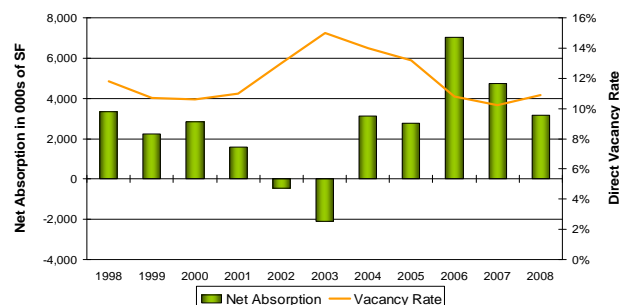
	<b>Q4 '08</b>
• Katy Fwy / Energy Corr.	528,000 SF
• FM 1960	346,000 SF
• Downtown	284,000 SF
• Gulf Fwy / Pasadena	(54,000) SF
• Northwest	(135,000) SF

### Class A and B net absorption:

	<b>Q4 '08</b>
• Class A	1,066,000 SF
• Class B	157,000 SF

Available sublease space rose to 1.9 million SF in the Houston metro area during the 4<sup>th</sup> quarter of 2008 – an increase of 242,000 SF – and represents 0.8% of the standing inventory.

### Net Absorption of Office Space and Direct Vacancy Rate Trends Houston Metro 1998 Through 2008



Note: Delivery of pre-leased space counts as positive net absorption.  
Source: Vacancy – Delta Associates' analysis of CoStar data;  
Net Absorption - Delta Associates; December 2008.

### Vacancy Rises

The overall office vacancy rate in the Houston metro rose to 11.7% at year-end 2008 from 11.4% in the 3<sup>rd</sup> quarter and 10.9% a year ago. The direct vacancy rate is 10.9%, up from 10.7% in the 3<sup>rd</sup> quarter and 10.2% a year ago.

The overall Class A vacancy rate increased to 9.8% from 9.4% in the 3<sup>rd</sup> quarter and 8.3% one year ago. The direct Class A vacancy rate is 8.7%.

Overall year-end 2008 vacancy rates for all classes in selected areas:

• Katy Fwy./Energy Corridor	6.2%
• Kingwood / Humble	6.5%
• West Loop	8.5%
• Woodlands/Conroe	8.5%
• Downtown	10.0%
• FM 1960	32.3%

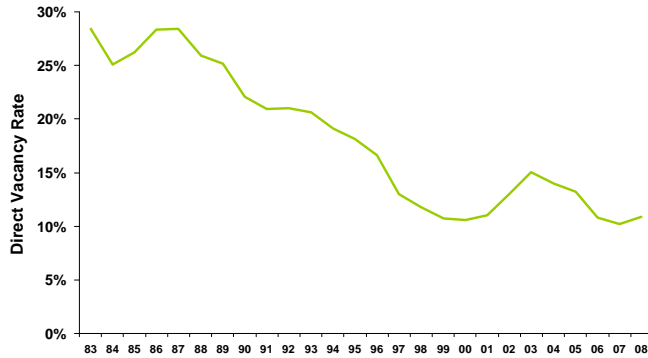
We expect the overall office vacancy rate (including sublet space) to rise to the mid-14% range in the next 24

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months, as construction activity outpaces falling demand for office space.

3.8 million SF in all of 2007. Space delivered in 2008 was 55% leased upon delivery.

**Office Vacancy Rate  
Houston Metro Area  
1983 Through 2008**

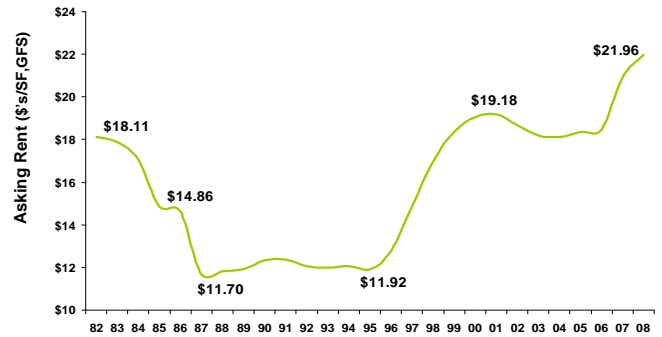


Source: CoStar, Delta Associates; December 2008.

**Office Rents: Growth Continues to Recede**

Houston office rent growth has eased in the second half of 2008 as demand has fallen in most submarkets. Class A office rents rose by a rate of 5.8% in 2008, while Class B rents rose by 2.1%. Asking rents averaged \$26.96/SF, full service, for Class A buildings and \$18.76/SF, full service, for Class B buildings. These are metro-wide averages; buildings in more desirable submarkets command higher rental rates.

**Average Office Rents  
Houston Metro Area  
1982 Through 2008  
(All Classes of Space)**



Source: Delta Associates' analysis of CoStar data; December 2008.

**Office Construction & Pre-Leasing Down**

There is 10.2 million SF of office space under construction or renovation in the Houston metro area at year-end 2008, down from 10.8 million SF in the 3<sup>rd</sup> quarter but well above the 6.5 million SF under construction a year ago. Space under construction is 23% pre-leased, on par with 22% in the 3<sup>rd</sup> quarter but down from 31% a year ago. No speculative construction is starting at this time.

Though the local economy is essentially sound, office rent growth in Houston has decelerated as the market slows, a result of volatility in the national economy and energy prices in particular. The Woodlands/Conroe and Katy Freeway/Energy Corridor submarkets are in the best position to maintain rent growth in 2009 because of their low vacancy rates, but the substantial construction pipeline in the Katy Freeway/Energy Corridor may yield downward pressure on rents.

Office Space Under Construction or Renovation Houston Metro Area Year-End 2008		
Submarket	SF	% Pre-leased
Katy Fwy/Energy Corr.	2,761,429	31.7%
Downtown	1,895,746	6.9%
Northwest	1,280,766	21.0%
FM 1960	836,961	24.5%
Westchase	693,342	3.7%
SW Fwy/Sugarland	590,307	55.5%
Balance of Houston	2,121,199	21.9%
<b>Total</b>	<b>10,179,750</b>	<b>22.6%</b>

Source: Delta Associates' analysis of CoStar data; Dec. 2008.

**Investment Sales Activity Down; Prices Up**

Office investment sales totaled \$1.4 billion in metro Houston during 2008, down from the \$2.3 billion in 2007. Notable 4<sup>th</sup> quarter transactions include the Behringer Harvard purchase of 2000 W. Sam Houston Pkwy.

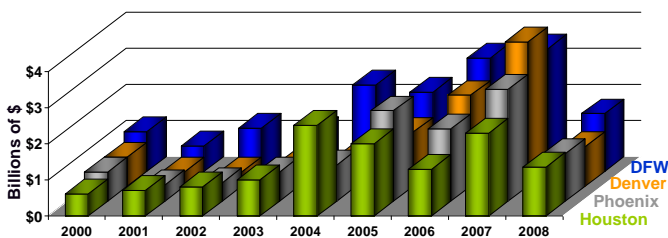
Office deliveries (including renovations) totaled 5.3 million SF in metro Houston during 2008, compared to

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(\$266/SF) in the Westchase submarket and the Donerail Corp. purchase of Two Riverway (\$145/SF) in the Riverway submarket.

Sales prices averaged \$168/SF during 2008, compared to \$148/SF in 2007. Average sales prices set a record high in metro Houston in 2008.

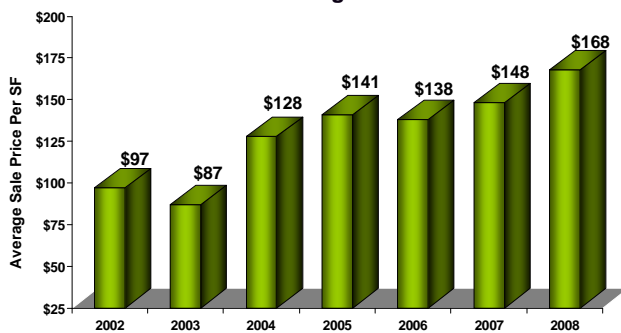
**Comparative Investment Sales Volume**  
Office Product  
2000 – 2008



Source: Real Capital Analytics, Delta Associates; December 2008.

Like many other markets, Houston's investment sales are expected to remain slow through 2009, though there is a lot of equity on the sidelines waiting for conditions to be conducive for investing.

**Average Office Sale Price**  
Houston Metro  
2002 Through 2008



Source: Real Capital Analytics, Delta Associates; December 2008.

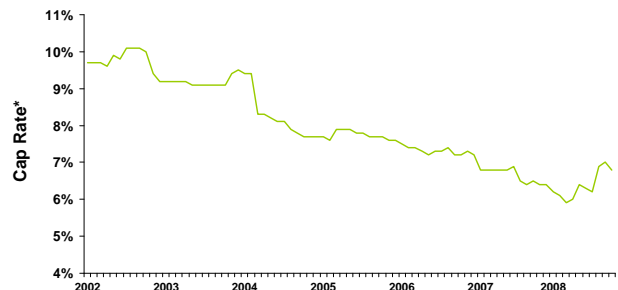
### Selected 4<sup>th</sup> Quarter 2008 Office Sales:

Property/Submarket	Sale Price/Buyer
2000 W. Sam Houston Pky. Westchase	\$133.6 million (\$266/SF) Behringer Harvard
Two Riverway Riverway	\$53.7 million (\$145/SF) Donerail Corp.
Oak Park Office Center III Westchase	\$32.0 million (\$212/SF) Grubb & Ellis Realty Advisors

Source: Real Capital Analytics; December 2008.

Cap rates for core assets rose in the 4<sup>th</sup> quarter of 2008 and are now in the high 6% range, on a trailing 12-month basis. We believe that cap rates will edge up over the next 24 months as investors demand a higher return in exchange for putting money at risk.

**Houston Metro Core Office Assets**  
Cap Rates  
2002 Through 2008



Source: Real Capital Analytics, Delta Associates; December 2008.

\*Trailing 12-month average.

### THE HOUSTON METRO AREA OFFICE MARKET OUTLOOK

The Houston metro office market began to slow in the 2<sup>nd</sup> half of 2008 as energy demand eased and the national economy contracted. Office space demand over the next 24 months is likely to be less than in the previous two years, and the construction pipeline has grown significantly since this time last year. However, no speculative construction is starting at this time. Rental rate growth will continue to slow, and market conditions will shift further toward a balance between landlords and tenants.

**SUMMARY OF OFFICE MARKET INDICATORS - ALL SPACE  
HOUSTON METRO AREA  
2005 THROUGH 2008**

Submarket	December 2008			Direct Vacancy Rate at End of:				December 2008		Net Absorption (SF)				
	Total Bldgs	Total Rentable SF All Bldgs. <sup>1/</sup>	SF Avail. Immediately All Bldgs. <sup>2/</sup>	2005	2006	2007	2008	Vacancy Rate w/ Sublet	SF Under Constr. or Renovation	2005	2006	2007	4th Q 2008	
													2008	2008
Central Business District	106	43,129,432	3,838,519	17.1%	10.3%	9.2%	8.9%	9.8%	1,848,284	116,000	2,953,000	531,000	255,000	342,000
Midtown	104	7,146,182	721,764	10.7%	11.3%	11.7%	10.1%	11.4%	47,462	395,000	(46,000)	19,000	29,000	118,000
<b>Downtown</b>	<b>210</b>	<b>50,275,614</b>	<b>4,560,284</b>	<b>16.1%</b>	<b>10.4%</b>	<b>9.6%</b>	<b>9.1%</b>	<b>10.0%</b>	<b>1,895,746</b>	<b>511,000</b>	<b>2,907,000</b>	<b>550,000</b>	<b>284,000</b>	<b>460,000</b>
I-45 North	38	2,010,917	335,823	18.8%	17.1%	14.0%	16.7%	18.8%	-	(78,000)	31,000	56,000	(12,000)	(53,000)
FM 1960 / Champions	68	2,940,376	676,286	17.8%	17.1%	19.6%	23.0%	23.1%	55,132	131,000	71,000	(73,000)	0	(100,000)
FM 1960 / Highway 249	109	7,832,261	2,968,427	7.7%	13.4%	32.9%	37.9%	39.2%	781,829	24,000	70,000	150,000	358,000	(214,000)
<b>FM 1960</b>	<b>215</b>	<b>12,783,554</b>	<b>3,980,537</b>	<b>13.7%</b>	<b>15.2%</b>	<b>25.8%</b>	<b>31.1%</b>	<b>32.3%</b>	<b>836,961</b>	<b>77,000</b>	<b>172,000</b>	<b>133,000</b>	<b>346,000</b>	<b>(367,000)</b>
North Belt West/Greenspoint	86	10,419,446	1,052,364	12.0%	10.4%	10.7%	10.1%	11.5%	219,625	412,000	165,000	91,000	31,000	63,000
North Belt East	19	2,155,446	140,104	17.4%	14.6%	10.1%	6.5%	6.9%	63,621	81,000	47,000	75,000	15,000	131,000
<b>Greenspoint / North Belt</b>	<b>105</b>	<b>12,574,892</b>	<b>1,192,468</b>	<b>12.8%</b>	<b>11.0%</b>	<b>10.6%</b>	<b>9.5%</b>	<b>10.7%</b>	<b>283,246</b>	<b>493,000</b>	<b>212,000</b>	<b>166,000</b>	<b>46,000</b>	<b>194,000</b>
Greenway Plaza	98	12,138,902	1,274,585	14.4%	11.5%	8.4%	10.5%	11.8%	-	(277,000)	349,000	277,000	(49,000)	(159,000)
Gulf Freeway/Pasadena	108	4,461,296	700,423	16.9%	15.3%	12.7%	15.7%	15.8%	-	(186,000)	48,000	130,000	(54,000)	(89,000)
Katy Freeway East	101	7,595,498	584,853	9.4%	10.6%	7.7%	7.7%	8.1%	652,593	51,000	98,000	97,000	(14,000)	175,000
Katy Freeway West	154	18,059,164	884,899	5.4%	5.5%	5.8%	4.9%	5.4%	2,108,836	901,000	254,000	621,000	542,000	1,029,000
<b>Katy Fwy / Energy Corridor</b>	<b>255</b>	<b>25,654,662</b>	<b>1,469,752</b>	<b>6.6%</b>	<b>7.0%</b>	<b>6.4%</b>	<b>5.7%</b>	<b>6.2%</b>	<b>2,761,429</b>	<b>952,000</b>	<b>352,000</b>	<b>718,000</b>	<b>528,000</b>	<b>1,204,000</b>
Kingwood / Humble	55	2,830,041	181,123	4.4%	6.8%	9.9%	6.4%	6.5%	20,000	47,000	50,000	44,000	51,000	114,000
NASA / Clear Lake	154	8,641,845	777,766	12.9%	11.1%	9.6%	9.0%	9.2%	600,000	20,000	304,000	181,000	75,000	253,000
<b>Northeast</b>	<b>44</b>	<b>1,860,835</b>	<b>336,811</b>	<b>15.1%</b>	<b>15.9%</b>	<b>17.7%</b>	<b>18.1%</b>	<b>18.4%</b>	<b>-</b>	<b>44,000</b>	<b>(11,000)</b>	<b>(6,000)</b>	<b>45,000</b>	<b>21,000</b>
North Loop West	70	5,936,860	1,074,572	14.9%	17.1%	15.6%	18.1%	18.3%	-	(224,000)	(118,000)	80,000	(148,000)	(147,000)
Northwest Near	21	1,113,137	191,460	24.2%	13.7%	17.3%	17.2%	17.2%	-	3,000	155,000	(53,000)	37,000	(2,000)
Northwest Far	87	6,635,060	1,035,069	13.2%	17.8%	14.3%	15.6%	17.0%	1,280,766	144,000	(56,000)	417,000	(24,000)	299,000
<b>Northwest</b>	<b>178</b>	<b>13,685,057</b>	<b>2,301,101</b>	<b>15.4%</b>	<b>17.0%</b>	<b>15.2%</b>	<b>16.8%</b>	<b>17.6%</b>	<b>1,280,766</b>	<b>(77,000)</b>	<b>(19,000)</b>	<b>444,000</b>	<b>(135,000)</b>	<b>150,000</b>
<b>South Main / Medical Center</b>	<b>87</b>	<b>10,173,247</b>	<b>885,072</b>	<b>5.1%</b>	<b>5.3%</b>	<b>9.1%</b>	<b>8.7%</b>	<b>9.0%</b>	<b>-</b>	<b>134,000</b>	<b>9,000</b>	<b>144,000</b>	<b>51,000</b>	<b>328,000</b>
Southwest / Hillcroft	59	4,743,707	962,973	18.7%	17.6%	19.1%	20.3%	21.2%	-	-	55,000	(77,000)	57,000	(63,000)
Southwest Beltway 8	109	8,330,900	1,241,304	15.7%	13.7%	9.1%	14.9%	15.7%	68,727	(136,000)	(26,000)	361,000	(258,000)	(300,000)
East Ft Bend Co. / Sugarland	129	8,223,258	1,340,391	7.5%	9.3%	10.8%	16.3%	16.5%	521,580	92,000	216,000	435,000	158,000	159,000
<b>Southwest Fwy / Sugarland</b>	<b>297</b>	<b>21,297,865</b>	<b>3,544,668</b>	<b>14.2%</b>	<b>13.5%</b>	<b>12.2%</b>	<b>16.6%</b>	<b>17.2%</b>	<b>590,307</b>	<b>(44,000)</b>	<b>245,000</b>	<b>719,000</b>	<b>(43,000)</b>	<b>(204,000)</b>
Bellaire	42	4,748,537	237,427	10.5%	12.2%	8.7%	5.0%	5.4%	-	(87,000)	(70,000)	143,000	28,000	181,000
Post Oak Park	32	4,610,306	465,641	11.3%	12.0%	9.1%	10.1%	11.5%	78,966	118,000	(21,000)	99,000	18,000	(44,000)
Galleria	54	13,961,579	1,116,926	15.7%	9.1%	7.2%	8.0%	8.4%	195,296	572,000	1,179,000	340,000	14,000	(132,000)
Riverway	26	4,820,016	342,221	23.3%	10.8%	10.3%	7.1%	8.2%	-	(224,000)	368,000	15,000	24,000	105,000
Richmond / Fountainview	44	1,783,906	208,717	10.5%	9.3%	21.2%	11.7%	11.8%	-	140,000	28,000	(287,000)	4,000	196,000
San Felipe / Voss	43	5,103,054	377,626	15.9%	16.3%	8.7%	7.4%	8.0%	-	(117,000)	(19,000)	388,000	(10,000)	66,000
<b>West Loop</b>	<b>241</b>	<b>35,027,398</b>	<b>2,748,558</b>	<b>15.0%</b>	<b>10.9%</b>	<b>9.0%</b>	<b>7.8%</b>	<b>8.5%</b>	<b>274,262</b>	<b>402,000</b>	<b>1,465,000</b>	<b>698,000</b>	<b>78,000</b>	<b>372,000</b>
<b>Westchase</b>	<b>105</b>	<b>15,001,610</b>	<b>1,230,132</b>	<b>10.9%</b>	<b>9.2%</b>	<b>7.2%</b>	<b>8.2%</b>	<b>9.0%</b>	<b>693,342</b>	<b>322,000</b>	<b>518,000</b>	<b>312,000</b>	<b>(38,000)</b>	<b>473,000</b>
The Woodlands	119	8,305,576	523,251	10.3%	6.9%	4.1%	6.3%	8.5%	943,691	289,000	432,000	252,000	65,000	432,000
Conroe	27	1,130,511	91,571	8.4%	7.2%	7.8%	8.1%	8.1%	-	68,000	15,000	(8,000)	(9,000)	(4,000)
<b>Woodlands / Conroe</b>	<b>146</b>	<b>9,436,087</b>	<b>614,823</b>	<b>10.0%</b>	<b>6.9%</b>	<b>4.7%</b>	<b>6.5%</b>	<b>8.5%</b>	<b>943,691</b>	<b>357,000</b>	<b>447,000</b>	<b>244,000</b>	<b>56,000</b>	<b>428,000</b>
<b>TOTAL - Houston</b>	<b>2,298</b>	<b>235,842,905</b>	<b>25,798,102</b>	<b>13.2%</b>	<b>10.8%</b>	<b>10.2%</b>	<b>10.9%</b>	<b>11.7%</b>	<b>10,179,750</b>	<b>2,775,000</b>	<b>7,048,000</b>	<b>4,754,000</b>	<b>1,241,000</b>	<b>3,178,000</b>
<b>Vacancy Rate with Sublet Space</b>				<b>14.5%</b>	<b>11.7%</b>	<b>10.9%</b>	<b>11.7%</b>							

1/ Includes buildings 15,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government.  
2/ Does not include sublet space.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2008.

Delta Associates, the research affiliate of Transwestern, is headquartered at:  
500 Montgomery Street, Suite 600, Alexandria, VA 22314; Phone: 703-836-5700; DeltaAssociates.com

**SUMMARY OF OFFICE MARKET INDICATORS - CLASS A SPACE <sup>1/</sup>**  
**HOUSTON METRO AREA**  
**2005 THROUGH 2008**

Submarket	December 2008						Net Absorption (SF)				
	Total Bldgs	Total Rentable SF All Bldgs. <sup>1/</sup>	SF Available Immediately All Bldgs. <sup>2/</sup>	Vacancy Rate <sup>3/</sup>	Vacancy Rate w/ Sublet	SF Under Constr. or Renovation <sup>3/</sup>	2005	2006	2007	4th Q 2008	2008
	Central Business District	29	28,383,377	1,646,236	5.8%	7.0%	1,848,284	186,000	3,156,000	585,000	22,000
Midtown	4	1,891,309	92,674	4.9%	9.8%	-	251,000	58,000	(28,000)	(21,000)	17,000
<b>Downtown</b>	<b>33</b>	<b>30,274,686</b>	<b>1,738,910</b>	<b>5.7%</b>	<b>7.2%</b>	<b>1,848,284</b>	<b>437,000</b>	<b>3,214,000</b>	<b>557,000</b>	<b>1,000</b>	<b>(49,000)</b>
I-45 North	2	237,701	17,828	7.5%	11.1%	-	(12,000)	29,000	3,000	9,000	(6,000)
FM 1960 / Champions	1	150,000	-	0.0%	0.0%	-	78,000	53,000	19,000	-	-
FM 1960 / Highway 249	17	3,687,673	1,928,653	52.3%	52.9%	563,221	41,000	105,000	174,000	374,000	(283,000)
<b>FM 1960</b>	<b>20</b>	<b>4,075,374</b>	<b>1,946,481</b>	<b>47.8%</b>	<b>48.5%</b>	<b>563,221</b>	<b>107,000</b>	<b>187,000</b>	<b>196,000</b>	<b>383,000</b>	<b>(289,000)</b>
North Belt West / Greenspoint	17	4,339,965	173,599	4.0%	4.7%	84,125	199,000	12,000	12,000	(13,000)	(43,000)
North Belt East	4	680,397	43,545	6.4%	7.7%	63,621	31,000	(43,000)	18,000	18,000	66,000
<b>Greenspoint / North Belt</b>	<b>21</b>	<b>5,020,362</b>	<b>217,144</b>	<b>4.3%</b>	<b>5.1%</b>	<b>147,746</b>	<b>230,000</b>	<b>(31,000)</b>	<b>30,000</b>	<b>5,000</b>	<b>23,000</b>
Greenway Plaza	17	6,170,634	783,671	12.7%	15.1%	-	(412,000)	352,000	195,000	(49,000)	(115,000)
<b>Gulf Freeway/Pasadena</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Katy Freeway East	12	2,302,614	184,209	8.0%	9.1%	587,193	74,000	95,000	82,000	(15,000)	96,000
Katy Freeway West	52	9,578,129	153,250	1.6%	1.9%	2,019,937	370,000	118,000	341,000	580,000	1,193,000
<b>Katy Freeway / Energy Corridor</b>	<b>64</b>	<b>11,880,743</b>	<b>337,459</b>	<b>2.8%</b>	<b>3.3%</b>	<b>2,607,130</b>	<b>444,000</b>	<b>213,000</b>	<b>423,000</b>	<b>565,000</b>	<b>1,289,000</b>
Kingwood / Humble	-	-	-	-	-	-	-	(15,000)	-	-	-
NASA / Clear Lake	8	953,627	38,145	4.0%	5.5%	532,000	88,000	96,000	(10,000)	23,000	12,000
<b>Northeast</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,000</b>	<b>(101,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
North Loop West	4	848,311	86,528	10.2%	10.7%	-	(33,000)	45,000	76,000	15,000	27,000
Northwest Near	-	-	-	-	-	-	-	-	-	-	-
Northwest Far	10	1,636,658	297,872	18.2%	19.8%	1,208,366	1,000	80,000	206,000	25,000	125,000
<b>Northwest</b>	<b>14</b>	<b>2,484,969</b>	<b>384,399</b>	<b>15.5%</b>	<b>16.7%</b>	<b>1,208,366</b>	<b>(32,000)</b>	<b>125,000</b>	<b>282,000</b>	<b>40,000</b>	<b>152,000</b>
<b>South Main / Medical Center</b>	<b>10</b>	<b>2,732,826</b>	<b>368,932</b>	<b>13.5%</b>	<b>14.0%</b>	<b>-</b>	<b>80,000</b>	<b>(11,000)</b>	<b>277,000</b>	<b>(112,000)</b>	<b>17,000</b>
Southwest / Hillcroft	3	496,502	42,699	8.6%	8.6%	-	13,000	-	-	10,000	(9,000)
Southwest Beltway 8	4	767,707	135,116	17.6%	17.6%	-	63,000	19,000	74,000	(8,000)	92,000
East Fort Bend County / Sugarland	20	3,460,430	609,036	17.6%	17.9%	335,000	54,000	72,000	96,000	(1,000)	45,000
<b>Southwest Freeway / Sugarland</b>	<b>27</b>	<b>4,724,639</b>	<b>786,851</b>	<b>16.7%</b>	<b>16.9%</b>	<b>335,000</b>	<b>130,000</b>	<b>91,000</b>	<b>170,000</b>	<b>1,000</b>	<b>128,000</b>
Bellaire	5	886,064	66,455	7.5%	8.4%	-	27,000	108,000	86,000	(27,000)	(41,000)
Post Oak Park	11	3,003,464	258,298	8.6%	10.7%	78,966	59,000	(78,000)	85,000	(9,000)	(32,000)
Galleria	23	10,235,318	634,590	6.2%	6.8%	195,296	688,000	1,138,000	119,000	20,000	(2,000)
Riverway	12	3,772,676	237,679	6.3%	7.3%	-	(192,000)	281,000	(14,000)	45,000	131,000
Richmond / Fountainview	-	-	-	-	-	-	-	28,000	78,000	-	-
San Felipe / Voss	3	1,714,029	133,694	7.8%	9.8%	-	(67,000)	(17,000)	69,000	(12,000)	(5,000)
<b>West Loop</b>	<b>54</b>	<b>19,611,551</b>	<b>1,330,715</b>	<b>6.8%</b>	<b>7.8%</b>	<b>274,262</b>	<b>543,000</b>	<b>1,510,000</b>	<b>345,000</b>	<b>17,000</b>	<b>51,000</b>
<b>Westchase</b>	<b>26</b>	<b>7,538,907</b>	<b>512,646</b>	<b>6.8%</b>	<b>7.2%</b>	<b>693,342</b>	<b>198,000</b>	<b>175,000</b>	<b>217,000</b>	<b>45,000</b>	<b>194,000</b>
The Woodlands	15	3,023,708	151,185	5.0%	5.8%	603,906	109,000	97,000	(23,000)	147,000	412,000
Conroe	-	-	-	-	-	-	-	-	-	-	-
<b>Woodlands / Conroe</b>	<b>15</b>	<b>3,023,708</b>	<b>151,185</b>	<b>5.0%</b>	<b>5.8%</b>	<b>603,906</b>	<b>109,000</b>	<b>97,000</b>	<b>(23,000)</b>	<b>147,000</b>	<b>412,000</b>
<b>TOTAL - Houston</b>	<b>309</b>	<b>98,492,026</b>	<b>8,596,538</b>	<b>8.7%</b>	<b>9.8%</b>	<b>8,813,257</b>	<b>1,926,000</b>	<b>5,902,000</b>	<b>2,659,000</b>	<b>1,066,000</b>	<b>1,825,000</b>

1/ Class A per CoStar and greater than 50,000 SF. Does not include buildings under construction or owned by the government.  
2/ Does not include sublet space.  
3/ Includes only buildings of 50,000 SF or more.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2008.

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500 Montgomery Street, Suite 600, Alexandria, VA 22314; Phone: 703-836-5700; DeltaAssociates.com

**SUMMARY OF OFFICE MARKET INDICATORS - CLASS B SPACE <sup>1/</sup>**

**HOUSTON METRO AREA**

**2005 THROUGH 2008**

Submarket	December 2008						Net Absorption (SF)				
	Total Bldgs	Total Rentable SF All Bldgs. <sup>1/</sup>	SF Available Immediately All Bldgs. <sup>2/</sup>	Vacancy Rate <sup>2/</sup>	Vacancy Rate w/ Sublet	SF Under Constr. or Renovation <sup>3/</sup>	2005	2006	2007	4th Q 2008	2008
Central Business District	35	11,194,356	1,276,157	11.4%	12.0%	-	(10,000)	(179,000)	269,000	257,000	289,000
Midtown	47	3,339,953	210,417	6.3%	6.3%	47,462	135,000	(26,000)	(6,000)	23,000	98,000
<b>Downtown</b>	<b>82</b>	<b>14,534,309</b>	<b>1,486,574</b>	<b>10.2%</b>	<b>10.7%</b>	<b>47,462</b>	<b>125,000</b>	<b>(205,000)</b>	<b>263,000</b>	<b>280,000</b>	<b>387,000</b>
I-45 North	22	1,247,081	160,873	12.9%	15.3%	-	(59,000)	64,000	69,000	(29,000)	(49,000)
FM 1960 / Champions	43	2,148,955	608,154	28.3%	28.5%	55,132	-	59,000	(84,000)	2,000	(88,000)
FM 1960 / Highway 249	70	3,437,065	976,126	28.4%	30.5%	218,608	19,000	(10,000)	225,000	(14,000)	324,000
<b>FM 1960</b>	<b>135</b>	<b>6,833,101</b>	<b>1,745,154</b>	<b>25.5%</b>	<b>27.1%</b>	<b>273,740</b>	<b>(40,000)</b>	<b>113,000</b>	<b>210,000</b>	<b>(41,000)</b>	<b>187,000</b>
North Belt West / Greenspoint	46	4,847,783	649,603	13.4%	16.1%	135,500	160,000	113,000	44,000	(15,000)	87,000
North Belt East	11	1,175,454	62,299	5.3%	5.3%	-	5,000	89,000	97,000	(4,000)	56,000
<b>Greenspoint / North Belt</b>	<b>57</b>	<b>6,023,237</b>	<b>711,902</b>	<b>11.8%</b>	<b>14.0%</b>	<b>135,500</b>	<b>165,000</b>	<b>202,000</b>	<b>141,000</b>	<b>(19,000)</b>	<b>143,000</b>
<b>Greenway Plaza</b>	<b>34</b>	<b>4,143,389</b>	<b>285,894</b>	<b>6.9%</b>	<b>7.0%</b>	<b>-</b>	<b>37,000</b>	<b>99,000</b>	<b>29,000</b>	<b>(8,000)</b>	<b>(16,000)</b>
<b>Gulf Freeway/Pasadena</b>	<b>49</b>	<b>2,529,392</b>	<b>584,290</b>	<b>23.1%</b>	<b>23.3%</b>	<b>-</b>	<b>(72,000)</b>	<b>(84,000)</b>	<b>89,000</b>	<b>(68,000)</b>	<b>(82,000)</b>
Katy Freeway East	35	3,358,116	177,980	5.3%	5.4%	65,400	(73,000)	62,000	100,000	(20,000)	86,000
Katy Freeway West	81	7,515,055	653,810	8.7%	9.6%	88,899	503,000	173,000	282,000	8,000	(23,000)
<b>Katy Freeway / Energy Corridor</b>	<b>116</b>	<b>10,873,171</b>	<b>831,790</b>	<b>7.6%</b>	<b>8.3%</b>	<b>154,299</b>	<b>430,000</b>	<b>235,000</b>	<b>382,000</b>	<b>(12,000)</b>	<b>63,000</b>
Kingwood / Humble	32	2,321,798	157,882	6.8%	7.0%	20,000	50,000	60,000	39,000	33,000	117,000
NASA / Clear Lake	86	5,526,371	525,005	9.5%	9.6%	68,000	13,000	49,000	84,000	71,000	176,000
<b>Northeast</b>	<b>27</b>	<b>1,276,209</b>	<b>257,794</b>	<b>20.2%</b>	<b>20.6%</b>	<b>-</b>	<b>21,000</b>	<b>(10,000)</b>	<b>37,000</b>	<b>92,000</b>	<b>82,000</b>
North Loop West	39	4,054,585	952,827	23.5%	23.8%	-	(140,000)	(127,000)	28,000	(154,000)	(241,000)
Northwest Near	9	602,841	132,022	21.9%	21.9%	-	(14,000)	77,000	(47,000)	25,000	17,000
Northwest Far	48	3,851,702	662,493	17.2%	18.9%	72,400	146,000	(118,000)	165,000	(46,000)	149,000
<b>Northwest</b>	<b>96</b>	<b>8,509,128</b>	<b>1,747,342</b>	<b>20.5%</b>	<b>21.4%</b>	<b>72,400</b>	<b>(8,000)</b>	<b>(168,000)</b>	<b>146,000</b>	<b>(175,000)</b>	<b>(75,000)</b>
<b>South Main / Medical Center</b>	<b>35</b>	<b>4,147,024</b>	<b>269,557</b>	<b>6.5%</b>	<b>6.8%</b>	<b>-</b>	<b>20,000</b>	<b>12,000</b>	<b>(172,000)</b>	<b>186,000</b>	<b>417,000</b>
Southwest / Hillcroft	21	2,458,902	580,301	23.6%	25.5%	-	63,000	41,000	(269,000)	30,000	26,000
Southwest Beltway 8	67	6,335,457	1,039,015	16.4%	17.5%	68,727	(304,000)	(37,000)	338,000	(177,000)	(424,000)
East Fort Bend County / Sugarland	87	3,860,085	660,075	17.1%	17.4%	186,580	75,000	68,000	352,000	152,000	108,000
<b>Southwest Freeway / Sugarland</b>	<b>175</b>	<b>12,654,444</b>	<b>2,279,390</b>	<b>18.0%</b>	<b>19.0%</b>	<b>255,307</b>	<b>(166,000)</b>	<b>72,000</b>	<b>421,000</b>	<b>5,000</b>	<b>(290,000)</b>
Bellaire	23	3,327,129	139,739	4.2%	4.5%	-	(115,000)	(142,000)	89,000	73,000	251,000
Post Oak Park	18	1,480,846	207,318	14.0%	14.3%	-	66,000	66,000	(47,000)	28,000	(13,000)
Galleria	26	4,148,113	634,661	15.3%	15.3%	-	(120,000)	(30,000)	282,000	(71,000)	(167,000)
Riverway	11	889,784	97,876	11.0%	13.0%	-	26,000	12,000	18,000	(7,000)	(28,000)
Richmond / Fountainview	14	760,440	86,690	11.4%	11.5%	-	108,000	(15,000)	(149,000)	20,000	104,000
San Felipe / Voss	33	3,233,363	229,569	7.1%	7.1%	-	(61,000)	(16,000)	321,000	(10,000)	67,000
<b>West Loop</b>	<b>125</b>	<b>13,839,675</b>	<b>1,395,854</b>	<b>10.1%</b>	<b>10.3%</b>	<b>-</b>	<b>(96,000)</b>	<b>(125,000)</b>	<b>514,000</b>	<b>33,000</b>	<b>214,000</b>
<b>Westchase</b>	<b>59</b>	<b>6,359,264</b>	<b>661,363</b>	<b>10.4%</b>	<b>11.6%</b>	<b>-</b>	<b>59,000</b>	<b>265,000</b>	<b>87,000</b>	<b>(112,000)</b>	<b>203,000</b>
The Woodlands	84	4,760,837	342,780	7.2%	10.5%	339,785	181,000	347,000	267,000	(94,000)	11,000
Conroe	17	761,917	90,668	11.9%	11.9%	-	32,000	11,000	(6,000)	(14,000)	(5,000)
<b>Woodlands / Conroe</b>	<b>101</b>	<b>5,522,754</b>	<b>433,448</b>	<b>7.8%</b>	<b>10.7%</b>	<b>339,785</b>	<b>213,000</b>	<b>358,000</b>	<b>261,000</b>	<b>(108,000)</b>	<b>6,000</b>
<b>TOTAL - Houston</b>	<b>1,209</b>	<b>105,093,266</b>	<b>13,373,240</b>	<b>12.7%</b>	<b>13.6%</b>	<b>1,366,493</b>	<b>751,000</b>	<b>873,000</b>	<b>2,531,000</b>	<b>157,000</b>	<b>1,532,000</b>

1/ Class B per CoStar. Buildings under 50,000 SF even if CoStar classified them as Class A. Does not include buildings under construction or owned by the government.

2/ Does not include sublet space.

3/ Includes buildings under 50,000 SF even if CoStar classifies them as Class A.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2008.

Delta Associates, the research affiliate of Transwestern, is headquartered at: 500 Montgomery Street, Suite 600, Alexandria, VA 22314; Phone: 703-836-5700; DeltaAssociates.com

**RENT RATE ANALYSIS OF CLASS A & B OFFICE BUILDINGS  
HOUSTON METRO AREA  
2005 THROUGH 2008**

Submarket	Average Asking Rent (\$'s/SF, GFS) At End Of:								% Change	
	2005		2006		2007		2008		12/07 - 12/08	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Central Business District	\$21.19	\$18.18	\$23.31	\$19.45	\$29.18	\$23.75	\$30.04	\$25.21	3.0%	6.2%
Midtown	\$20.62	\$18.30	\$22.48	\$19.22	\$24.61	\$21.42	\$28.32	\$22.75	15.1%	6.2%
<b>Downtown</b>	<b>\$21.15</b>	<b>\$18.21</b>	<b>\$23.20</b>	<b>\$19.33</b>	<b>\$28.91</b>	<b>\$22.59</b>	<b>\$29.95</b>	<b>\$23.98</b>	<b>3.6%</b>	<b>6.2%</b>
I-45 North	\$19.25	\$16.30	\$19.21	\$17.12	\$21.40	\$18.42	\$22.31	\$17.66	4.2%	-4.1%
FM 1960 / Champions	-	\$13.61	-	\$14.15	-	\$15.70	-	\$15.66	-	-0.3%
FM 1960 / Highway 249	\$22.17	\$16.55	\$23.50	\$17.38	\$24.65	\$17.99	\$27.46	\$20.22	11.4%	12.4%
<b>FM 1960</b>	<b>\$20.70</b>	<b>\$15.15</b>	<b>\$21.36</b>	<b>\$15.85</b>	<b>\$24.44</b>	<b>\$16.99</b>	<b>\$27.21</b>	<b>\$18.09</b>	<b>11.3%</b>	<b>6.5%</b>
North Belt West / Greenspoint	\$19.42	\$15.60	\$19.96	\$15.91	\$21.66	\$17.08	\$20.45	\$16.84	-5.6%	-1.4%
North Belt East	\$18.75	\$15.35	\$19.07	\$15.66	\$20.08	\$16.64	\$21.75	\$16.38	8.3%	-1.6%
<b>Greenspoint / North Belt</b>	<b>\$19.31</b>	<b>\$15.55</b>	<b>\$19.82</b>	<b>\$15.86</b>	<b>\$21.07</b>	<b>\$17.05</b>	<b>\$20.48</b>	<b>\$16.80</b>	<b>-2.8%</b>	<b>-1.4%</b>
<b>Greenway Plaza</b>	<b>\$20.35</b>	<b>\$17.43</b>	<b>\$20.72</b>	<b>\$17.81</b>	<b>\$22.95</b>	<b>\$19.77</b>	<b>\$25.84</b>	<b>\$21.48</b>	<b>12.6%</b>	<b>8.7%</b>
<b>Gulf Freeway/Pasadena</b>	-	<b>\$14.53</b>	-	<b>\$15.98</b>	-	<b>\$17.02</b>	-	<b>\$18.13</b>	-	<b>6.5%</b>
Katy Freeway East	\$21.33	\$15.71	\$23.14	\$16.42	\$23.40	\$17.47	\$23.74	\$18.88	1.4%	8.1%
Katy Freeway West	\$21.30	\$16.42	\$23.11	\$17.20	\$26.60	\$19.80	\$24.77	\$19.91	-6.9%	0.6%
<b>Katy Freeway / Energy Corridor</b>	<b>\$21.31</b>	<b>\$16.31</b>	<b>\$23.12</b>	<b>\$17.01</b>	<b>\$26.00</b>	<b>\$19.06</b>	<b>\$25.39</b>	<b>\$19.47</b>	<b>-2.3%</b>	<b>2.2%</b>
Kingwood / Humble	-	<b>\$16.98</b>	-	<b>\$17.20</b>	-	<b>\$17.37</b>	-	<b>\$17.72</b>	-	<b>2.0%</b>
<b>NASA / Clear Lake</b>	<b>\$19.90</b>	<b>\$16.37</b>	<b>\$20.12</b>	<b>\$16.66</b>	<b>\$22.21</b>	<b>\$19.31</b>	<b>\$21.31</b>	<b>\$20.43</b>	<b>-4.1%</b>	<b>5.8%</b>
<b>Northeast</b>	-	<b>\$13.60</b>	-	<b>\$13.77</b>	-	<b>\$13.80</b>	-	<b>\$14.41</b>	-	<b>4.5%</b>
North Loop West	\$18.53	\$15.15	\$18.73	\$15.07	\$20.83	\$16.42	\$21.31	\$16.40	2.3%	-0.1%
Northwest Near	-	\$14.21	-	\$14.49	-	\$16.02	-	\$15.00	-	-6.4%
Northwest Far	\$18.99	\$16.02	\$19.10	\$16.18	\$21.45	\$17.10	\$23.25	\$15.85	8.3%	-7.3%
<b>Northwest</b>	<b>\$18.77</b>	<b>\$15.16</b>	<b>\$18.97</b>	<b>\$15.40</b>	<b>\$21.28</b>	<b>\$16.62</b>	<b>\$22.76</b>	<b>\$16.07</b>	<b>7.0%</b>	<b>-3.3%</b>
<b>South Main / Medical Center</b>	<b>\$24.50</b>	<b>\$21.50</b>	<b>\$24.34</b>	<b>\$22.15</b>	<b>\$26.73</b>	<b>\$22.15</b>	<b>\$30.49</b>	<b>\$23.33</b>	<b>14.1%</b>	<b>5.4%</b>
Southwest / Hillcroft	-	\$12.88	-	\$13.91	\$21.72	\$13.84	\$28.41	\$13.86	30.8%	0.1%
Southwest Beltway 8	\$16.03	\$14.50	\$16.19	\$14.86	\$18.42	\$15.34	\$18.83	\$16.77	2.2%	9.3%
East Fort Bend County / Sugarland	\$20.90	\$16.32	\$21.21	\$17.14	\$21.74	\$18.75	\$22.28	\$19.62	2.5%	4.7%
<b>Southwest Freeway / Sugarland</b>	<b>\$19.21</b>	<b>\$14.47</b>	<b>\$20.12</b>	<b>\$15.01</b>	<b>\$21.33</b>	<b>\$15.51</b>	<b>\$22.17</b>	<b>\$16.38</b>	<b>4.0%</b>	<b>5.6%</b>
Bellaire	\$17.00	\$16.10	\$18.19	\$15.96	\$21.61	\$19.05	\$24.65	\$20.15	14.1%	5.8%
Post Oak Park	\$20.88	\$16.24	\$22.55	\$17.05	\$28.44	\$17.75	\$30.74	\$17.84	8.1%	0.5%
Galleria	\$19.47	\$16.80	\$21.42	\$17.47	\$27.14	\$18.33	\$30.52	\$21.80	12.5%	19.0%
Riverway	\$18.94	\$16.94	\$20.27	\$17.72	\$23.83	\$20.16	\$27.11	\$20.05	13.8%	-0.6%
Richmond / Fountainview	\$18.16	\$14.12	-	\$14.40	-	\$14.40	-	\$15.50	-	7.6%
San Felipe / Voss	\$19.60	\$16.68	\$20.78	\$17.36	\$25.74	\$18.79	\$29.87	\$20.65	16.0%	9.9%
<b>West Loop</b>	<b>\$19.60</b>	<b>\$16.37</b>	<b>\$21.08</b>	<b>\$16.97</b>	<b>\$26.46</b>	<b>\$17.99</b>	<b>\$29.71</b>	<b>\$20.02</b>	<b>12.3%</b>	<b>11.3%</b>
<b>Westchase</b>	<b>\$21.50</b>	<b>\$16.80</b>	<b>\$22.12</b>	<b>\$17.36</b>	<b>\$24.25</b>	<b>\$18.63</b>	<b>\$23.50</b>	<b>\$19.51</b>	<b>-3.1%</b>	<b>4.7%</b>
The Woodlands	\$23.35	\$19.07	\$23.82	\$20.02	\$24.41	\$23.09	\$23.69	\$20.99	-2.9%	-9.1%
Conroe	-	\$15.81	-	\$17.07	-	\$17.74	-	\$18.38	-	3.6%
<b>Woodlands / Conroe</b>	<b>\$23.35</b>	<b>\$18.50</b>	<b>\$23.82</b>	<b>\$19.73</b>	<b>\$24.41</b>	<b>\$21.97</b>	<b>\$23.69</b>	<b>\$20.55</b>	<b>-2.9%</b>	<b>-6.4%</b>
<b>Houston Total:</b>	<b>\$20.30</b>	<b>\$16.40</b>	<b>\$21.71</b>	<b>\$16.85</b>	<b>\$25.48</b>	<b>\$18.37</b>	<b>\$26.96</b>	<b>\$18.76</b>	<b>5.8%</b>	<b>2.1%</b>

Note: Rents for properties using triple net terms have been grossed up to full service by applying operating expense data.  
 Note: CoStar changed market boundaries during Q3 2008. Rent comparisons to data published earlier will not be precise.  
 Source: Delta Associates analysis of CoStar data; December 2008.

Delta Associates, the research affiliate of Transwestern, is headquartered at:  
 500 Montgomery Street, Suite 600, Alexandria, VA 22314; Phone: 703-836-5700; DeltaAssociates.com

**THE HOUSTON METRO INDUSTRIAL MARKET**

***Absorption: Pauses in the 4<sup>th</sup> Quarter***

Net absorption of industrial space in the Houston metro area totaled negative 24,000 SF in the 4<sup>th</sup> quarter of 2008, compared to 5.0 million SF in the 3<sup>rd</sup> quarter, bringing the annual total to 8.3 million SF. This total is below the 12.5 million SF absorbed in 2007.

Warehouse/Distribution space captured the lion's share of demand in 2008. Flex/R&D space posted negative net absorption in the 4<sup>th</sup> quarter; Manufacturing space was the only subtype to post positive net absorption in the 4<sup>th</sup> quarter. The direct vacancy rate for Warehouse/Distribution space rose to 5.4% in the 4<sup>th</sup> quarter from 4.6% in the previous quarter. The direct vacancy rate for Flex/R&D space rose from 9.6% in the 3<sup>rd</sup> quarter to 11.2% during the 4<sup>th</sup> quarter, while direct vacancy for Manufacturing space was 1.9% at year-end 2008, down from 2.2% in the 3<sup>rd</sup> quarter.

Notable leases during the 4<sup>th</sup> quarter include: RR Donnelley renewed 259,000 SF at 6315 West by Northwest Blvd. in the Northwest Inner Loop submarket; Más Club (Sam's Club) leased 143,000 SF at 8711 North Fwy. in the North Fwy/Tomball Pky submarket; and Lone Star Fuel Storage and Transfer leased 60,000 SF at 17617 Aldine Westfield Rd. in the North Hardy Toll Road submarket.

***Industrial Vacancy Rises***

The overall Houston metro area industrial vacancy rate rose to 5.7% at year-end 2008 from 4.9% in the 3<sup>rd</sup> quarter and 5.1% a year ago. The direct industrial vacancy rate was 5.5%, up from 4.7% posted in the 3<sup>rd</sup> quarter and 5.1% at year-end 2007.

If demand continues to wane, Houston's overall industrial vacancy rate will rise to the 7% range over the next 12 months as new construction outpaces demand.

***Construction Pipeline Grows Over the Year***

There is 7.2 million SF of industrial space under construction in metro Houston at year-end 2008, compared to 10.0 million SF in the 3<sup>rd</sup> quarter and 5.6 million SF a year ago. The East-Southeast Far, North Far, and Northwest Near submarkets account for a combined 4.7 million SF, or 65% of all industrial construction in Houston metro. Space under construction is 19% pre-leased, compared to 22% a year ago.

Deliveries in Houston totaled 10.1 million SF in 2008, down from 12.1 million SF delivered in 2007. Total industrial space delivered in 2008 was 29% leased upon delivery, down from the 33% leased in 2007.

***Industrial Rents: Growth is Flattening***

Still-low vacancy translated into rising industrial rents in 2008. Rents gained an average of 2.8% for the year. However, rent growth is flattening and in 2009 industrial rents likely will be stable or decline slightly as vacancy rises.

***Investment Sales: Volume Down Sharply***

Industrial investment sales volume totaled \$26 million in Houston metro in the 4<sup>th</sup> quarter of 2008, bringing the annual total to \$223 million – 64% below the \$620 million recorded in 2007. Sale prices averaged \$71/SF in 2008, compared to \$46/SF for sales in 2007. The Credit Crunch has curtailed investment activity in Houston and elsewhere.

**Selected 4<sup>th</sup> Quarter 2008 Industrial Sales:**

<u>Property/Submarket</u>	<u>Sale Price/Buyer</u>
1100 FM 3361	\$10 million (\$23/SF)
FM 1960/I-45 North	Undisclosed
9900 Genard Rd.	\$6.1 million (\$104/SF)
Northwest Inner Loop	Undisclosed

Source: Real Capital Analytics; December 2008.

**SUMMARY OF INDUSTRIAL MARKET INDICATORS - ALL SPACE  
HOUSTON METRO AREA  
2005 THROUGH 2008**

Submarket	December 2008		Direct Vacancy Rate at End of:				December 2008		Net Absorption (SF)				
	Total Rentable SF All Bldgs. <sup>1/</sup>	SF Avail. Immediately All Bldgs. <sup>2/</sup>					Vacancy Rate w/ Sublet	SF Under Constr. or Renovation	2005	2006	2007	4th Q 2008	2008
	2005	2006	2007	2008	2005	2006	2007	4th Q 2008	2008				
<b>Central Business District</b>													
Flex/R & D	657,157	104,488	12.7%	16.6%	11.9%	15.9%	15.9%	-	4,000	(25,000)	30,000	(29,000)	(26,000)
Manufacturing	4,330,238	73,614	7.5%	3.6%	3.5%	1.7%	1.7%	-	290,000	(382,000)	5,000	56,000	78,000
Warehouse/Distribution	29,871,212	1,344,205	3.7%	3.0%	3.1%	4.5%	4.5%	-	442,000	(86,000)	(29,000)	(388,000)	(418,000)
<b>Total - Central Business District</b>	<b>34,858,607</b>	<b>1,522,307</b>	<b>4.3%</b>	<b>4.9%</b>	<b>3.3%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>-</b>	<b>736,000</b>	<b>(493,000)</b>	<b>6,000</b>	<b>(361,000)</b>	<b>(366,000)</b>
<b>East-Southeast Far</b>													
Flex/R & D	1,356,333	48,828	10.2%	6.2%	10.8%	3.6%	3.6%	208,500	106,000	55,000	(63,000)	22,000	98,000
Manufacturing	2,636,411	55,365	8.3%	1.8%	0.1%	2.1%	2.1%	-	(50,000)	172,000	45,000	-	(53,000)
Warehouse/Distribution	29,231,194	3,887,749	4.5%	9.5%	13.6%	13.3%	13.7%	1,282,004	4,412,000	(648,000)	3,462,000	893,000	3,401,000
<b>Total - East-Southeast Far</b>	<b>33,223,938</b>	<b>3,991,941</b>	<b>5.4%</b>	<b>6.4%</b>	<b>12.3%</b>	<b>12.0%</b>	<b>12.4%</b>	<b>1,490,504</b>	<b>4,468,000</b>	<b>(421,000)</b>	<b>3,444,000</b>	<b>915,000</b>	<b>3,446,000</b>
<b>North Far</b>													
Flex/R & D	4,665,948	584,090	13.1%	16.5%	12.1%	12.5%	13.3%	102,708	(67,000)	79,000	375,000	(63,000)	108,000
Manufacturing	3,529,879	9,359	2.4%	1.3%	4.2%	0.3%	0.3%	-	149,000	37,000	(8,000)	12,000	139,000
Warehouse/Distribution	34,775,823	3,312,584	8.4%	6.3%	6.8%	9.5%	10.1%	1,691,761	469,000	1,324,000	2,888,000	(50,000)	1,543,000
<b>Total - North Far</b>	<b>42,971,650</b>	<b>3,906,033</b>	<b>8.3%</b>	<b>6.9%</b>	<b>7.1%</b>	<b>9.1%</b>	<b>9.7%</b>	<b>1,794,469</b>	<b>551,000</b>	<b>1,440,000</b>	<b>3,255,000</b>	<b>(101,000)</b>	<b>1,790,000</b>
<b>North Near</b>													
Flex/R & D	710,304	80,264	10.0%	9.5%	5.2%	11.3%	11.3%	15,130	69,000	3,000	30,000	(40,000)	(42,000)
Manufacturing	2,156,363	239,356	11.0%	8.2%	7.9%	11.1%	11.1%	-	(70,000)	60,000	6,000	(4,000)	(69,000)
Warehouse/Distribution	14,678,487	733,924	5.7%	6.5%	3.5%	5.0%	5.0%	26,200	(245,000)	(110,000)	851,000	(269,000)	262,000
<b>Total - North Near</b>	<b>17,545,154</b>	<b>1,053,545</b>	<b>6.6%</b>	<b>6.8%</b>	<b>4.1%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>41,330</b>	<b>(246,000)</b>	<b>(47,000)</b>	<b>887,000</b>	<b>(313,000)</b>	<b>151,000</b>
<b>Northeast Far</b>													
Flex/R & D	219,053	6,353	0.0%	0.0%	0.0%	2.9%	2.9%	-	31,000	-	-	-	(6,000)
Manufacturing	196,600	-	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-
Warehouse/Distribution	554,341	-	0.0%	1.8%	0.9%	0.0%	0.0%	-	-	(10,000)	4,000	-	5,000
<b>Total - Northeast Far</b>	<b>969,994</b>	<b>6,353</b>	<b>0.0%</b>	<b>1.0%</b>	<b>0.5%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>-</b>	<b>31,000</b>	<b>(10,000)</b>	<b>4,000</b>	<b>-</b>	<b>(1,000)</b>
<b>Northeast Near</b>													
Flex/R & D	692,456	32,113	15.1%	7.0%	9.2%	4.6%	4.6%	-	(2,000)	205,000	(17,000)	25,000	32,000
Manufacturing	5,869,672	39,508	3.7%	2.8%	4.4%	0.7%	0.7%	-	492,000	52,000	(92,000)	154,000	299,000
Warehouse/Distribution	24,157,599	1,085,148	3.5%	5.7%	2.3%	4.5%	4.5%	12,000	806,000	(463,000)	939,000	(274,000)	106,000
<b>Total - Northeast Near</b>	<b>30,719,727</b>	<b>1,156,769</b>	<b>3.8%</b>	<b>5.2%</b>	<b>2.9%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>12,000</b>	<b>1,296,000</b>	<b>(206,000)</b>	<b>830,000</b>	<b>(95,000)</b>	<b>437,000</b>
<b>Northwest Far</b>													
Flex/R & D	3,876,959	429,573	9.2%	12.7%	13.6%	11.1%	11.2%	117,572	97,000	(121,000)	(235,000)	8,000	(144,000)
Manufacturing	2,924,697	111,746	5.6%	3.7%	8.0%	3.8%	3.8%	-	133,000	9,000	(126,000)	111,000	123,000
Warehouse/Distribution	32,749,241	1,259,179	3.8%	3.5%	6.0%	3.8%	4.0%	898,478	699,000	845,000	717,000	366,000	1,927,000
<b>Total - Northwest Far</b>	<b>39,550,897</b>	<b>1,800,498</b>	<b>4.5%</b>	<b>4.6%</b>	<b>6.9%</b>	<b>4.6%</b>	<b>4.7%</b>	<b>1,016,050</b>	<b>929,000</b>	<b>733,000</b>	<b>356,000</b>	<b>485,000</b>	<b>1,906,000</b>
<b>Northwest Near</b>													
Flex/R & D	10,019,002	1,053,853	13.6%	11.0%	9.9%	10.5%	10.7%	147,025	1,387,000	584,000	257,000	243,000	159,000
Manufacturing	8,965,427	87,232	5.5%	2.0%	1.2%	1.0%	1.0%	-	(81,000)	314,000	71,000	2,000	20,000
Warehouse/Distribution	79,704,031	3,354,142	6.3%	4.6%	3.9%	4.2%	4.3%	1,278,508	1,752,000	1,704,000	1,468,000	(306,000)	92,000
<b>Total - Northwest Near</b>	<b>98,688,460</b>	<b>4,495,228</b>	<b>6.9%</b>	<b>5.0%</b>	<b>4.3%</b>	<b>4.6%</b>	<b>4.6%</b>	<b>1,425,533</b>	<b>3,058,000</b>	<b>2,602,000</b>	<b>1,796,000</b>	<b>(61,000)</b>	<b>271,000</b>

See next page for balance of Houston Industrial Summary

(Cont'd)  
**SUMMARY OF INDUSTRIAL MARKET INDICATORS - ALL SPACE**  
**HOUSTON METRO AREA**  
**2005 THROUGH 2008**

Submarket	December 2008		Direct Vacancy Rate at End of:				December 2008		Net Absorption (SF)				
	Total Rentable SF All Bldgs. <sup>1/</sup>	SF Avail. Immediately All Bldgs. <sup>2/</sup>	2005	2006	2007	2008	Vacancy Rate w/ Sublet	SF Under Constr. or Renovation	2005	2006	2007	4th Q 2008	2008
<b>South Far</b>													
Flex/R & D	735,021	132,304	11.4%	6.5%	10.9%	18.0%	18.0%	91,125	(11,000)	36,000	(28,000)	(2,000)	(52,000)
Manufacturing	4,563,343	45,633	9.2%	6.0%	3.6%	1.0%	1.0%	-	(64,000)	146,000	(106,000)	(37,000)	118,000
Warehouse/Distribution	20,046,840	1,102,576	6.7%	4.6%	4.9%	5.5%	5.5%	150,000	(332,000)	510,000	140,000	(180,000)	(120,000)
<b>Total - South Far</b>	<b>25,345,204</b>	<b>1,280,513</b>	<b>7.3%</b>	<b>4.9%</b>	<b>4.8%</b>	<b>5.1%</b>	<b>5.1%</b>	<b>241,125</b>	<b>(407,000)</b>	<b>692,000</b>	<b>6,000</b>	<b>(219,000)</b>	<b>(54,000)</b>
<b>South Near</b>													
Flex/R & D	1,125,266	117,028	8.0%	6.8%	11.9%	10.4%	10.4%	-	(39,000)	13,000	(58,000)	(2,000)	17,000
Manufacturing	1,829,168	96,946	12.3%	12.2%	5.1%	5.3%	5.3%	-	(83,000)	2,000	130,000	22,000	(3,000)
Warehouse/Distribution	12,169,760	243,395	4.0%	5.2%	2.5%	2.0%	2.0%	-	559,000	(146,000)	329,000	(49,000)	60,000
<b>Total - South Near</b>	<b>15,124,194</b>	<b>457,369</b>	<b>5.3%</b>	<b>6.2%</b>	<b>3.5%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>-</b>	<b>703,000</b>	<b>(131,000)</b>	<b>401,000</b>	<b>(29,000)</b>	<b>74,000</b>
<b>Southeast Near</b>													
Flex/R & D	442,783	64,202	6.3%	5.6%	4.7%	14.5%	14.5%	131,000	9,000	3,000	3,000	50,000	11,000
Manufacturing	6,986,955	35,203	6.3%	1.9%	0.0%	0.5%	0.5%	-	(49,000)	308,000	133,000	(35,000)	(35,000)
Warehouse/Distribution	25,064,652	696,651	5.3%	2.9%	3.1%	2.8%	2.8%	-	485,000	591,000	(50,000)	(20,000)	80,000
<b>Total - Southeast Near</b>	<b>32,494,390</b>	<b>796,056</b>	<b>5.5%</b>	<b>2.7%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.5%</b>	<b>131,000</b>	<b>445,000</b>	<b>902,000</b>	<b>86,000</b>	<b>(5,000)</b>	<b>56,000</b>
<b>Southwest Far</b>													
Flex/R & D	1,134,834	297,327	45.7%	43.8%	33.2%	26.2%	26.2%	-	(144,000)	140,000	119,000	(248,000)	88,000
Manufacturing	1,240,147	81,850	0.6%	0.0%	1.8%	6.6%	6.6%	-	34,000	7,000	(22,000)	(82,000)	(60,000)
Warehouse/Distribution	6,513,326	149,806	11.5%	11.2%	3.0%	2.3%	2.6%	659,614	(113,000)	(282,000)	76,000	38,000	75,000
<b>Total - Southwest Far</b>	<b>8,888,307</b>	<b>528,983</b>	<b>13.5%</b>	<b>13.8%</b>	<b>6.7%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>659,614</b>	<b>(223,000)</b>	<b>(135,000)</b>	<b>173,000</b>	<b>(292,000)</b>	<b>103,000</b>
<b>Southwest Near</b>													
Flex/R & D	7,364,084	663,548	12.0%	11.8%	8.3%	9.0%	9.1%	32,250	75,000	(62,000)	254,000	29,000	26,000
Manufacturing	3,189,559	99,150	5.4%	0.3%	1.1%	3.1%	3.1%	60,000	90,000	163,000	(25,000)	(10,000)	(65,000)
Warehouse/Distribution	33,650,806	1,593,450	6.1%	5.3%	4.3%	4.7%	5.0%	334,210	349,000	611,000	496,000	164,000	119,000
<b>Total - Southwest Near</b>	<b>44,204,449</b>	<b>2,356,148</b>	<b>7.0%</b>	<b>6.0%</b>	<b>4.7%</b>	<b>5.3%</b>	<b>5.5%</b>	<b>426,460</b>	<b>514,000</b>	<b>712,000</b>	<b>725,000</b>	<b>183,000</b>	<b>80,000</b>
<b>Sugarland</b>													
Flex/R & D	2,759,572	375,302	3.2%	12.5%	8.4%	13.6%	14.0%	-	23,000	(35,000)	103,000	(25,000)	110,000
Manufacturing	1,826,635	-	5.8%	7.0%	0.0%	0.0%	0.0%	-	(106,000)	(22,000)	128,000	-	-
Warehouse/Distribution	11,791,348	507,028	6.6%	7.7%	5.4%	4.3%	5.0%	-	533,000	(127,000)	271,000	(106,000)	304,000
<b>Total - Sugarland</b>	<b>16,377,555</b>	<b>882,330</b>	<b>5.9%</b>	<b>8.4%</b>	<b>5.2%</b>	<b>5.4%</b>	<b>6.0%</b>	<b>-</b>	<b>450,000</b>	<b>(184,000)</b>	<b>502,000</b>	<b>(131,000)</b>	<b>414,000</b>
<b>Total Houston</b>													
Flex/R & D	35,758,772	3,989,272	12.3%	14.7%	10.8%	11.2%	11.4%	845,310	1,538,000	875,000	770,000	(32,000)	379,000
Manufacturing	50,245,094	974,963	6.2%	4.6%	2.8%	1.9%	1.9%	60,000	951,000	866,000	139,000	189,000	492,000
Warehouse/Distribution	354,958,660	19,269,837	5.6%	5.0%	4.9%	5.4%	5.6%	6,332,775	9,816,000	3,713,000	11,562,000	(181,000)	7,436,000
<b>Total - Houston</b>	<b>440,962,526</b>	<b>24,234,072</b>	<b>6.2%</b>	<b>6.0%</b>	<b>5.1%</b>	<b>5.5%</b>	<b>5.7%</b>	<b>7,238,085</b>	<b>12,305,000</b>	<b>5,454,000</b>	<b>12,471,000</b>	<b>(24,000)</b>	<b>8,307,000</b>
<b>Vacancy Rate with Sublet Space</b>			6.6%	6.6%	5.1%	5.7%							

1/ Does not include buildings under construction or buildings owned by the government.  
 2/ Does not include sublet space.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2008.

Delta Associates, the research affiliate of Transwestern, is headquartered at:  
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## THE HOUSTON METRO RETAIL MARKET

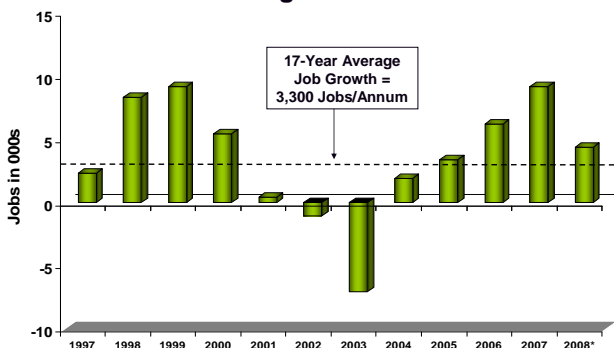
### Population and Job Growth Continue to Fuel Retail Demand

The Houston metro area's population grew from 4.74 million people in 2000 to 5.63 million in 2007, an increase of 18.8% in seven years. Payroll job growth is among the strongest in the nation; therefore, demand for retail space continues to expand. However, it has decelerated along with the national economic downturn.

### Retail Job Growth Continues

The Retail sector gained 4,400 jobs over the 12-month period ending October 2008 — a 1.7% increase. With 267,400 employees in the metro area, the retail industry reflects a healthy local economy, despite a nationwide slowdown in the retail sector.

**Retail Job Growth  
Houston Metro  
1997 Through October 2008**



Source: Bureau of Labor Statistics; December 2008.

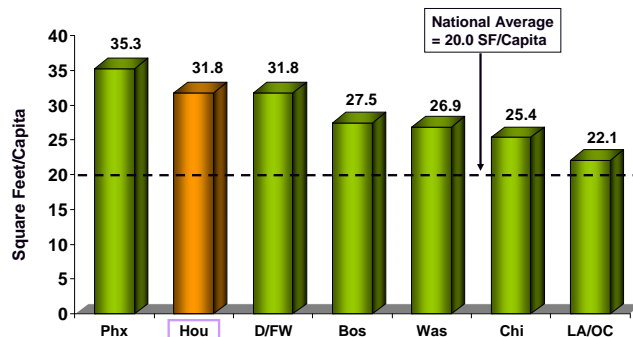
\*12 months ending October.

### Retail Inventory and Development: Uncertainty; Expansion Slowing

The Houston metro area provides its residents with a wide variety of retail options with 31.8 SF of retail space per capita — well above the national average of 20 SF and second-highest among U.S. metro markets.

Houston's retail inventory has grown rapidly in recent years, but the expansion appears to be slowing. Recently, the *Houston Chronicle* reported that declining sales will probably prevent retailers from expanding in the next six to 12 months and that development will fall to 1.5 to 2 million SF in 2009, compared to 5 million SF in 2008. Houston's retail sales have been impacted by Mother Nature as well as the economic downturn. The area is still recovering from Hurricane Ike, which damaged numerous shopping centers in September. In Northwest Houston, Macy's stores closed for an extended period at both Almeda and Deerbrook malls.

**Shopping Center Retail Space Per Capita  
Selected U.S. Metro Markets  
2008**



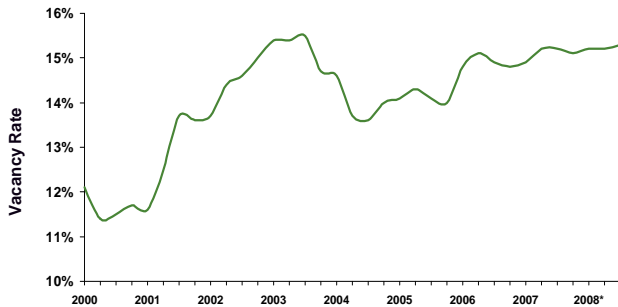
Source: CoStar, U.S. Census Bureau, Delta Associates; December 2008.

Note: Based on 2007 population.

### Retail Vacancy: Rising

Houston's retail vacancy rate ticked up to 15.3% in the 3<sup>rd</sup> quarter of 2008, from 15.2% in the 2<sup>nd</sup> quarter. This is the highest vacancy rate since the 3<sup>rd</sup> quarter of 2003. Vacancy could rise in 2009 if consumer spending remains low, combined with the troubles of major retailers such as Linens 'N Things and Circuit City.

**Vacancy Rate Trends  
Houston Metro Retail Market  
2000 Through 3<sup>rd</sup> Quarter 2008**

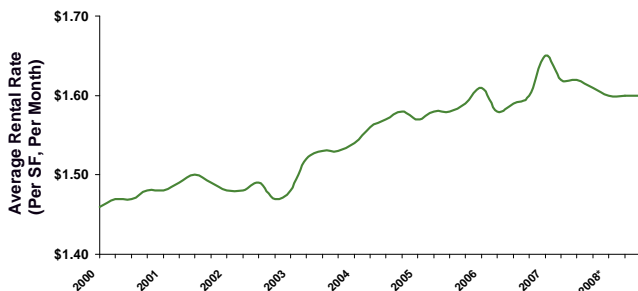


Source: O'Connor & Associates, Delta Associates; December 2008.  
Note: Data source has expanded its inventory and restated its vacancy rates. \*Through the 3<sup>rd</sup> quarter.

### Retail Rents: Steady

Retail rents held steady in the 3<sup>rd</sup> quarter of 2008 at \$1.60/SF/month, unchanged from the 1<sup>st</sup> and 2<sup>nd</sup> quarters of the year. Lower sales and an increasing vacancy rate could suppress rent growth in the near term.

**Average Rental Rate  
Houston Metro Retail Market  
2000 Through 3<sup>rd</sup> Quarter 2008**



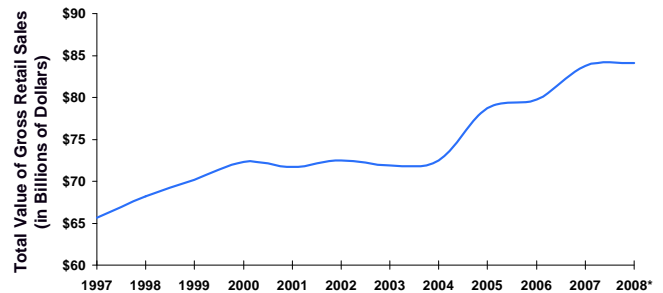
Source: O'Connor & Associates, Delta Associates; December 2008.  
Note: Data source has expanded its inventory and restated its rental rates. \*Through the 3<sup>rd</sup> quarter.

### Gross Retail Sales

Houston area retail sales totaled a record \$83.76 billion in 2007, up 6.9 percent from 2006. 1<sup>st</sup> quarter 2008 data

indicate an annualized total of \$84.09 billion this year. From 1997 through 2007, retail sales have grown at a compounded 2.5% per year.

**Gross Retail Sales  
Houston Metro Area  
1997-2008**



Source: Texas Comptroller's Office, Greater Houston Partnership, Delta Associates; December 2008. Note: Values are in constant 2007 dollars. \* 1<sup>st</sup> quarter 2008 sales annualized.

### Retail Outlook

The short-term outlook for the Houston retail market is uncertain. Sales are down recently, but vacancy and rents are relatively steady and job growth remains above-average. The retail market is heavily dependent on the strength of the energy industry, and with these markets decelerating but remaining sturdy, the long-term outlook for the Houston retail sector looks positive.

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### National Economy and Methodology

Please visit [Transwestern.net](http://Transwestern.net) for:

- Our national Economic Outlook
- Our methodology

**Note on data contained herein**

Our inventory, vacancy and absorption figures include owner-occupied and single-tenant buildings. We include these buildings to capture the entire market so that we may derive correlations between job growth and occupancy of inventory. Our reported vacancy rate is based on immediate availability. The vacancy rate for retail space is based on the total retail inventory minus space that is physically occupied.

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With 1,500 team members in major markets coast to coast, Transwestern operates through six distinct functional lines of business – agency leasing, property and facility management, investment services, tenant advisory, development and research – for a broad range of property types, including office, industrial, retail, healthcare and multifamily. In 2007, the firm completed leasing, sales and finance transactions totaling \$7.7 billion.

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