



Tax Consultant Meeting
March 31, 2010

2010 MARKET TRENDS AND VALUATION

Residential Market: Houston Association of Realtor's Year-over-Year Comparison

Categories	2008	2009	Percent Change
Total property sales	69,336	63,667	-8.2%
Total dollar volume	\$13,996,770,410	\$12,499,040,325	-10.7%
Average single-family sales price	\$208,266	\$203,626	-2.2%
Median single-family sales price	\$152,000	\$153,000	0.7%

Greater Metropolitan Statistical Area Residential Foreclosures

- Foreclosures are still having a strong impact on property values
- Foreclosures totaled 11,402 in 2009, down slightly from 11,837 during the prior year
- The percent of foreclosure property sales has steadily dropped since the peak (34%) in January of 2009
- The median price of foreclosure sales rose to \$89,900 in December 2009
 - An increase of 4.2 percent from December of 2008

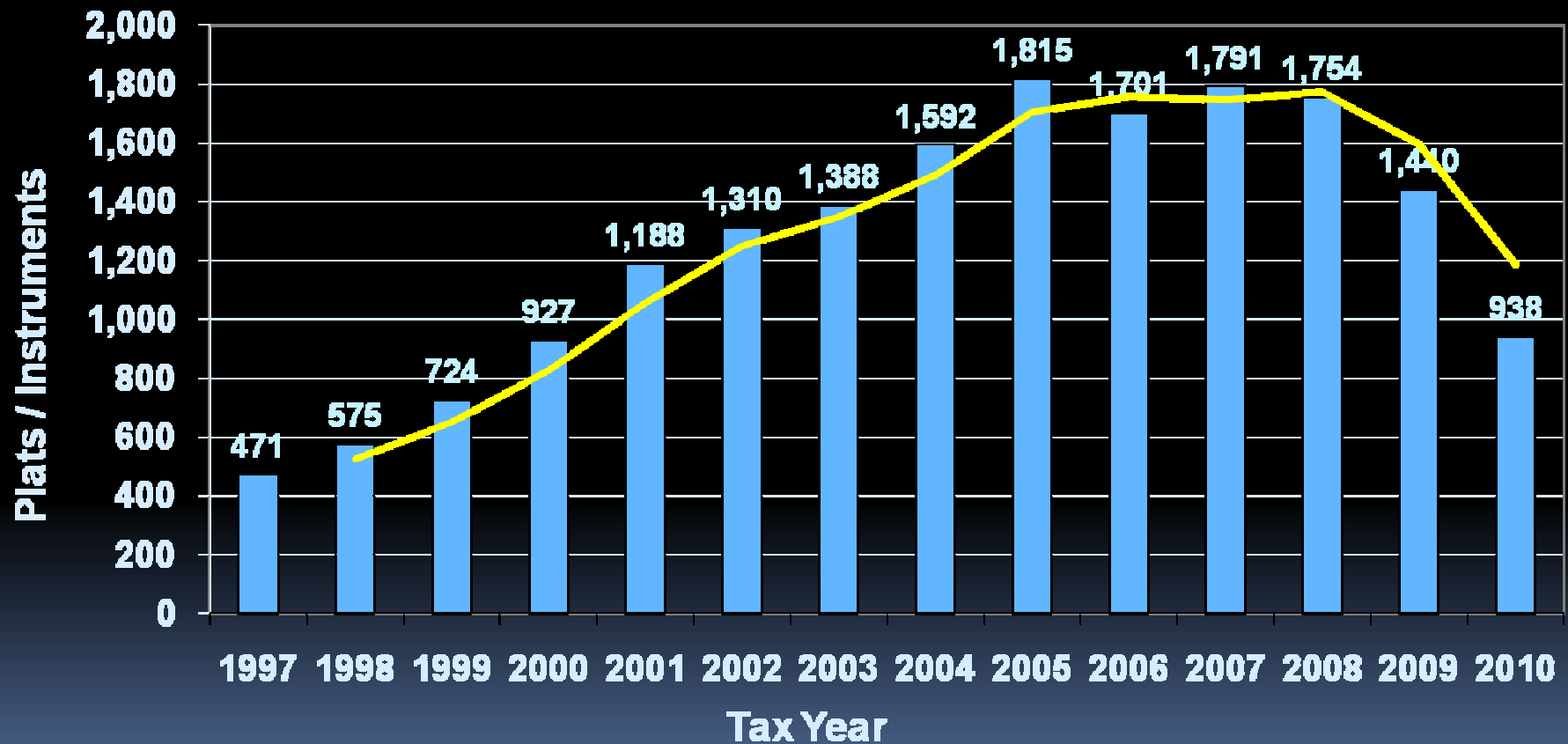
Harris County

2009 Residential Sales *Stratified by Price*

Price	0-80k	80-150k	150-250k	250-350k	350-500k	500-1 mil	Over 1 mil
'09 Total Sales	5,307	12,710	8,218	3,036	1,695	1,294	462
'09 Foreclosures	3,637	3,357	791	205	83	42	4
Foreclosure Rate	68.5%	26.4%	9.6%	6.8%	4.9%	3.3%	0.87%

- Approximately 24.8% of homes sold were foreclosures
- Of homes that sold below \$150,000, 38.8% were foreclosures

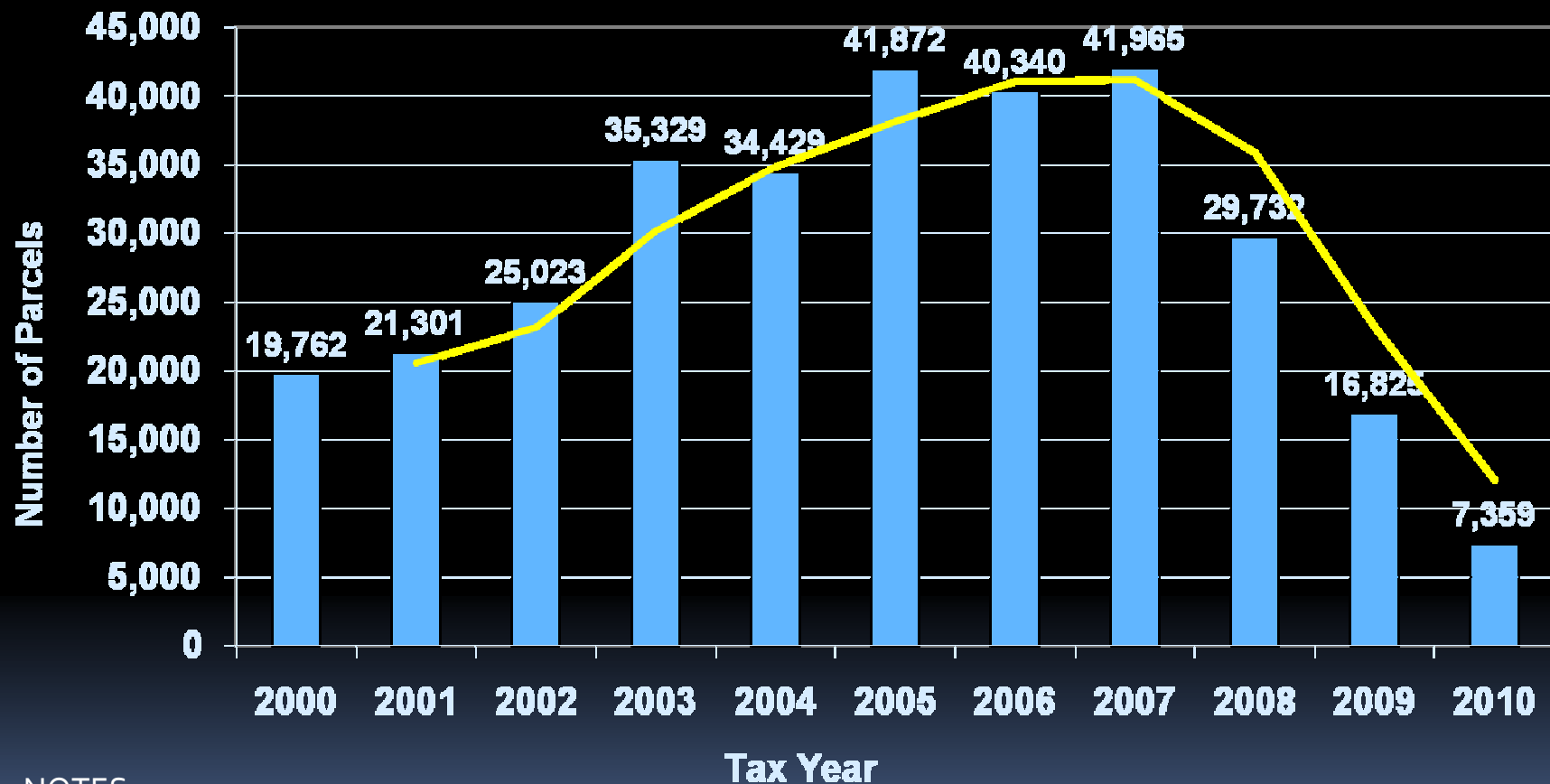
Subdivision / Condo Recordings



NOTES:

1. Plat/Instrument totals for each year were filed and recorded the previous calendar year.
2010 count reflects instruments recorded through the end of 2009.

Parcel Creations



NOTES:

1. Minimum parcels to be created per sum of Lots and Reserves shown on recorded plats and number of Units to be created from condominium declarations.
2. Number does not reflect street and right-of-way dedication parcels.
3. Data information is current to January 15, 2010 for instruments recorded during 2009.

2010 Residential Valuation

- The majority of values will remain flat or decrease for 2010
 - Predominant foreclosure markets will continue to see significant decreases, especially in the low-end to \$100,000 market
 - The higher end of the market has now been affected by the downturn; many areas that experienced price appreciation in 2009 decreased or was flat for 2010

Commercial Real Property : Office Buildings

- Softening of the Houston economy in 2nd half of 2008 affected the office building market in 2009
- Negative trends contributing to a general decline in property values:
 - Drop in sales volume and leasing activity
 - Increased vacancies
 - Decline in rents
 - Slowed construction

Office Building Vacancy

Class 'A'
15%, up
from 11.4%
at end of
2008

Year-end
2009 vs.
2008

Overall office
vacancies
have
increased to
14.4%

Class 'C'
11.4%,
down from
12.0% at
end of 2008

Class 'B'
15%, up
from 13.8%
at end of
2008

Office Buildings: Rental Rates

SUB-MARKET	CLASS 'A'		CLASS 'B'		CLASS 'C'	
	Occupancy		Occupancy		Occupancy	
	# of Bldgs	Quoted Rates	# of Bldgs	Quoted Rates	# of Bldgs	Quoted Rates
CBD	92%		87%		77%	
	34	\$35.78	132	\$22.79	342	\$17.05
West Loop	89%		78%		97%	
	45	\$28.01	61	\$21.55	21	\$16.50
Katy Freeway	81%		88%		92%	
	76	\$27.71	183	\$18.74	164	\$14.77
Greenway Pl	83%		94%		87%	
	17	\$29.44	45	\$20.70	161	\$17.11
Westchase	83%		87%		94%	
	28	\$26.84	62	\$19.39	30	\$15.26

- Occupancy figures include direct and sublet space
- Source: CoStar 2009 Year-End Houston Office Market Report

Office Buildings: Absorption

- Area wide total leasing activity was greater in 2nd Qtr 2009 than 1st Qtr 2009, however, year to year vacancies have increased
- More gravitation toward quality; tenants transitioning from Class 'B' to Class 'A' office space
- Class 'A' office spaces are being occupied by energy and related firms while professional and trade related services are not faring well

Office Buildings: 2010 Valuation

- Valuation of office buildings has mixed results as some sub-markets outperform others
 - Increased risk and lack of liquidity to office building buyers has pushed cap rates upward
 - **Capitalization rates** have increased, resulting in decreased values for some submarkets, and stabilized values for others

Office Buildings: Capitalization Rates

Class/Area	2009 Model Cap Rate	2010 Model Cap Rate
Class A	7.50%	8.50%
Class B	8.50%	9.25%
Class C	9.00%	10.25%
Class D	10.50%	11.25%
Overall Cap Rate	8.87%	9.81%

Commercial Real Property: Apartments

- During 3rd and 4th Qtr 2009, rental rates fell as occupancies dropped
 - Sixty-seven percent of apartment communities are offering concessions; Class 'A' are providing the largest concessions
- With unemployment rates steadily increasing, occupancy rates are decreasing
 - Tenants are “doubling up” rather than renting own apartment
- First major decline in the Houston apartment market in the past five years

Apartments: Rental Rates/Occupancy/Concessions

Class	# of Properties	Average Rate Cents/SF/Mo	Occupancy	Concessions
A	358	117.2	82.6%	10.2%
B	1,003	84.2	86.8%	7.1%
C	1,017	66.9	82.7%	5.7%
D	474	45.5	82.1%	4.0%
Overall	2,852	81.6	84.3%	7.4%

Apartments: Capitalization Rates

- Most investors are choosing a longer holding period rather than selling now for a loss
- Per Real Capital Analytics (RCA), the average apartment cap rate is 7.1 percent for 3rd Qtr 2009
- Korpacz reports a cap rate increase to 7.84 percent nationally
- Reiss reports the 12-month rolling cap rate of 8.5 percent for the local Houston market

Garden /High Rise Apartments: Capitalization Rates

Class/Area	2009 Model Cap Rate	2010 Model Cap Rate
Class A	7.50%	8.25%
Class B	8.00%	9.00%
Class C	8.50%	10.00%
Class D	9.50%	11.00%
Overall Cap Rate	8.37%	9.56%

Tax Credit Apartment Housing: Capitalization Rates

Class/Area	2009 Model Cap Rate	2010 Model Cap Rate
Class A	N/A	N/A
Class B	9.50%	10.00%
Class C	9.50%	10.00%
Class D	9.50%	10.50%
Overall Cap Rate	9.50%	10.17%

Subsidized Apartment Housing: Capitalization Rates

Class/Area	2009 Model Cap Rate	2010 Model Cap Rate
Class A	7.50%	8.75%
Class B	8.00%	9.25%
Class C	8.50%	10.00%
Class D	9.50%	11.00%
Overall Cap Rate	8.37%	9.75%

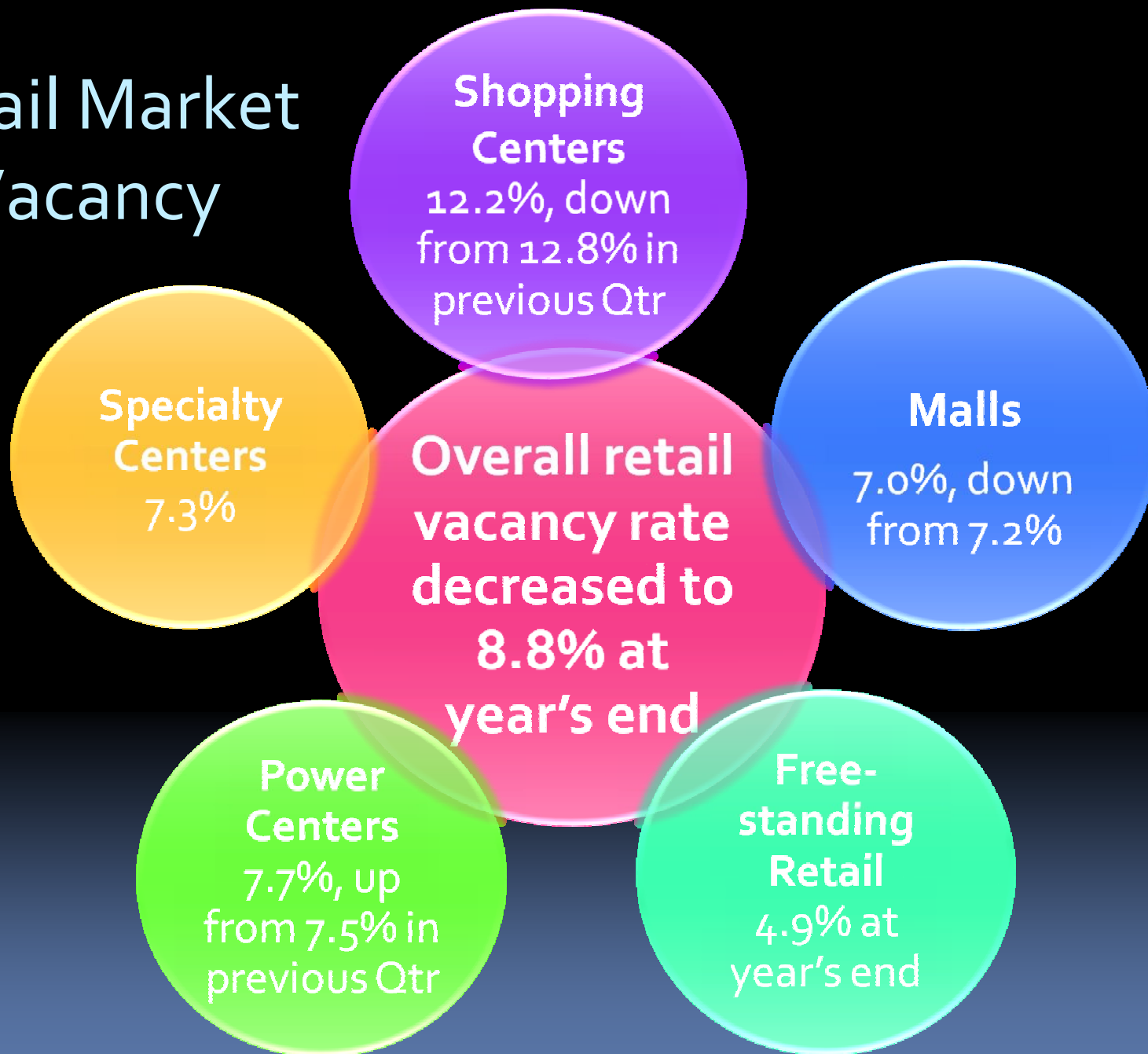
Apartments: New Construction

- Construction has seen a drastic decrease due to current over supply of units and lack of funding
- Of the new complexes entering the market, four are tax credits and four are senior housing
- The northwest portion of the county leads in the number of new apartments being constructed, primarily Katy and the far western edge of the county

Commercial Real Property: Retail

- Overall, 2009 was rough year for retailers as sales decreased 6.8%; only the second annual decline since 1967
- Next several quarters will see little or no improvement in overall vacancy, leasing activity and retail sales growth
- Capitalization rates have slowly risen and rental rates are flat or in decline

Retail Market Vacancy



Retail Market: Vacancy Highs and Lows

- Highest vacancy rates in the far north parts of Harris County and near northwest areas along FM 1960
 - Rates are 12-16 percent
- Lowest rates are inside the West Loop, the Galleria area, and outside the West Loop along I-10
 - Rates are well under 10 percent

Retail Market: Rental Rates

- Average asking-rents for 4th Qtr 2009 increased to \$15.76 per square foot; up from \$15.18 per square foot in 3rd Qtr 2009
- Overall, rents have remained basically flat with only slight changes up or down over every quarter for past few years
 - More variation by individual property type

Retail Market Rental Rates

Two property types
comprise 80% of
Houston's inventory

Shopping Centers

\$15.66 in 4th Qtr
2009; up from \$15.16
in 4th Qtr 2008

Free-standing

\$14.21 in 4th Qtr 2009;
down from \$14.99 in
4th Qtr 2008

Retail: Rental Rate Highs and Lows

- Highest rental rates were in Downtown, Galleria, and areas inside the West Loop, such as Greenway Plaza and River Oaks
 - Rents ranged from \$24.00 - \$38.00 per square foot
- Lowest rates were in Pasadena, Galena Park and Channelview
 - Rents ranged from \$10.00 - \$12 per square foot

Retail: Challenges for Recovery

- Houston retail market is likely to remain soft well into 2010
 - Negatively affected by continued high unemployment rates
 - Slowly recovering housing market, particularly for new housing starts
- Major challenges facing retail market:
 - Constrained credit and weak consumer spending
 - A continuing shortage of capital for businesses and investors

Retail: Positive Factors for Recovery

- Negative effects of current market turmoil will ultimately be mitigated by:
 - underlying strength of local economy
 - mild recovery in oil prices
 - continued population growth locally

Community Shopping Center/Power Center: Capitalization Rates

Class/Area	2009 Model Cap Rate	2010 Model Cap Rate
Class A	7.75%	9.50%
Class B	8.75%	10.50%
Class C	9.25%	11.50%
Class D	9.75%	12.25%
Overall Cap Rate	8.87%	10.94%

Neighborhood/Strip Shopping Centers and Multi-Occupancy: Capitalization Rates

Class/Area	2009 Model Cap Rate	2010 Model Cap Rate
Class A	7.75%	10.25%
Class B	8.75%	11.25%
Class C	9.25%	12.25%
Class D	9.75%	13.00%
Overall Cap Rate	8.87%	11.69%

Commercial Real Property: Medical Office Buildings/Condos

- Medical real estate is fairing better than other property types due to:
 - aging baby boomers demand for health care services
 - relocation of some medical procedures to outpatient settings, such as surgical centers, imaging and diagnostic centers, and free-standing 24-hour emergency care centers
- For tax year 2010, values are to remain stable or increase slightly

Medical Office Buildings/Condos: Vacancy

- Vacancy rates decreased to 12.7 percent as of 4th Qtr 2009 compared to 14 percent in 4th Qtr 2008
- According to appeal documentation, recently developed Class 'A' medical office buildings had not reached stabilized occupancy
- Market rental rates within this class will remain stable until available space is absorbed

Medical Office Buildings/Condos: Rental Rates

Class	TX Medical Center PSF	Suburban Markets PSF
A	\$24.00 - \$35.00	\$19.00 - \$32.00
B	\$18.00 - \$25.00	\$16.00 - \$24.00
C	\$16.00 - \$19.00	\$13.00 - \$17.00
D	\$14.00 - \$16.00	\$10.00 - \$13.00

Medical Office Buildings/Condos: New Construction

- Despite decline in new construction, new development continues in the suburban areas and the Texas Medical Center
 - New construction activity for 2010 will primarily consist of projects that were not completed for tax year 2009

Medical Office Buildings/Condos: Potential for Future Growth

- Universal healthcare will propel uninsured and underinsured to the healthcare system creating an even stronger demand for medical space

Commercial Real Property: Hospitals

- Houston Chronicle reported that 30 hospitals have renovated and expanded their facilities since 2005
 - Texas Children's Hospital, The Methodist Hospital, M.D. Anderson Cancer Center and Baylor College of Medicine have projects under construction
- Physician-owned hospitals have prompted pending legislation that would prohibit these facilities from receiving Medicare and Medicaid reimbursements and limit them from expansion
 - If bill passes, these hospitals will not survive and physicians will lose their investments

Hospitals: Construction Costs

- Appeal documentation submitted in 2009 indicate costs for new hospitals range from \$200 - \$263 per square foot
- Despite reported increases in 2007, construction costs have decreased since 2008
 - Concrete and steel costs have decreased by as much as 15 – 20 percent since late 2008

Hospitals: Health Reform

- Fierce Healthcare news states that hospitals would benefit
- White House agreed with American Hospital Association that hospitals would contribute \$155 billion in cost savings over 10 years
 - the expansion in health insurance coverage would allow hospitals to be paid \$171 billion

Hospitals: 2010 Market Values

- Cost tables were revised to reflect current depreciation
- Sales support an overall price per square foot for hospital facilities ranging from \$102 - \$280
- New construction primarily consists of facilities that are tax exempt
- Values are to remain stable or increase slightly

Commercial Real Property: Warehouses

- Despite positive effects of Houston's energy sector and the Port of Houston, there was still a slowdown in the number of sales and the number of new leases
- Increase in vacancy even with developers slowing new construction
- Rental rates have declined on a year over year basis for all property types in 4th Qtr 2009
- For tax year 2010, a slight decline in market values is expected

Flex Warehouse: Capitalization Rates

Property Class	2009 Model Cap Rate	2010 Model Cap Rate
Class A	8.00%	9.00%
Class B	8.50%	9.50%
Class C	9.00%	10.00%
Class D	9.00%	10.50%
Overall Cap Rate	8.62%	9.75%

Mini Warehouse: Capitalization Rates

Property Class	2009 Model Cap Rate	2010 Model Cap Rate
Class A	9.50%	9.75%
Class B	9.50%	9.75%
Class C	10.50%	10.75%
Class D	11.00%	11.25%
Overall Cap Rate	10.12%	10.38%

Office Warehouse: Capitalization Rates

Property Class	2009 Model Cap Rate	2010 Model Cap Rate
Class A	8.00%	8.75%
Class B	8.00%	9.00%
Class C	8.00%	9.25%
Class D	8.00%	9.50%
Overall Cap Rate	8.00%	9.13%

Distribution Warehouse: Capitalization Rates

Property Class	2009 Model Cap Rate	2010 Model Cap Rate
Class A	8.00%	8.75%
Class B	8.50%	9.25%
Class C	9.00%	9.75%
Class D	9.00%	10.25%
Overall Cap Rate	8.62%	9.50%

Commercial Real Property:

Hotels/Motels

- Average daily rates have decreased to \$113.85, with an average 7.7 percent decrease from 2008
- Overall, Revenue Per Available Room (RevPar) decreased an average of 20.9 percent in the Houston area
- Area-wide occupancy fell to 55 percent in 2009, and is expected to be about 55.2 percent in 2010

Hotels/Motels: Capitalization Rates

Class/Area	2009 Model Cap Rate	2010 Model Cap Rate
Class A	7.50%	9.50%
Class B	8.00%	10.50%
Class C	8.50%	11.00%
Class D	9.00%	11.50%
Overall Cap Rate	8.25%	10.63%

Hotels/Motels: Rental Rates

Sub-market	2008	2009	Variance
Southwest Houston	\$110.52	\$95.99	-13.2%
Galleria Post Oak	\$161.30	\$140.35	-13.0%
Katy Freeway	\$103.75	\$92.60	-10.7%
Central Business District	\$164.48	\$148.94	-9.4%
Northwest	\$97.36	\$88.28	-9.3%
Westchase	\$118.07	108.89	-7.8%
Texas Medical Center/Reliant Park	\$124.46	\$119.36	-4.1%
East Baytown	\$66.24	\$64.10	-3.2%
Intercontinental	\$102.83	\$100.89	-1.9%
Hobby Airport	\$78.90	\$74.85	5.1%
Bay Area	\$97.97	\$101.22	3.3%

Commercial Real Property: Malls

- For tax year 2009, the market reflected a 4.11 percent decrease in certified value for the twelve independent malls in Harris County
- Of the sixty department stores in Harris County only forty-two stores are open
 - Decrease in certified values of 5.72 percent for tax year 2009

Commercial Real Property: Malls

- For 2010, a continued drop in gross sales has resulted in further decreases
 - Growth of discount stores, such as Target, Kohl's, Marshall's, TJ Maxx, Ross and Wal-Mart have lessened department store sales

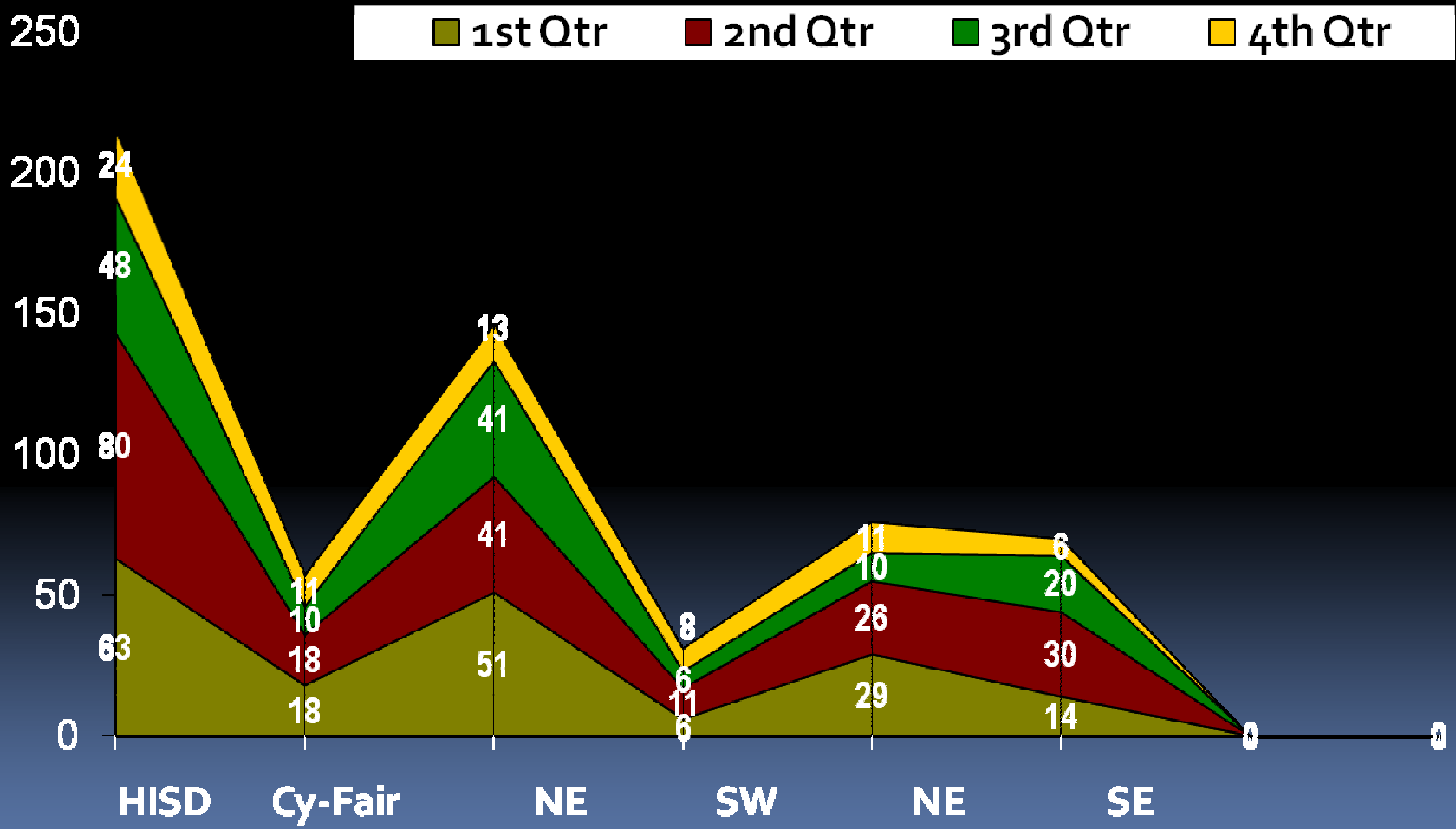
Malls: Capitalization Rates

Class/Area	2009 Model Cap Rate	2010 Model Cap Rate
Class A	7.50%	9.25%
Class B	8.00%	9.75%
Class C	8.50%	9.75%
Class D	9.00%	10.75%
Overall Cap Rate	8.25%	9.88%

Commercial Real Property: Vacant Land

- The petrochemical industry, the ever-growing Port of Houston, and the Houston Medical Center helped maintain the strength of the land segment
- Factors that may affect land valuation include zoning in various cities and the floodway issues in the City of Houston
- Commercial land prices are expected to remain flat or decrease slightly

Vacant Land: Harris County Sub-Market Sales by Qtr and Area



Industrial Real Property: Refineries

- Global oil demand declined through 2009 for the second straight year
 - Largely due to declining consumption
- Year-to-date, demand for refined products is down more than 5 percent compared to 2008
 - Distillates (diesel and fuel oil) leading the way at 9 percent down
- Coking refinery gross margins are off more than 50 percent for the same period

Industrial Real Property: Refineries

- The margin squeeze correlates with the price of heavy sour crude that has risen from \$30 to \$70 per barrel over the course of 2009
- U.S. and European-based refiners have reduced their operating rates, idled units, and curtailed or postponed expansion plans

Industrial Real Property: Refineries

- At year end, inventory stocks of crude were about 11 percent above 2008 levels
- Product inventories will be slightly higher than 2009, especially in jet and diesel supply
- A lack of recent sales, weak margins, and demand for refined products will serve to reduce refinery values in 2010

Industrial Real Property: Chemical

- The world gross domestic product (GDP) grew 5.2 percent in 2007, but slowed to 3.2 percent in 2008
- The recession took hold and the economic growth became a negative 0.08 percent in 2009, the lowest since World War II
- Gulf Coast chemical industry is largely dependant on world GDP

Industrial Real Property: Chemical

- It's likely that inventories will be down in both value and quantity for 2010 as compared to 2009 numbers
- Values for plants that have no new capital additions will be down, but the degree is debatable and will vary between commodity and specialty chemical producers

Industrial Real Property: Utilities

- **Electric** – the 2010 values should decrease slightly compared with the 2009 values due to a lack of expansion in the construction industry
 - CenterPoint Transmission and Distribution net income was down 1.5 percent at the end of the 3rd Qtr 2009
- **Gas Utility** values should decrease slightly for 2010

Industrial Real Property: Utilities

- **Gas Storage** facilities will have little change in the infrastructure and will result in a flat value of the plant and equipment for 2010
- Gas volumes will likely be significantly higher in 2010 with anticipated new volumes partially offset by lower prices

Industrial Real Property: Utilities

- **Telephone** – overall, should continue to decline moderately
 - The continued introduction of Voice Over Internet Protocol (VOIP) as compared to the depreciation of older telephone equipment is slowing the value decline as they increase market share away from cable companies resulting from bundled packages for the consumer

Industrial Real Property: Utilities

- **Cable** – companies are looking at an expected decrease in value since the completion of analog to digital conversion, which occurred in June 2009
- The future of cable and telephone companies are unstable due to intense competition in their market
- Providing bundled services (phone, television, and internet) has created a challenging environment for these two industries

Commercial Personal Property

- The commercial personal property tax base, which grew at an annual rate of around 3.4 percent during 2009, will be flat in 2010
- Circuit City closed twelve stores in Harris County
 - The effect of these closures will be felt in 2010, as many of these stores had inventory on January 1, 2009
- This sector should be flat for 2010

Commercial Personal Property

- The dealer inventory sector of personal property decreased in 2009 by 12 percent
 - Dealer inventory is directly tied to vehicle sales
 - “Cash for Clunkers” helped vehicle sales in the 3rd Qtr 2009, but was not enough to offset the decrease for the entire year
- The value for this sector is expected to continue decreasing during the first two quarters of 2010

Harris County – Preliminary Estimate of 2010 Taxable Value *(as of April 1, 2010)*

(\$\$\$ BILLIONS \$\$\$)

	2009 Tax Base	2010 Tax Base	Overall % Change
Residential & Rural Improved	\$118.681	\$116.167	-2.119%
Apartments	\$19.178	\$17.191	-10.360%
Commercial	\$65.176	\$58.707	-9.926%
Vacant Land	\$10.352	\$10.019	-3.211%
Industrial Real	\$16.785	\$14.912	-11.155%
Utility	\$4.217	\$4.264	1.116%
Commercial Personal	\$25.182	\$25.335	0.609%
Industrial Personal	\$25.362	\$26.846	5.849%
Other	\$0.675	\$0.600	-11.049%
2009 Roll: February 26, 2010	2009 Roll Value	2010 Net Total	Net Pct Chg
	\$285.608	\$274.042	-4.049%