

April 26, 2006

Institute of Real Estate Management
Houston Chapter
5850 San Felipe, Suite 118
Houston, TX 77057

Re: 2006 HCAD Annual Meeting

Dear Members,

We attended the Annual HCAD Meeting of Property Tax Consultants and Company Representatives on April 18, 2006 at the Harris County Appraisal District's office at 13013 Northwest Freeway. This meeting was arranged to give taxpayers and their representatives a preview of new policies and procedures for the 2006 tax year as well as an indication of how the "proposed" values will be impacted for the various property types. The following is a summary of the highlights from this meeting.

PERSONAL PROPERTY

During the 2003 Texas legislative session Senate Bill 340 was enacted with regards to personal property renditions. Renditions are now mandatory and there are penalties for non-compliance. The bill calls for a 10% penalty for those personal property owners that file late renditions or do not file at all. Rendered information that is considered fraudulent as determined in District Court can be assessed a 50% penalty along with the prospect of criminal charges. Considering this legislation, it is advisable that all personal property be rendered for the 2006 tax year.

Projected growth in personal property is estimated at less than 2% for 2006. General office personal property declined in 2005 as a result of companies postponing acquisitions of new fixed assets.

RESIDENTIAL

According to the Houston Association of Realtors, "While most of the country saw housing figures slow toward the end of 2005, the Houston market experienced remarkable strength in the final quarter of the year." This was largely due to the post-hurricane impact. Home sales totaled over 64,000 for 2005, up 9% from the previous year. The median Home price for a single-family home reached \$142,000, a 5% increase over last year. The average home price rose to \$188,221, a 5% increase over 2004.

MULTI-FAMILY

The appraisal district noted there was a substantial turn in absorption from last year. They stated that in 2004, absorption was only 3,000 units while in 2005 absorption reached 32,000 units; only 4,000 of those units were absorbed by the end of the 2nd quarter, pre-Katrina and Rita.

The appraisal district also stated that the 2005 average rent is \$0.764 per square foot, up from the average of \$0.732 in 2004. This is consistent with the CB Richard Ellis Survey that indicated an average rent per square foot of \$0.768 for the 4th quarter 2005.

HCAD also indicated that supply was still coming on line with 7,194 units under construction. The areas with the most new construction are the Greenway-Inner Loop, West, Champions, Medical Center and Midtown areas.

Based on discussions with HCAD personnel, they are utilizing the following stabilized occupancy rates and capitalization rates in their 2006 Income Approach to Value are as follows:

<u>Class</u>	<u>Occupancy Stabilization</u>	<u>Capitalization Rate</u>
A	92%	8.0%
B	92%	8.5%
C	90%	9.0%
D	88%	9.5%

Capitalization rates on “Restricted” rents properties have been increased from 9.5% in 2005 to 13% for the current year.

OFFICE

HCAD stated the Houston overall office market remains steady throughout 2005, despite the negative absorption of 128,492 square feet from the Central Business District. Sub-markets with the largest concentration of energy and engineering companies such as the Energy Corridor, Park Ten Place and Westchase continue to remain strong. They indicated that cap rates have decreased in 2005, averaging 7.98 percent compared to 9.35 percent in 2004. Despite nominal growth in rents and occupancy, sale prices continue on an upward trend. They quoted average rents in the CBD at \$20.18 per square foot for Class A buildings, \$17.31 for Class B and \$14.49 for Class C. They also stated that the Galleria market has continued to improve with a year end absorption of 512,000 square feet.

The appraisal district noted that investors have spent nearly \$3.2 billion within the past 12 month period ending September 2005 to acquire office properties in the Houston area. In 2005, 61 office transactions closed, with a total volume of \$1.45 billion and an average price per square foot of \$117.03. That compares to 84 transactions totaling \$1.31 billion in 2004, with an average per square foot of \$95.01.

RETAIL

HCAD indicated all classes of shopping centers showed occupancy improvements. Overall occupancy was 86% at the end of 2005, which was similar to prior year. They stated that rental rates were up slightly and leasing activity remained strong. The most growth in this sector is occurring in the Northwest section of the county near Highway 290, Texas Highway 249 and the Tomball area.

INDUSTRIAL / WAREHOUSE

According to HCAD, absorption has increased throughout 2005. A net absorption of 2,319,516 square feet by the 4th quarter of 2005 was noted. Overall vacancy has dropped from 7.9% to 7.1% for 2006.

External and HCAD Cap Rate studies support a downward adjustment up to 1% in capitalization rates. Additional considerations are rising insurance expenses, decreasing management expense, increased job and employment growth and stabilized quoted rental rates through 3rd and 4th quarter 2005.

At year end 2006, 36 building were under construction having 1,977,119 square feet. Most of the activity is in the Northwest, Southwest and the North sub-markets.

COMMERCIAL: HCAD COMPARATIVE VALUE SUMMARY

<u>Property Value</u>	Market Value		<u>% of Change</u>
	<u>2005</u>	<u>2006</u>	
Major Office *	\$8.657	\$13.259	53.17%
Office Bldgs	\$4.391	\$5.945	35.41%
Medical Office	\$1.210	\$1.572	29.98%
Apartments	\$13.209	\$15.527	17.54%
Retail	\$13.865	\$16.883	21.76%
Warehouses	\$8.255	\$9.941	20.42%
Vacant Land	\$3.808	\$5.299	39.18%
Malls	\$1.377	\$1.878	37.37%
Hotels	\$1.206	\$1.761	46.06%
Golf Courses	\$0.224	\$0.258	14.72%

*Includes CBD, The Galleria/West Loop, Greenway and Greenspoint area

CONCLUSION

The Harris County Appraisal District assesses values on over 1,700,000 tax parcels annually. Consultants represent approximately 50% of the hearings, while the balance are heard by the property owners themselves. The owners are typically attending hearings on their residences. Saturday hearings are going to be necessary over the summer, and currently seven Saturdays are scheduled.

Please keep in mind that the statistical information provided is in the aggregate for that property type and the impact to any specific property could be higher or lower. HCAD stated that the 2006 Notices of Appraised Value are currently being sent out in bulk daily.

We look forward to the upcoming valuation challenges. Please call with any comments or questions.

Sincerely,

Rainbolt & Alexander, LLP

Terrell J. Rainbolt
Partner

Russell Alexander, MAI
Partner