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Prime Commercial Property

FOR SALE OR BUILD TO SUIT

Land Size: 6.0932 acres or 265,417 sq. ft., with 350 ft. frontage on the Southwest Freeway (Site plat is available upon request).

Subject

Property: Legal Descriptions: A tract or parcel of land containing 6.0932 acres (265,417 SF), located in the C. McKinzie Survey, Abstract 560, Harris County, Texas, said 6.0932 acre tract being known as all of Unrestricted Reserve "A", Block 1, of Windwater Village At Regency Square Partial Replat No. 1, an addition in Harris County, Texas, according to the plat as recorded in Film Code No. 565063 of the Map Records of Harris County, Texas (latest 2007 survey with field notes is available upon request).

Location: Subject Property is located about 3 miles from the Galleria, and is the only large parcel of vacant land available on the desirable homeward bound (south bound) side of the Southwest Freeway between downtown and Beltway 8. Southwest Freeway is the busiest roadway in the entire State of Texas, with over 341,940 cars passing through this segment each working day based on the most recent traffic count conducted in 2005 by Texas Department of Transportation. It is also known as the Interstate 69 "NAFTA" freeway handling trade between Mexico and the United States. The market exposure on this freeway is enormous. There is a freeway exit right before this property and an entrance shortly after this property, making it the most ideal for retailers. This property is also located just one block from the Westpark Tollway, as well as a short walking distance to the Hillcroft Transit Center. Thousands of commuters merged into this Transit Center each working day to ride the bus to downtown. Hillcroft Transit Center is also designated as the main transit terminal of the next phase of Metro's light rail system.

Sales Price: \$4,900,000 (\$18.50 per sq. ft.) based on gross area

Sales Price covers the entire 6.0932 acres which includes the private drive easement and approximately \$500,000 of pavement/utilities improvements.

Terms: Cash or negotiable terms

Earnest Money: \$100,000, to be credited against purchase price at closing.

Access: To ease the traffic flow off the busy feeder road, Regency Square Association has approved Subject Property to connect Windwater Parkway to Dale Carnegie Street, which leads to multiple street routes within Regency Square. An adjacent land owner has also allowed this property to use an existing private access connecting Subject Property to Bellerive Street, thus making this property with two secondary ingress and egress points in addition to the feeder road on the Southwest Freeway.

Use: There is no limitation to the use of Subject Property by the City.

Appraised Value: In 2001, the Harris County Central Appraisal District (HCAD) appraised Subject Property at \$6,874,400, before seller protested and brought the tax assessment down (available for review upon request).

In December 2004, seller's lender Texas State Bank ordered an independent appraisal of Subject Property conducted by The Coole Company, Inc., a Texas certified real estate appraiser. The appraised value was \$4,925,000 (available for review upon request).

In March 2007, in conjunction with owner's refinancing, First National Bank ordered an independent appraisal from CBRE, one of the largest commercial real estate firms in the country. It was appraised at \$4,910,000 on 5.26 acres, excluding the land and improvements of the private drive, or \$5,510,000 (according to the appraiser) if the entire tract is included. Unlike typical easements, this non-exclusive private drive easement is simply a vehicle ingress/egress easement to allow homeowners in the Windwater Village community behind Subject Property passing through to the freeway, as well as for landscaping easement for entry monument and beautification.

Although details have to be work out in writing, the Windwater Village HOA has agreed to allow future user of Subject Property to delete all but last 100 ft. (x 50' wide) of the private drive easement upon future development of Subject Tract, subject to the future developer building them a new entrance off the adjacent Dale Carnegie Street (by connecting approximately 20 ft between Windwater Parkway and Dale Carnegie Street, already approved by the Regency Square Association), relocate the existing gates, and build a new masonry wall to enclose the 50' x 100' remaining driveway easement inside their new gate. Therefore, for those who may wish to delete this 0.833 acre private drive easement, they do have the option to delete all but the last 5,000 sq. ft.

Alternatively, the buyer can leave this non-exclusive easement as is which does not hinder the development of Subject Property. This easement does not prevent future user of Subject Property from building upper floors of a structure over the private drive, remove the fence along the drive, or relocate the driveway to suit a land plan, as long as residents in Windwater Village has vehicular access to the feeder road. Most importantly, it is not possible to purchase the 5.26 acre without buying the private drive because Texas Department of Transportation (TxDOT) allows only one driveway opening onto the busy freeway feeder road.

In reality, any user of Subject Property will need to build a private drive into the property to serve its use therefore, it is to the benefit of the buyer to purchase the land covered by the private drive at land cost but get the estimated \$500,000 of pavement improvements free. Based on the current agreement with the HOA, maintenance expenses for this private drive will be shared 50/50 between the homeowners and the Subject Property user, once the commercial property is developed. Until then, the HOA pays 100% of the maintenance expenses of the private drive.

Flood Plain: Not in the 100 year flood.

Phase I: No environmental problems. Phase I and full environmental determination documents are available upon request.

Engineering: Based on a retail center layout designed by the engineer of a retail center developer recently, neither the City of Houston nor Harris County Flood Control requires on site detention.

Community: Subject Property is the un-restricted reserve of a planned community called Windwater Village. The Village is a gated community of 100 upscale patio homes, priced from mid \$200's to low \$300's. This community features an 80 ft. pool, a fitness center, waterfalls, fountains, fish pond, jogging trail, etc. About 90% of the homes were sold in the first two years, making this small inner city community listed among the top selling projects in the nation according to the national *Builder* magazine. Windwater Village is part of a large planned community of Regency Square, which consist mostly office buildings, centered around one of the largest and most beautiful fountains in the Houston.

Market Study: Seller has recently conducted a market study for a large REIT interested to develop a large project involving Subject Property and some adjacent properties. In the study, it was determined the Best and Highest Use of the properties are retail center in the front and retirement living and/or professional medical buildings in the back as follows:

As is the case in most major cities, there is hardly any vacant land near the center of the city to accommodate a large development project. Typically, it involves tearing down existing businesses or buildings for the land and redeveloping it into something new. The Subject Property area is prime for redevelopment. Along the 10 miles segment of the Southwest Freeway 59 south of downtown Houston are some of the most desirable developments and attractions such as Toyota Center, Minute Maid Park, George Brown Convention Center, Greenway Plaza, Lakewood Church, Galleria, Regency Square, Memorial Hermann Southwest Hospital and professional buildings campus, Arena Towers, as well as upscale car dealerships such as Mercedes, Ferrari, BMW and Porches. Further out to the suburbs, Southwest Freeway leads directly into Sugarland and Fort Bend County where many of the most desirable large planned residential communities are located, including the 1,000 acre Lake Olympia project developed by ward winning developer Andrew Choy. Fort Bend County has been one of the fastest growing counties in the nation in the past 20 years. Continue heading south on Southwest Freeway 59 leads all the way into Mexico. This is why this freeway has been designated as Interstate 69 “NAFTA” freeway referring to the transportation backbone of the U.S. free trade agreement with Mexico, Central and South America. As we pointed out earlier, this segment of Southwest Freeway has an average daily traffic count of 341,940 units. From a retailer’s standpoint, marketability and exposure at such location would be the most desirable. In 2000, City of Houston created Tax Increment Reinvestment Zone (TIRZ) No. 20, also known as Southwest Houston Reinvestment Zone. This is a popular vehicle created by the City of Houston to revitalize many older areas and it has been working amazingly well throughout the city. Basically, when a TIRZ is created, the city may issue tax increment bonds or notes, the proceeds of which may be used to pay project costs on behalf of the Zone. Upon creation of the proposed redevelopment authority, the authority may be authorized to incur debt and or obligations to satisfy developer reimbursements for eligible project costs. If such bonds are issued, bond proceeds shall be used to provide for the project related costs. When appropriate, developers will advance project-related costs and be reimbursed through the issuance of bonds, notes or other obligations. The purpose of the TIRZ is to provide the necessary public improvements to support commercial development or redevelopment and some residential development. Both Harris County and City of Houston participate in the TIRZ plan to stimulate redevelopments. The concept of TIRZ does not involve increase of any property tax rate. It simple reinvests newly increased tax revenues derived from values added when redevelopment works are completed. It creates an incentive for developers since part of the improvements may be qualified for reimbursement.

In addition to the TIRZ #20, the City of Houston also created a Sharpstown Public Improvement District (PID). Unlike the TIRZ, the PID actually assesses an additional property tax to generate funds for public improvements within the district, such as upgrading streets and utilities, add landscaping and security, or even providing marketing to promote the area within the PID. Currently, the PID is assessing \$0.06 per \$100 values on all commercial properties within this PID. In past years, the PID has raised about \$250,000 a year and has spent it on limited public improvements in the area. In order to raise more funds needed, a new Greater Sharpstown Management District has just been created earlier this year. Essentially, the Management District acts like a PID. Since the law prohibits a PID to annex more properties, the Management District is created to cover a much larger area. The tax rate will remain the same, at \$0.06 per \$100 value, and the properties already located within the PID will not be paying double taxes. The new Management District is projected to raise \$826,000 per year, more than three times of what the current PID can raise. Current budget for the next 10 years are: \$2,891,000 for public safety, \$2,065,000 for environmental and urban design, \$1,652,000 for mobility and transportation, \$826,000 for business development, and \$826,000 for administration. A full Service and Improvement Plan for 2006 to 2015 is available upon request. In summary, with the assistance from the government to promote businesses, deter crimes and conduct public improvements, this area is well positioned for successful redevelopments and new projects.

The demographic of this area is available upon request. In general, this location is centered among many cultural groups. To the east less than a mile is India town where shops and restaurants of India are enjoying a rapid growth. Indian people are typically well educated and most are doctors and engineers. About two miles to the west is the vibrant Chinatown and Vietnam town, consisting of hundreds of Asian restaurants and shops spreading over tens of blocks covering a very large area. This area has been booming for years with constant new constructions. To the southeast about 3 miles, the area is dominated with Mexican shops and businesses. While Hispanic families traditionally are in poverty, they are now in third or fourth generations residing in this country. The new generations are well educated and have far more earning and buying powers than the older generations. Businesses no longer can afford to ignore this fastest growing ethnic group. Finally, about 3 miles to the north and northeast of the Subject Property, this area is dominated by the most affluent homes as high as several millions of dollars. Lined along Westheimer Road and Post Oak Boulevard are hundreds of upscale

restaurants, hotels, shops, Class A office buildings, etc. The center of this most desirable area is the Galleria shopping mall and the Williams Tower, the tallest building in the country outside the CBD (central business district). All of the above are no more than 3 or 4 miles (5 to 10 minutes drive) from Subject Property. Even downtown Houston and Texas Medical Center, the two largest employment centers in the city, are only about a 15 minute drive away.

Best and

Highest Use: (1) Active adult retirement housing.

The fastest growing market in the next 10 to 15 years is going to be the baby boomer market. The first group of the baby boomers (born 1946 to 1964) is hitting 60 this year. Currently, the 55+ households, estimated at 40 million, account for 36% of all households in America. By 2014, the 55+ population will grow to just over 85 million, that is 26% of the entire nation! Whether you like it or not, boomers are taking over the country! 77% of the boomers have no debts. Their net worth is 5 times the average of other age groups. The average net worth of the 65+ population is \$727,000. They represent 25% of total U.S. consumption. By 2010, the first group of the boomers will be in their peak wealth years, and the next tier of boomers will enter their peak earning years. In Texas, 2,525,672 head of households are 55 and up, according to 2005 American Community Survey, U.S. Census Bureau. In the past 4 years alone, Texas' 60 + population increased by 14%, from 2.9 million to 3.3 million. Therefore, if we target this market, we know that demand is certain to keep on increasing in the next 15 years because the huge boomer population will get older. Health care medical facilities and various types of retirement housing developments represent the two biggest sectors of the markets that will significantly benefited from the fast growing of this target age group, which is driven mostly by need, not by choice. Others such as travel industry and second home markets could also gain in market shares but those are driven by choice and wealth. Another distinction for this age group is that many of them are returning to singles, whether they are the surviving spouse or divorcees. They could be young at heart, active but otherwise lonely. There are many types of retirement homes. Those 75+ needing assistance or medically handicapped will have to stay at nursing homes or assisted living communities. Those very wealthy and still enjoy playing golf every day will likely purchase a luxury home in retirement resorts like Sun City or second homes in Colorado or Hawaii. The great majority of the boomers are going to be 55 to 65 in the next decade, presumably still very active and healthy, but being pushed away by their sons or daughters due to generation gap. These group of "young" and active seniors need to live their own lives, preferably near the other men and women in their age group so they will be happier and live longer, instead of getting bored or depressed. Finally, most seniors prefer to live

in warmer weather areas. This is why most retirement home communities are found in Arizona, Florida, California and some in Texas. Texas seems to have far more demand for retirement developments than the supply. Average temperatures in Houston range from 51.8 F in January to 83.6 F in July. Gentle winters are appealing to the senior group. Therefore, in conclusion, our “Best and Highest Use” is to build a retirement living building(s) or campus for active adults on Subject Property.

(2) Professional “Medical” Buildings

Our second Best and Highest Use for Subject property is a professional building for doctors and medical related businesses. Unlike regular office buildings, most Class A professional buildings for doctors are 100% leased. In fact, according to some doctors, they couldn't even renew their lease in their own space due to the high demand for their spaces. A recent project of 4 Class A medical buildings are being built around the Memorial Hermann Hospital at Memorial City, about 7 miles from this property. First three buildings just completed are 100% leased. In fact, Building #3 has a sign in front indicating 93% leased, which is actually 100% leased, faster than they could update the sign. Building #4 is under construction, and pre-leasing is being filled up quickly at \$26/SF.

Houston is world renowned for its state-of-the-art medical care. The 740 acre Texas Medical Center is like a city within a city, loaded with specialty hospitals and medical facilities. It is the largest medical center in the world with 5.2 million patient visits a year. Almost 10,500 international patients seek medical care in Houston each year. More than 10,600 physicians practice in the Houston area. The largest group of hospitals are owned and operated by Memorial Hermann. One of their hospital campuses, the Memorial Hermann Southwest is located less than 2 miles (a 5-minute drive) from Subject Property also along the Southwest Freeway. They just recently added two more new buildings and upgraded their existing facilities at this hospital campus. Physicians prefer to have their practice close to major hospitals because they refer business to each other and easy access to the hospital for patient visits or surgery. Subject Property being less than 5 minutes drive to the Memorial Hermann Southwest Hospital will be a great attraction to doctors and other medical related businesses. Also, Subject Property is within walking distance to India town. We mentioned most immigrants from India as well as their next generation are doctors. Subject Property will provide them all the convenience they would desire. Finally, doctors typically are perfect tenants. Most of them stay in one place for a very long time. Once they have built up their client base, they prefer to expand than move. Also, medical buildings are usually built to suit since certain doctors, testing labs, or dentists are required by law to handle certain chemicals in specially designed disposal pipes. It may be difficult for some to relocate to buildings without such a construction requirement. Therefore, our

second Best and Highest Use is Professional Building for doctors and medical related businesses. This idea will also integrate nicely with the retirement home community next door whereby residents will have the convenient access of visiting their doctors and doctors will enjoy having regular business from an adjacent building full of seniors. Wouldn't it be wonderful if the seniors could walk to their doctor's offices without needing a ride? Such an arrangement will also eliminate the need to staff a resident doctor at the retirement building.

(3) Retail Center

The Highest and Best Use for the frontage tract is easy. Being on a freeway traveled by 341,940 cars per day, retail center is definitely the way to go. From a real estate standpoint, properties on the "homebound" side of a major thoroughfare is worth far more to a retailer than the "office bound" side simply because people usually go shopping on the way home. Subject Property is located not only on the more desirable "home bound" side of the freeway, it also has a freeway exit right before the Subject Property and an entrance back on the freeway right after Subject Property, a perfect combination. Retailers are enjoying a boom in the Houston market, with about 4.2 million sq. ft. of new retail space is expected to be completed and opened in 2007, a 17% increase over last year. According to O'Conner & Associates report released in September 2006 for the second quarter, Houston area multi-tenant retail buildings are 85.67% occupied. The citywide multi-tenant retail rental rate is \$18.72/SF per year (Regional = \$34.56; Community = \$18/SF; Neighborhood = \$13.80/SF; Strip = \$13.56/SF). Obviously, retail centers in good locations are mostly 100% occupied at higher rents while many strip centers in undesirable locations or class C or D centers may be completely empty. In the sub-market of our Subject Property, the market rental rates range from \$19/SF to \$22/SF, with upstairs space at about \$15/SF. Rental rates for restaurants are generally higher due to higher requirements for construction and parking spaces.

(4) Apartments

According to data obtained during the third quarter of 2006, overall occupancy for Houston area apartments projects is 89.75% (Class A = 92.04%, Class B = 90.53%, Class C = 87.57% and Class D = 84.63%). The overall rental rate is \$0.828 per sq. ft. (Class A = \$1.093; Class B = \$0.812; Class C = \$0.687; and Class D = \$0.593). Class A apartments in good locations are in high demand but others are still somewhat overbuilt. However, there is one area that is likely to help boost apartment occupancy in the coming months and years. Sub-prime lending to homebuyers who typically would not be qualified for a home mortgage increased from \$134 billion in 2002 to \$704 billion, most of which end up

in foreclosures. Both the lending institutions and lawmakers are tightening sub-prime lending guidelines which, undoubtedly, will lead to lower home sales and push marginal homebuyers back to stay in apartments. Also, recent trend in the inner city point to lofts – for rent or for sale, catered to young urban professionals (yuppies). The young professionals, mostly singles or couples with no children, prefer living close to the city or work. They hate wasting time on long commutes or taking care of the yard. Instead, they rather spend the extra time in health clubs or bar hopping. They typically work long hours, but their lives do not stop after work. Their living preferences are high end apartments or lofts.

(5) Office Buildings

Despite the relatively strong Houston economy, the office building market is still hurt by the old Enron problems. The collapse of Enron had created, directly and indirectly, millions of sq. ft. of vacant office spaces. Over the years, Houston has been able to absorb most of these vacant spaces. Today, the office market is stable but outside the CBD, the demand for office building spaces is still relatively soft. The recent strong growth of the energy companies helped in some degree. Overall, citywide occupancy for multi-tenant office buildings is around 84.24% (Class A = 87.02%; Class B = 82.99%; Class C = 81.89%; and Class D = 79.29%). The citywide average annual rental rate is \$18.44 per sq. ft. (Class A = \$21.15, Class B = \$17.17, Class C = \$13.77 and Class D = \$11.27). Overall rents were up \$0.38 from 2005 to 2006. Typically, in a soft market, the Class C & D buildings tend to suffer the most. Class A buildings usually remain near full occupancy because when rental rates become attractive, Class B tenants move to Class A buildings, Class C tenants move to Class B buildings, and so forth. Since high-rise office buildings take a couple of years to plan and develop, the absorption should be determined by projections of future economy, rather than current market condition.

