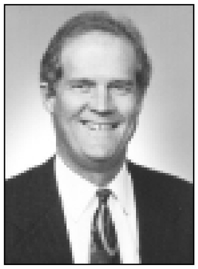
REAL ESTATE INVESTMENT

TRENDS

A PUBLICATION OF THE HENRY S. MILLER COMPANIES

MID-YEAR 2001



Thomas L. Ford
Senior Vice President
Office Division

DOWNTOWN HOUSTON IS WHERE THE ACTION IS

That statement holds true today more so than anytime since the late 1950's when development began its move to the suburbs.

Fueled by a strong sustainable economy affording job growth and with Enron Field as the life style catalyst, Houston's CBD Central Business District has been transformed. What was once an 8:00 a.m. to 5:00 p.m. office location has become a pleasant place to live and/or be entertained. The new basketball arena, convention center hotel and expansion of the George R. Brown convention center will each help future private sector development in the City's core.

Mark H. Wood
Vice President
Office Division

Some will certainly debate the positive effect of rail on Main Street linking downtown to the Texas Medical Center and south to Reliant Park. Pro or con on the issue of rail on Main Street, the fact remains that in a few years you can live or work in downtown and ride a train to Reliant Park to watch the new Houston Texans play NFL football.

In addition to dozens of historical property renovations, four new major office towers are under construction. Enron Center South will contain 1.2 million square feet and be totally occupied by Enron. Five Houston Center will be 577,000 square feet and is currently 70% leased by tenants such as Ernst & Young, Jenkins & Gilchrist and Davis, Hamilton, Jackson & Associates. Other tenants will be Fibich Hampton Leebron, Jackson Walker and Aquila Energy. The Calpine Center is currently 44% leased with Calpine taking approximately 300,000 square feet of the building's 690,000 square feet. 1000 Main will have 36 levels and

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Lacy Miclette Price
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INNER CITY APPEAL DOESN'T HINDER GROWTH OF SUBURBS

According to the Greater Houston Partnership, "employment, population, wages, housing starts, retail sales, gross product starts and other indices are all forecast to continue their upward climb [in Houston]". While the national economy and real estate markets have slowed, Houston is catching the attention of national investors and developers for its continued economic expansion. Their requirements are simple, 20 to 150 acres anywhere inside Highway 6. Brazoria and Fort Bend Counties, which both lie south of Harris County, are experiencing overwhelming growth due to the availability of large land tracts relatively close to downtown Houston and the Medical Center. As Houston continues its metamorphose, counties like Fort Bend and Brazoria will have a drastic impact on our future economic expansion.

Their proximity to downtown and the Medical Center only make these two counties more attractive to families looking for a better quality of life and a short commute. In November 2000, Fort Bend citizens overwhelmingly approved a mobility bond issue, $60 million in revenue bonds, for the Fort Bend Parkway Toll Road. Upon its phase one completion, the toll road will link Highway 6 and the Beltway, west of Highway 288. This will open up access and shorten commutes for residents living in Highway 6 subdivisions like Sienna Plantation, as well as elevate some of the traffic jams that stack up on Highway 288 and US Highway 59 during peek travel times.

But, there is more to Brazoria and Fort Bend counties than a close commute. These communities offer Houstonians a better quality of life at an affordable price. For example, you can still buy a 3,000 square foot house in a golf course community for $150,000. Both counties have exemplary school districts and all the conveniences of suburban

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contain 883,000 square feet. Reliant Resources will occupy 525,000 square feet or 59% of the tower.

Another development soon to be underway for downtown is Ball Park Place containing 300,000 square feet of office space and 255 apartments.

Class A office rental rates in the CBD are averaging $28.00 per square foot. Rental rates for new construction are slightly higher beginning in the low $30's.

Occupancy levels are at 97% for existing class A space downtown and no rental rate relief is in sight, given the success of the pre-leasing activity for the new buildings. Overall, occupancy for the Central Business District is 93%, with average rental rates in class B properties at $19.00 per square foot and class C properties at $15.00 per square foot.

The only recent set back for downtown Houston besides tropical storm Allison is the constant street construction. Tenants for the most part seem to tolerate this temporary inconvenience realizing that after the hassles a new and improved street infrastructure will add yet another amenity to the downtown experience. Even with higher rental rates and a premium of as much as $4.00 per square foot to cover parking costs, many office tenants want to remain in the city's core. After all, good job growth and intelligent development has appeal to certain office tenants who want to be where the action is, downtown Houston.

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living, including community involvement, entertainment, and shopping. The populations in these counties have both nearly doubled in the past ten years, and according to their economic development councils, one in five of all new comers to the eight county region chose to live in one of these counties.

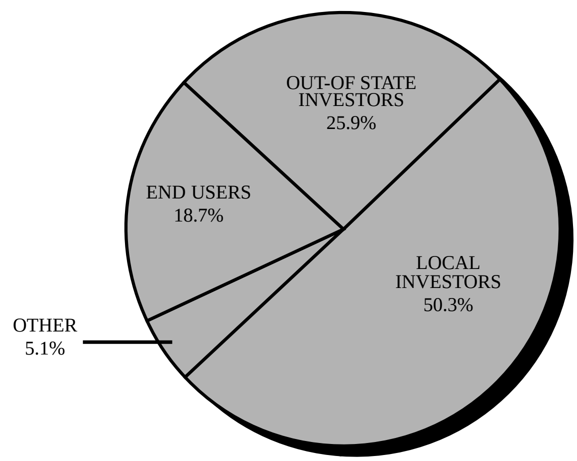
Houston has not experienced the growing pains of cities, due to a seeming endless supply of land and a strong economy that is more diversified than 20 years ago. Houston is ready for the growth of the future and Fort Bend and Brazoria Counties are working in conjunction with other area counties to make sure the infrastructure is in place to make Houston one of the most attractive cities to live, work, and play.

TRENDS - The information contained herein is the result of a survey of participants in the commercial real estate markets of **North Texas** for the first half of 2001. The respondents include local and national developers, asset managers, loan officers in local and national lending institutions, brokers, as well as consultants, mortgage bankers and individual investors. Some of the data reported reflects a weighted average using the transactions and total dollar amounts as the basis. Thus, the respondents that were the most active within the period had more influence on the data reported.

The responding group as a whole participated in 150 transactions totaling approximately $468 million during the first half of 2001. Of the respondents, 11.1% were lenders, 11.1% were investors, 66.7% were brokers and 11.1% were other real estate professionals.

"Who are the active buyers in today's market?" The following chart reflects the active buyers, based on the number of transactions.

ACTIVE BUYERS



INVESTMENT OPPORTUNITY IN 2001

Industial properties were viewed as being the best investment opportunity, followed by apartment, retail, land, office and hotel properties. The participants were asked to provide their forecast for the remainder of 2001; 4.8% said great, 38.1% think good, 52.4% say stable and 4.8% anticipate a decline.

We asked respondents to estimate changes in revenue and expenses by property type, which is demonstrated in the following table.

REVENUE AND EXPENSE EXPECTATIONS

Property Type	Year 1		Year 2		Thereafter	
	Revenue	Expense	Revenue	Expense	Revenue	Expense
Apartments	3.89%	3.30%	4.21%	3.67%	4.25%	3.63%
Office	0.83	2.71	0.80	2.67	2.83	2.83
Retail	2.50	2.71	3.20	2.83	3.40	2.83
Industrial	2.79	3.07	2.90	3.25	3.10	3.25
Hotel	2.50	3.67	2.00	3.50	4.00	3.00

We asked the investment community about their acceptable returns when investing in land. The following yield rates reflect both leveraged and unleveraged returns. The data is more reflective of leverage or equity returns.

YIELDS FOR LAND

Property Type	Average	Low	High
Pad Site	37.8%	9.5%	100.0%
Industrial	25.0	9.5	50.0
Residential Lot Development	32.0	23.0	50.0
Speculative Land Purchase	46.8	14.0	100.0

Direct capitalization, expressed as a rate, converts a single year's net operating income into a value. The market recognizes three types of "Cap Rates." The "going-in" rate is based on the investor's analysis of the current income at time of purchase. The "stabilized rate" is based on the investment's typical operating year at a stabilized occupancy. The "reversion rate" is the capitalization rate anticipated by investors at the time of resale.

CAPITALIZATION RATES

Property Type	Going-In		Stabilized		Reversion	
	Average	Range	Average	Range	Average	Range
Apartments	8.9%	8.1-10.0%	9.3%	8.5-11.0%	9.5%	9.0-11.0%
Office	10.3	9.5-12.0	10.4	9.5-12.0	10.6	9.5-12.0
Retail	9.9	8.5-11.0	10.4	9.3-12.0	11.1	10.5-12.0
Industrial	9.5	8.0-11.0	10.0	9.5-11.0	10.1	9.5-11.0
Hotel	11.3	10.0-12.0	11.7	10.5-12.5	12.5	12.0-13.0

The capitalization rates reported are more reflective of Class A and B type properties and are broken out as follows: Class A 42.8%, Class B 40.0%, Class C 11.7% and Others 5.6%.

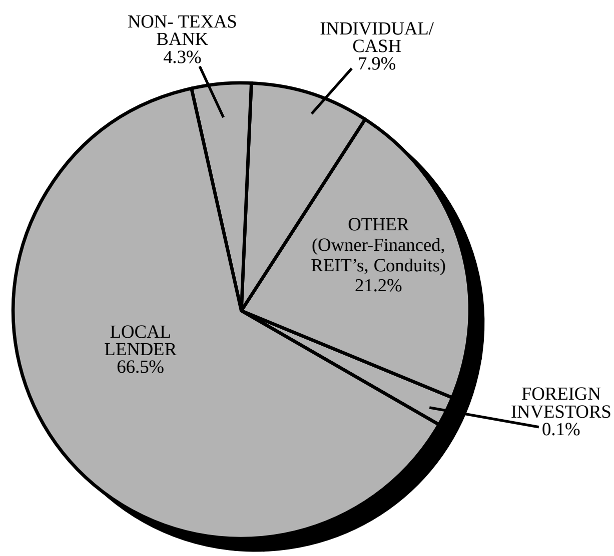
A discount rate (interest rate to the lender, yield to the investor) is the rate that equates the property's present value to its future income over a period of years and eventual resale. The following table presents the range and the average discount rates, as compared to the mid-year 2000. The discount rates presented in the table were allocated by property type as follows: Class A 55.0%, Class B 36.1%, Class C 8.9%.

DISCOUNT RATES

Property Type	Mid-Year 2000 Average	**Mid-Year 2001 Average**	Mid-Year 2001 Low	Mid-Year 2001 High
Apartments	11.7%	**9.8%**	8.5%	11.0%
Office	12.3	**10.7**	9.5	11.5
Retail	12.2	**12.1**	9.5	19.0
Industrial	11.6	**10.3**	9.0	11.5
Hotel	13.3	**14.3**	11.0	20.0
Ground Leases	10.0	**9.0**	8.0	10.0

The following graph shows the sources of funds used in the transactions (based on the dollar amount of the transactions.)

SOURCES OF FUNDS



When asked what would be a reasonable exposure time for a property to sell in the open market, the respondents answered as follows:

REASONABLE EXPOSURE TIME

Property Type	Months	Property Type	Months
Apartments:		Land:	
Class A	6.0	Leased Fee Sites	10.0
Class B	6.7		
Other	6.2		
Office:		Industrial:	
High Rise	12.4	Bulk Warehouse	8.2
Class A Suburban	11.0	Office/Warehouse	8.0
Class B	12.3	Tech/Flex	8.2
Other	13.1		
Retail:		Hotels:	
Regional	9.9	Full Service	10.9
Community	8.5	Limited Service	11.0
Neighborhood	8.0	Economy	10.1
Unanchored	10.6		

The following table reflects the anticipated term of ownership (from acquisition to resale) for certain property types.

HOLDING PERIOD
(YEARS)

Property Type	Avg	Range	Mode	Property Type	Avg	Range	Mode
Apartments	4.9	1.0-10.0	5.0	Industrial	6.2	1.0-10.0	7.0
Office	6.1	3.0-10.0	7.0	Hotels	7.1	3.0-10.0	10.0
Retail	5.9	10.-10.0	5.0	Ground Lease	8.4	3.0-12.5	10.0

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The following table reflects market averages and ranges for finish-out in office, industrial and retail properties. These are shown on a per square foot basis. Please note that the ranges for industrial reflect both bulk and flex type space. The upper end reflects flex space, with the lower end being more representative of warehouse or bulk type space and is usually only applied to the office portion.

FINISH-OUT

Property Type	New			Renewal		
	Average	Low	High	Average	Low	High
Office	$18.93	$8.00	$30.00	$8.00	$3.00	$15.00
Industrial	11.14	2.00	32.00	2.63	1.00	6.00
Retail	16.94	5.00	30.00	7.19	3.00	10.00

We asked the respondents what they used for a stabilized vacancy and collection loss when analyzing different property types. The following table summarizes their responses, presenting both the average and the mode.

VACANCY AND COLLECTION LOSS
(Average and Mode)

Multi-Tenant	Loss (%)	Single Tenant	Loss (%)
Retail:		Retail:	
Strip Center	8.6/10.0	Credit	2.7/1.0
Neighborhood	7.8/8.0	Non-Credit	6.9/5.0
Anchored	5.4/5.0		
Multi-anchor	5.1/5.0		
Office:		Industrial:	
Class A	8.7/10.0	Credit	3.4/2.0
Class B	8.9/10.0	Non-Credit	6.6/5.0
Garden (Class C)	9.7/10.0		
Small	9.3/10.0		
Industrial:		Office:	
Bulk	6.1/7.0	Credit	4.5/3.0
Flex	8.2/10.0	Non-Credit	7.5/5.0
Apartments:			
Class A	6.1/7.0		
Class B	6.8/7.0		
Class C	8.2/7.0		

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