



Investment Market Report

By Lang Motes, Senior Vice President

Despite all outward appearances, investment activity is still strong nationwide.

The mess we're in. The seemingly never-ending home price appreciation run crested and started its decent as home prices started falling in 2006. This shift started the residential subprime meltdown, credit market crisis, and tightened capital market lending standards. Weakened consumer confidence will also likely lead to less than stellar holiday retail sales further compounding an already complex economic situation. This makes you wonder where are we headed, but all signs indicate investors are still keen on parking money in commercial real estate.

Credit Markets. Impractical lending practices created the current subprime tailspin. As Greenspan put it, "The U.S. subprime mortgage crisis was an 'accident waiting to happen' as a period of unprecedented global growth seduced investors into underpricing risk." By all accounts a bail out plan is needed to provide the type of creativity and immediacy to turn this ship around.

Interest Rates. Fed Chairman, Ben Bernanke and The Federal Reserve are carefully weighing their options to keep the U.S. economy in balance. The quarter point reduction in interest rates on December 11th marks the third straight cut by the Federal Reserve. The question is, how low do interest rates need to be pushed to help stabilize the turmoil; or will interest rates alone even be enough?

Market Reports. Overall trading volume remains healthy in office, industrial and retail product types. Houston's office trends are remaining steady. However, nationally there is some concern with overbuilding and overpricing. Risk versus return ratios are getting tight and less attractive; therefore, a slowdown in the national office market is anticipated. We anticipate this slowdown outside of Houston first.

Houston's industrial market is currently relatively strong and is considered a hotbed of activity by investors even outside the area. Nationally the industrial market is considered very attractive with a shortage in inventory. Cap rates are experiencing little movement and pricing is still strong.

Consumer confidence and the economic and financial woes are all dragging down both the national and Houston retail markets. Sale prices are declining and cap rates are increasing so holiday retail sales will be an important factor this year.

The good news is, while money is getting tighter and spreads are widening, commercial real estate values are still holding steady. Here are the latest investment sale numbers.

| Period Stat | 12-Months Running | | | 3 rd Quarter 07 | |
|---------------------|-------------------|------------------------|-----------|----------------------------|---------|
| Product Type Area | Volume (Mil) | Size Weighted Price/SF | Cap Range | Avg Cap Rates | Vacancy |
| OFFICE | | | | | |
| National | \$259,000 | \$245 | 3.2-11.0% | 5.7% | 12.5% |
| Region | \$29,403 | \$149 | | 6.8% | 13.7% |
| Houston | \$4,245 | \$133 | | 7.1% | 11.9% |
| INDUSTRIAL | | | | | |
| National | \$62,200 | \$70 | 3.7-10.8% | 6.9% | 9.2% |
| Region | \$10,450 | \$60 | | 7.1% | 8.5% |
| Houston | \$1,080 | \$58 | | 7.5% | 6.8% |



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RETAIL

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|----------|----------|-------|-----------|------|------|
| National | \$84,500 | \$159 | 3.3-10.5% | 6.5% | 8.9% |
| Region | \$18,438 | \$139 | | 6.7% | 9.6% |
| Houston | \$1,777 | \$144 | | 6.8% | 13% |

If you are interested in learning more about the investment market, please contact Lang Motes at Indermuehle & Co.

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