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Real Estate Property Reuse as Contemporary Urban Anthropology

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Forward

The hypothesis of this white paper is to demonstrate that by engineering commercial real estate leasing and sales efforts to the methodology of “Contemporary Urban Anthropology (CUA)” articulated in this document, that any given property in any given market can be repositioned or re-tenanted to its classic appraisal definition of “Highest & Best Use (HBU).”

This white paper and associated case study embodies the author’s empirical experiences at repositioning displaced and functionally obsolete commercial real estate properties for over 25 years. The resulting analytic leasing and sales methodology has been responsible for successfully returning many obsolete properties to their respective markets and communities they once served.

Kyle is both an accomplished real estate practitioner and adjunct faculty in real estate at the Burns School of Real Estate & Construction Management, in the Daniels College of Business, at the University of Denver (DU). His track record of success includes all forms of commercial property reuse including brownfields.

A recognized pioneer in the repositioning and redevelopment of functionally obsolete and distressed real estate, Kyle has been directly responsible for the successful repositioning and redevelopment of over 8 million square feet of retail, office, industrial, and residential product nationwide. Additionally, he has consummated repositioning lease and sales transactions in excess of \$100 million while sourcing debt & equity in support of many of these transactions.

Through his firm, Barrett Associates, and in collaboration with his DU faculty peers, Kyle provides consulting services including due diligence, academic research, debt & equity placement, real estate brokerage, and excess and surplus property disposition on behalf of corporate clients. The firm’s clients have included: Arter & Hadden, GE Capital, First Union Real Estate Investments, Matrix Financial, Maxtor, The Pyne Companies, Perlmutter Development, Qwest, Radiant Partners, The Staubach Company, Julien Studley, Trammell Crow, WhitestoneREIT, and the cities of Littleton and Englewood, Colorado.

Academically, Kyle holds both a BSBA in Real Estate & Construction Management and an MBA in Finance & Real Estate from DU. He has taught and published with distinction as adjunct faculty in real estate at DU for over 20 years, and has co-authored redevelopment case studies on some of his projects with fellow DU faculty that have been used at the University of Denver (DU), the University of Virginia (UVA), New York University (NYU), and the Yale School of Management.

At the time of this writing, Kyle was retained by Whitestone REIT, a public, non-traded real estate investment trust, to lead the effort to secure anchor tenants for several of the trust’s displaced commercial properties in Houston, Texas. With regard to the associated Westchase Plaza Case Study, it should be noted that Mr. Cascioli was brought to Houston with virtually no primary knowledge of the marketplace, took no sign calls on the property, and in the course of nine months was able to profile, identify, target, engage, and close the optimal end-space user for the property (while also working on other problematic portfolio properties) using the CUA methodology.

Other contributors to this white paper and associated case study include fellow Burns School professors Dr. Michael Crean, Dr. Glenn Mueller, and Dr. Ron Throupe from the Daniels College of Business at DU.

What do we mean when we refer to real estate property use and reuse, in the context of “Highest and Best Use (HBU),” as Contemporary Urban Anthropology (CUA)?

“Contemporary Urban Anthropology is a theoretical real estate and urban planning concept that applies an anthropological approach to understanding our “built environment,” and facilitating “best practices” to modern urban planning, development, redevelopment, obsolete facility reuse, and real estate end-user site selection analyses.

In this context, real estate practitioners in all the above described disciplines – who in theory are building the relics of tomorrow today – can determine and modify the traditional real estate appraisal definition of “highest & best use (HBU),” to include qualitative factors that consider the most appropriate use relative to urban and suburban real estate utility.

Real estate utility is determined by a given real estate improvement’s functional contribution to its surrounding environment relative to anthropological and cultural considerations. These considerations contemplate where people of a given community live, work, learn, recreate, worship, do commerce, and takes into consideration current economic and business cycle characteristics.

This contemporary anthropological approach to real estate also considers a given community’s physical and cultural characteristics including topography, geology, hydrology, infrastructure, climate, and other factors.¹

Anthropology is a science that includes the study of real estate:

If anthropology is the study of the nature of humankind, and its ancient and present works, then clearly real estate, as embodied in the civilized world, is testimony to our relationship with the environment that goes beyond the simple need for shelter.

The 18th century Irish dramatist and socialist, George Barnard Shaw, described the anthropology of real estate best when he said, “The reasonable man tries to adapt himself to the world (environment), while the unreasonable man tries to adapt the world (environment) to himself, therefore, all progress depends upon the unreasonable man.”²

In real estate, this progress takes the form of both new development and property reuse, and anthropology is intrinsic to the development and property reuse process. Anthropology employs the scientific method in four (4) distinct fields of study that include: Biology, Archaeology, Linguistics, and Cultural Anthropology. Archaeology is the subfield that primarily encompasses the study of real estate in that “archaeologists attempt to find and study all traces that human groups have left behind – of themselves and of all their activities – and they seek to understand the way these remains are related to each other and the environments in which they occur.”³

Relative to the human groups’ relationship with their environments referred to above, the study of real estate identifies three separate concepts that include land, real estate, and real property. Land is the surface of the earth including that mass below the surface and the air space above the surface. Real estate is the man-made improvements to the land.

¹ Kyle Cascioli, Adjunct Faculty in Real Estate, Franklin Burns School of Real Estate, University of Denver, Fall of 1994

² George Barnard Shaw, *Man and Superman (1903) "Maxims for Revolutionists"*

³ David K. Hunter and Phillip Whitten, “Finding Anthropology,” *Anthropology: Contemporary Perspectives* (8th edition; Phillip Whitten), p.9, Pearson Education Company, Needham Heights, MA, 2001

And real property includes both the land and real estate, coupled with the legal bundle of rights that a property owner is entitled to under the law.

In the historic anthropological sense, land became a commodity when humankind evolved from being solely hunter-gatherers to also become agricultural farmers. “Archaeologists and historians agree that the rise of agriculture, along with the domestication of animals for food and labor, produced the most important transformation in human culture since the last ice age – perhaps since the control of fire. Farming and herding led to growth of large settled human populations and increasing competition for productive lands, touching off organized warfare.”⁴ In a contemporary anthropological sense, developers compete (engage in business warfare) to control developable and re-developable lands today.

Mesopotamia, considered the cradle of civilization and established in what is today Iraq, was “absolutely the place to be (4,000 years ago) where the visionary King Hammurabi ruled, and Babylon’s hanging gardens hung. There the written word, metalworking, and bureaucracy were born. From the stately rational organization of Mesopotamia’s urban centers, humanity began its inexorable march towards strip malls and shrink-wrap video poker bars and standing in line at the Department of Motor Vehicles.”⁵

Phillip Whitten, who assembled an insightful and eclectic collection of articles on anthropology in “Anthropology: Contemporary Perspectives, 8th Edition,” cited frequently in this section of this white paper, suggests that anthropology “should shed light on our own society and, if we are willing to learn its lessons, teach us as a society what to do and what to avoid.”⁶

Anthropologists are methodical in their attention to detail and the nuances of human behavior, and so we as real estate practitioners must be so also in our efforts to understand the geographic trade areas that define our real estate properties, and how they influence, evolve, and dictate both real estate utility and “highest and best Use (HBU)”.

In Silicon Valley, anthropologists have been hired by firms like AT&T Labs, Apple, Motorola, Intel, and others to conduct observational research, which includes employing “their ethnographic skills at interviewing, watching, and videotaping consumers in their natural habitats”⁷ in an effort to develop new and better products. “It’s an extreme form of understanding the customer, Dr. Nardi said.”⁸

Similarly, homebuilders today are employing anthropological research as they design homes and floor plans for families that house three generations under one roof. Pressed by shrinking incomes, the high cost of caring for the elderly and babysitters, the result is an observed anthropological trend for families to economize and share homes and resources. Anthropologically astute homebuilders have responded with new floor plans that now include two master bedrooms on opposite sides of the home with larger shared kitchens and family rooms. So with regard to the study of real estate, developers and redevelopers are “building the relics of tomorrow today.”⁹ And we can learn much about optimizing

⁴ “New Clues Show Where People Made the Great Leap to Agriculture,” John Noble Wilford, Anthropology: Contemporary Perspectives (8th edition; Phillip Whitten), p.135, Pearson Education Company, Needham Heights, MA, 2001

⁵ “Empires in the Dust,” Karen Wright, Anthropology: Contemporary Perspectives (8th edition; Phillip Whitten), p.148, Pearson Education Company, Needham Heights, MA, 2001

⁶ “Contemporary Applications,” p.292, Anthropology: Contemporary Perspectives (8th edition; Phillip Whitten), p.148, Pearson Education Company, Needham Heights, MA, 2001

⁷ “Coming of Age in Palo Alto,” Katie Hafner, p.309, Contemporary Perspectives (8th edition; Phillip Whitten), p.148, Pearson Education Company, Needham Heights, MA, 2001

⁸ Ibid

⁹ Jeff Englestat, PhD., Clinical Professor of Real Estate, Franklin Burns School of Real Estate, University of Denver, Fall of 1994

land use and property reuse by evaluating a given parcel or property's "highest and best Use (HBU)" through an anthropological prism. Let's see how it works ...

Let us look at the City of Houston as an example of the effects of Contemporary Urban Anthropology:

Houston is a city whose rich anthropological history personifies our definition of "Contemporary Urban Anthropology (CUA)" as a driver to real estate development, redevelopment (reuse), and "highest and best use (HBU)" analyses.

The geographic land mass that today defines the city's urban core was originally purchased by two land speculators, the Allen brothers (John Kirby and Augustus Chapman) and who migrated to Nacogdoches from New York in 1832. In 1833 they purchased 6,642 acres located at the head of navigation of Buffalo Bayou for about \$1.42 per acre. "Having observed in New York that developing a city could be extremely profitable, the two Allens combined their talents in a bold new venture."¹⁰ Upon Sam Houston's defeat of Santa Anna at the battle of San Jacinto in 1836, which resulted in the founding of Texas as an independent republic, the Allen brothers initiated a proposal in the republic's Congress (John Kirby Allen was a member at this time) to make a timely development proposition. In addition to recognizing that Buffalo Bayou was a critical navigable link between the interior of what is now Texas and the sea (today it is the direct link to 14,000 miles of US intracoastal and inland waterways), the brothers felt that Sam Houston would be elected the president of the new Texas republic, which he was in October of 1836, and that he would need a site for the new capital. The Allen brothers proposed that if Mr. Houston were elected, that they would allocate funds for the construction of a capital building to house the legislature, and further, would "donate land to attract notable prospective residents. Town lots were given to the heroes of the revolution, lawyers, the members of Congress who had provided the slim margin of victory in selecting Houston as the capital, and other influential men from the United States and abroad. Sam Houston was the recipient of an entire block."¹¹ Shrewd promoters, the Allen brothers further agreed to name the new city of Houston in honor of the republic's first president. While it was a notable achievement, the republic's Congress only agreed to house a temporary capital at the brothers' newly developed community through 1841 – and it only stayed the capital through 1839.

Several significant anthropological events (factors) resulted in shaping the new city's future. First, the war with Mexico created the independent republic. Next was the brothers' entrepreneurial zeal and the political influence they exerted in the Congress to site the new capital. Then, the city suffered the debilitating effect of disease. "The reality of the hot and humid coastal climate was far different from the healthy climate the Allens had extolled in their advertisements (promoting migration to Houston). Excessive rainfalls collected into pools of stagnant water, and the plains drained badly. Cholera, influenza, pneumonia, and malaria afflicted the population. Yellow fever was a prevalent and persistent scourge. Yellow Jack struck suddenly and killed relentlessly."¹² In 1839, "out of a population of slightly more than two thousand, there were 240 deaths and perhaps as many as a thousand cases of yellow fever that summer. The disease would continue to plague the city."¹³ What followed was a significant exodus (to a lesser degree, much like what many anthropologists contend happened in London during the black plague in 1665) from the city when the majority of the populace fled for fear of their lives. And finally, having had enough of sparse accommodations, foul weather, the ever-present mud, and the perpetual threat of disease, the government made the decision to relocate the

¹⁰ Historic Houston, Betty Trapp Chapman, p. 19, Published for the Greater Houston Preservation Alliance, Historical Publishing Network, San Antonio, Texas, 1997

¹¹ Ibid, p. 22

¹² Ibid, p. 28

¹³ Ibid, p. 28

capital from Houston to Waterloo (later renamed Austin) in 1839. One frustrated legislator then referred to Houston as “this detested self-polluted, isolated mudhole of a city.”¹⁴

Of most relevance to the theory of “Contemporary Urban Anthropology (CUA)” that we wish to define in this paper, is that those who remained behind in Houston at the time of the exodus, were the merchants and entrepreneurs whose fortunes and livelihoods were tied to the new city, and who chose to remain, risking death, rather than abandon their financial stakes and livelihoods. They were determined to see their city succeed through perseverance and proactive leadership. And by upgrading the city’s infrastructure to improve ground-transportation links (today Houston’s highway system rivals that of any city), the creation of the Port of Houston in 1841 (today the nation’s largest port), and the introduction of rail to the community, they did so!

The resulting anthropological impact is that Houston evolved as an extremely business friendly community, and today is the only major city in the United States that has no zoning laws, which by definition promotes commercial growth. For example, Houston is touted as the Energy Capital of the World with over 5,000 energy firms, and the Petro-Chemical capital of North America with more than 400 chemical plants.

According to the Greater Houston Partnership and HoustonFacts.com, today:

- Founded in 1836, the City of Houston has a population of 1.9 million.
- Houston is the fourth most populous city in the nation (trailing only New York, Los Angeles and Chicago), and is the largest in the southern U.S. and Texas.
- Houston metro area's (MSA) population of 4.8 million is 10th largest among U.S. metropolitan statistical areas
- Home to 18 Fortune 500 companies and more than 5,000 energy related firms, Houston is considered by many as the Energy Capital of the world. Companies headquartered in Houston include Halliburton, ConocoPhillips, Marathon Oil Corp and Dynegy.
- Houston is home to the “Spaghetti Bowl,” an ever expanding complex of several thousand miles of product pipeline connecting some 200 chemical plants, refineries, salt domes and fractionation plants along the Texas Gulf Coast.
- The Port of Houston ranks as the nation's largest port in international tonnage and second in total tonnage.
- More than 38 million people each year fly in and out of Houston's two major airports: Bush Intercontinental and William P. Hobby.
- Houstonians eat out more than residents of any other city. Houston has more than 11,000 restaurants.
- Houston has professional teams representing every major sport.
- Houston has a Theater District second only to New York City in terms of a concentration of seats in a single geographic area. Located downtown, the 17-block Theater District is home to eight performing arts organizations with more than 12,000 seats.
- Houston has a unique museum district offering a range of museums, galleries, art and cultural institutions, including the Houston's major museums.

¹⁴ Ibid, p. 28

- Houston has more than 500 cultural, visual and performing arts organizations, 90 of which are devoted to multicultural and minority arts.
- More than 90 languages are spoken throughout the Houston area.
- Houston is home to the Houston Livestock Show and Rodeo. The largest rodeo in the world, it attracts more than 1.8 million visitors each year.
- Houston has a young population; 37 percent of Houstonians are 24 years old or younger and 34 percent are between the ages of 25 and 44.
- Houston boasts more than 40 colleges, university and institutions - offering higher education options to suit all interests.
- Houston is home to the Texas Medical Center, the largest medical center in the world, with a local economic impact of \$10 billion. More than 52,000 people work within its facilities, which encompass 21 million square feet. Altogether 4.8 million patients visit them each year.
- Houston has the most affordable housing of 10 most populated metropolitan areas; Houston housing costs are 39 percent below the average of 26 U.S. urban populations of more than 1.5 million.
- Houston has the second lowest cost of living among major American cities.

As we can see from a historic perspective, much of Houston's culture today is derived from its anthropology and we, as real estate practitioners and academics can learn much that impacts our real estate interests in any community from this type of cultural understanding.

To this end, let us look at a current, empirical, property reuse case study where a "Contemporary Urban Anthropological" approach was used to evaluate the highest and best use of a speculative Houston redevelopment project, identify and target those uses, engage those commercial space users effectively, and successfully anchor the project.

The Client (Landlord):

Whitestone REIT is a fully integrated real estate company founded in 1998 that owns 36 commercial properties (31 of which are located in Houston), totaling approximately 3,000,000 square feet. The firm seeks to own and operate Community Centered Properties™, which they define as visibly located properties in established or developing, culturally diverse neighborhoods in their target markets.

At the time of this writing, the REIT had “filed for an initial public offering seeking as much as \$50 million to expand the 11-year old company’s holdings outside of Houston at a time when fire-sale prices are popping up on commercial properties around the country. Proceeds from the IPO are earmarked for rehabilitation of existing Whitestone properties, and the addition of new ones in Dallas and San Antonio as well as two markets that were hit particularly hard by the real estate bust – Phoenix and Chicago.”¹⁵

Whitestone is internally managed with a portfolio of commercial properties in Texas, Arizona and Illinois. They market, lease, and manage their centers to match tenants with the shared needs of the surrounding neighborhood. Those needs may include specialty retail, grocery, restaurants and medical, educational and financial services. Whitestone seeks to invest in properties that are or can become Community Centered Properties, and focus on niche properties with smaller rental spaces that present opportunities for attractive returns.

The firm’s self-described strategy lends itself to the repositioning of underperforming properties, and their speculative redevelopment of Westchase Plaza proved to be an excellent subject property to test the effectiveness of our “Contemporary Urban Anthropological (CUA)” approach to evaluate the “highest and best use (HBU)” for the anchor space, to identify and target those uses, engage those commercial space users effectively, and successfully anchor the project post-redevelopment.

At the time of my (Kyle Cascioli) retention to undertake the effort to find an anchor tenant for Westchase Plaza, the subject property of this case study, the redevelopment had been completed and no anchor tenant had been secured for the center.

¹⁵ Whitestone rolls out REIT,” Greg Barr, p. 55, Houston Business Journal, Vol. 40, No. 27 November 13 – 19, 2009

The Economic Market Conditions:

The timing of the speculative redevelopment of Westchase plaza was somewhat unfortunate in that construction was well underway when the global capital markets collapsed in 2008 resulting in historic illiquidity, with nearly every major country's central banking system having to infuse capital directly into their member banks. These dramatic steps were taken to help keep banks solvent while they continued to absorb massive losses related to business, insurance and real estate debt."¹⁶

"Many investment banks were caught with commercial loans on their books that had not been securitized and most investment banks converted to regulated commercial banks in order to access federal TARP (Troubled Asset Relief Program) or TALF (Term Asset-Backed Securities Loan Facility) funding. The public market fears that credit rating agencies did not properly rate CMBS (Commercial Mortgage Backed Securities) debt securities and began to question Triple-A ("AAA") rating in 2008 but were even more afraid of B rated bonds. In the commercial real estate securities market, emotional investor panic played a large role in this pricing dislocation, as the severe re-pricing of CMBS bonds has been out of line with these securities' underlying collateral performance."¹⁷

The end result was that Westchase Plaza was brought to market in February of 2009 in the wake of unprecedented and historic global financial illiquidity, a panicked economy, a precipitous decline in real estate values, and greatly reduced demand for commercial real estate space in all product categories by end users and lessees.

In our definition of "Contemporary Urban Anthropology (CUA)," we said that one of the determinants of real estate utility was the current economic and business cycle characteristics. These economic characteristics must be weighed at the national, regional, and local levels.

The National Economy (Source: Federal Reserve Bank of Dallas. February 10, 2010):

- 8.4mm non-farm jobs have been lost since the recession began in December of 2007. How quickly the labor market rebounds from the current 25-year low labor force participation rate remains unclear
- Debt deleveraging and tight credit continues to restrain growth
- Leading economic indices point to a growth pace above those of the prior two "jobless" recoveries, but below the robust recoveries that followed the deep recessions of the mid-1970's and early 1980's
- Consumer spending has recovered by approximately one quarter since the precipitous drop after the historic financial meltdown that occurred in mid-2008
- While 2009 housing starts improved, they are believed to be attributable to the extension of the homebuyer tax credit and are expected to decline once the tax credit expires
- Good growth in manufacturing over last quarter, but capacity utilization significantly underused at nearly 67%
- Financial markets characterized as normalizing despite investment-grade corporate bonds yield spreads continuing to fall. Liquidity premiums between Treasury securities and top-grade bonds remain a little elevated as Baa – Aaa spreads have dropped to levels seen in the recovery from the deep 1981 – 82 recession
- Price pressures remain subdued. Recent data indicate that there is continued downward pressure on consumer price inflation, while there has been some stabilization of commodity prices. Annualized core CPI inflation is falling rapidly on a 6-month basis and implies a more continuous deflationary trend.

¹⁶ "Commercial Real Estate Debt - Growth, Evolution, Challenge, Opportunity," Anderson, E.G., Chasnow, D., Cascioli, K. Mueller, G.R. The Journal of Real Estate Portfolio Management, April, 2010, 15(2), 212-224.

¹⁷ Ibid

- Given the prior two quarters of real GDP growth, it is believed that structural drags from tight credit and household deleveraging will retain the economy. While the current economy is characterized as a “modest recovery,” it doesn’t feel like one

Texas (Regional) Economy (Source: Real Estate Center at Texas A&M University. January, 2010:

- Nation’s labor market hit bottom in August 2009, but Texas’ labor market has not yet hit its bottom
- Texas economy lost 277K nonfarm jobs from 2008 to 2009, an annual job loss of 2.6%. Over same period, the U.S. economy lost more than 4mm jobs or 3% of its total nonfarm jobs
- State’s government and education & health services sectors both grew at an annual rate of 4.6%
- Other services industry sector (repair, personal services, religious, civic & professional organizations) grew at an annual rate of 1.7%
- Financial activities (finance, insurance, and real estate) sectors declined at an annual rate of 0.3%
- State’s leisure & hospitality industry declined at an annual rate of 1.4%
- Trade industry (the largest sector after government @16.1% of nonfarm employment) declined by 4.5%
- State’s professional and business services industry was down 5% for the year
- The information sector (internet, web search, portals, publishing industries, broadcasting, and telecommunications) declined at an annual rate of 6.7%
- Manufacturing industry was down 9.9 % in the state of Texas over 2008
- State’s mining & logging industry declined by 12.6% for the year (2009 over 2008)
- Texas lost nearly 100K construction industry jobs in 2009 – a decline of 15.4%

Houston (Local) Economy (Source: Greater Houston Partnership. March 2010):

- Houston Association of Realtors reports that sales of single family homes fell 12.3% over 2008
- Houston Airport System reported that domestic passenger volume rose 2.1%, while international grew at 8.9%. Traditionally, Houston International passenger volume has grown faster than domestic
- New vehicle sales distilled from the “Cash for Clunkers” affect, was the highest monthly total since August of 2008
- City of Houston building permits were down by 7.5% over 2008
- Non-residential construction was down 24% for the year, while residential construction was up by 21.7%
- Initial unemployment claims rose by 25.2% and continuing claims rose by 62.9%
- Port of Houston Authority Shipments (Short Tons) declined by 15.6% over 2008
- Foreclosures in Houston totaled 1,412, an increase of 79% over 2008
- Only one (1) Texas metro area, McAllen-Edinburg-Mission, experienced a positive employment growth rate from December 2008 to December 2009. Twenty-five (25) metro areas experienced net job losses according to a Real Estate Center at Texas A&M University economic report dated January, 2010)

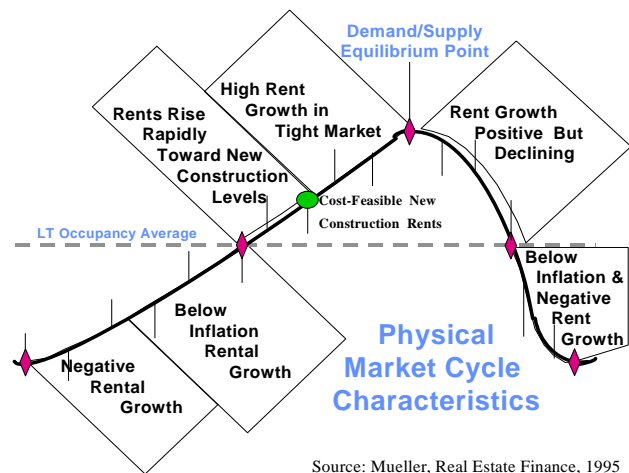
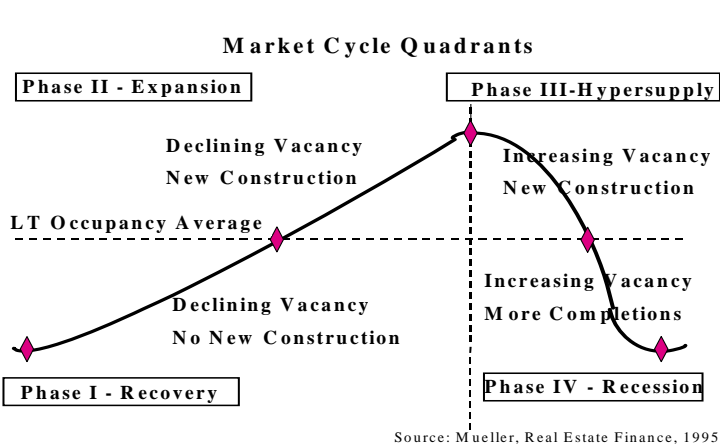
Real Estate Business Cycle Analysis:

The next step is to evaluate both the national and local real estate cycles for the relevant product types. In the case of the Westchase Plaza redevelopment, this included both the office and retail product type categories, since upon our initial assessment (prior to completing the CUA analyses), we could not be certain what type of real estate product type would result in the ‘Highest & Best Use (HBA)’ of the property. It is important not to make any assumptions of HBU prior to undertaking the CUA analyses regardless of what type of property a given real estate practitioner or academic is dealing with. This is part of the scientific method of property repositioning and reuse that I (Kyle Cascioli) articulated during my redevelopment of the North Valley Mall, and was outlined in “The North Valley Mall, To Be Retail or Not To Be Retail,” that was co-authored with Dr. Michael Crean in 1996, and has been used at DU, NYU, UVA, and the Yale School of Management.¹⁸

There are many reasons to understand where a given real estate market falls in the real estate cycle. For purposes of the CUA approach, the primary purpose of comparing the local cycle with that of the national cycle, juxtaposed to the three economic cycle components outlined in the previous section of our white paper, is to determine if (in an anthropological sense) there will be an in-migration, migration will be flat, or there will be an out-migration of any of the four components of an economy: Capital, Raw Materials, Labor, and Rent. It should be understood that there can be no migration of Rent (in that land is a finite and fixed commodity), so in the sense of rent, we are referring to demand.

Dr. Glenn Mueller is perhaps one of the most nationally recognized authorities on real estate cycles, and below are excerpts from his most current “Real Estate Cycle Reports (2010 Q1 Estimated)”¹⁹ for the retail and office product types covering 50 local MSA’s including Houston.

Dr. Mueller’s cycle forecast analyzes occupancy movements in five property types in more than 50 Metropolitan Statistical Areas (MSAs). The market cycle analysis should enhance investment-decision capabilities for investors and operators. The five property type cycle charts summarize almost 300 individual models that analyze occupancy levels and rental growth rates to provide the foundation for long-term investment success. Real estate markets are cyclical due to the lagged relationship between supply and demand for physical space. The long-term occupancy average is different for each market and each property type. **Long-term occupancy average** is a key factor in determining rental growth rates — a key factor that affects real estate returns.



¹⁸ “The North Valley Mall, To Be Retail or Not To Be Retail,” Kyle Cascioli & Michael Crean, 1996

RETAIL MARKET CYCLE FORECAST:

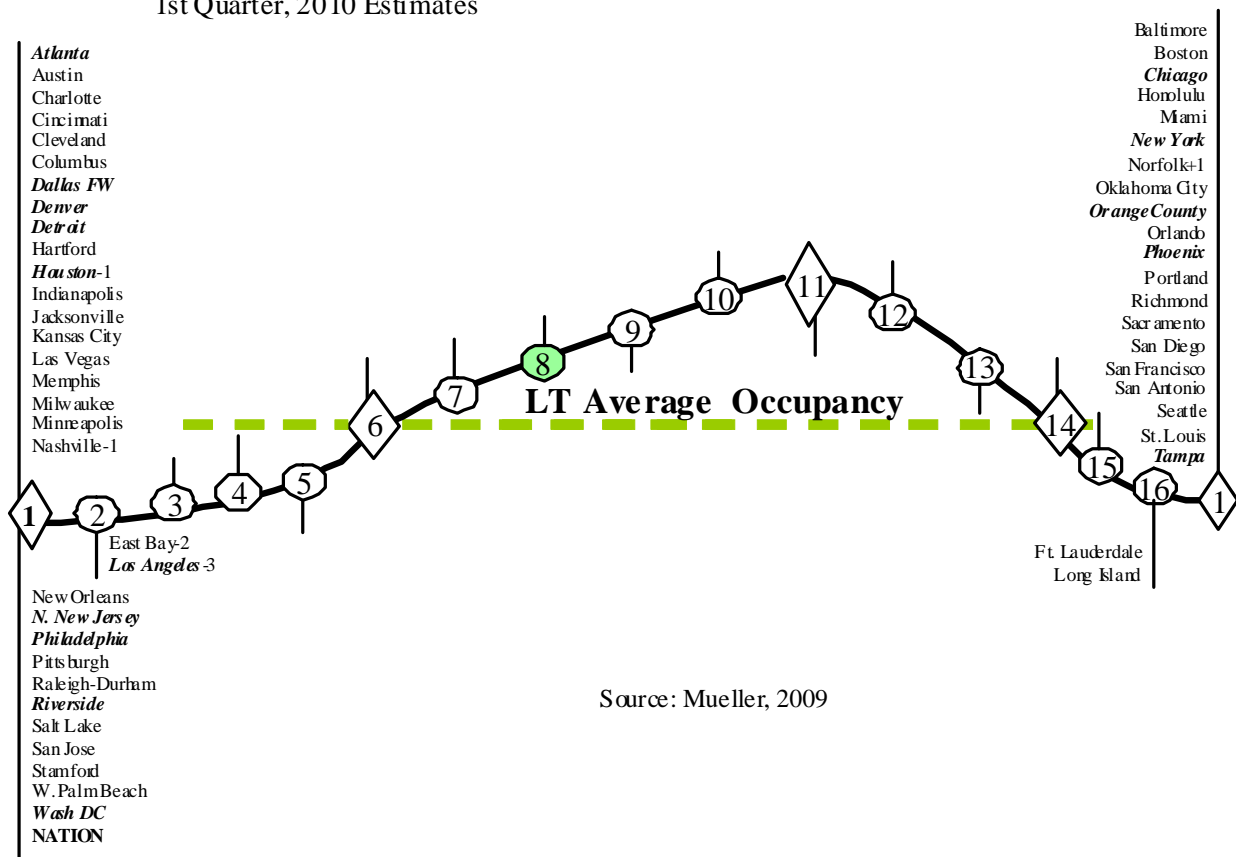
Retail occupancy is forecast to decline .04% in 1Q10 and 4% year-over-year. There is 82 million square feet of retail under construction that will come on line by 1Q10 and these properties are only 57% pre-leased. Dr. Mueller expects rental declines of 2.3% in 1Q10 that he believes should produce a 9% year-over-year decline in rents.

Dr. Mueller is now forecasting that occupancy rates should bottom in the third quarter of 2010 and start to improve in 4Q10. This forecast is based on the concept that increased consumer savings should continue until home prices and the stock market begin to trend upward again. We believe that occupancies may end the year of 2010 down about 0.5% after bottoming in the third Quarter and rents may have a net decline of 6.5% for the calendar year of 2010.

Houston's retail market cycle is estimated to be at the bottom of the Phase-I recovery period, characterized by declining vacancy, no new construction, and negative rental growth.

Retail Market Cycle FORECAST

1st Quarter, 2010 Estimates



Markets that have moved since the previous quarter are shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, e.g., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

Note: The 15 largest retail markets make up 50% of the total square footage of retail space that we monitor. Thus, the 15 largest retail markets are in **bold italics** to help distinguish how the weighted national average is affected.

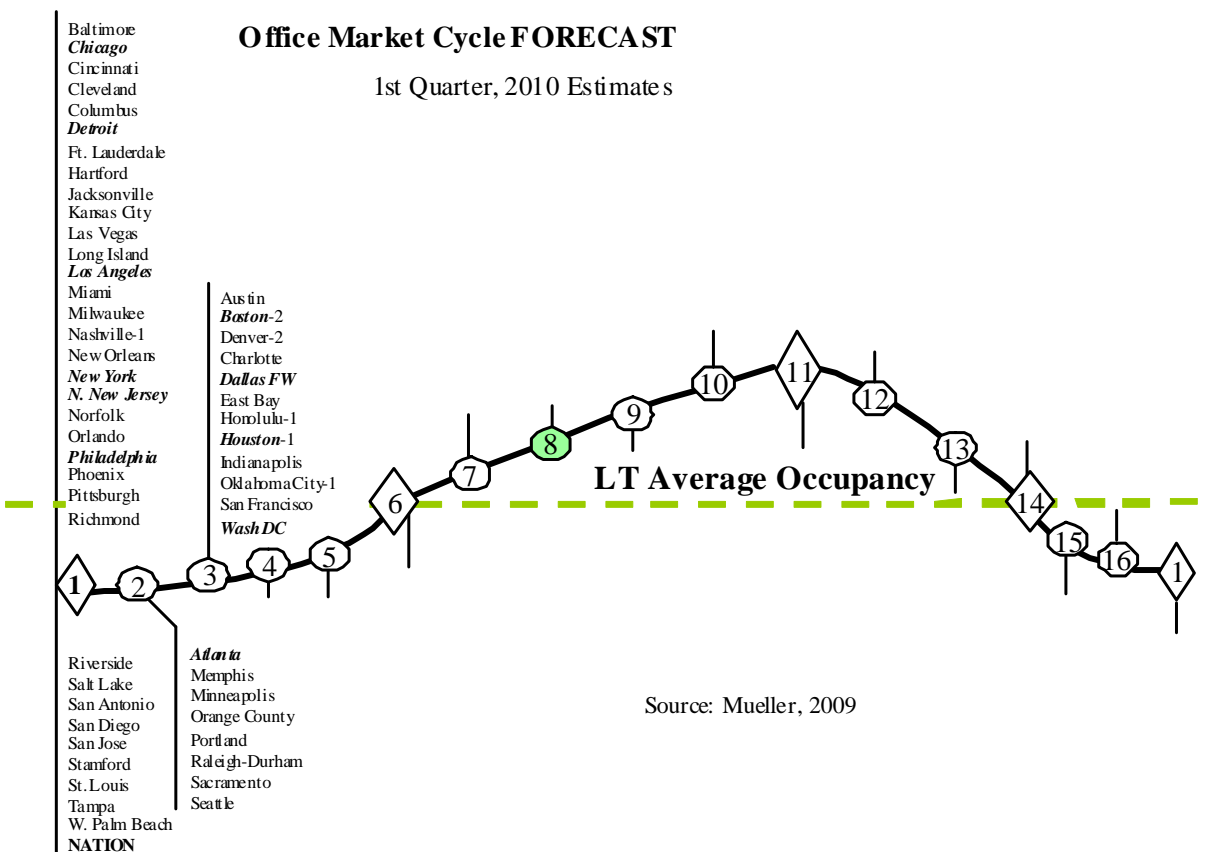
Office Market Cycle Forecast:

¹⁹ "Cycle Monitor—Real Estate Market Cycles, First Quarter 2010 Estimates," Dr. Glenn Mueller, Dividend Capital Research, May 2009

Occupancies are forecast to decline 0.4% in 1Q10, creating a year-over-year decline of 2.9% for 1Q10 office space nationally. Markets dropping lower than their historic long term bottoms at point #1 include Cleveland, Hartford, Honolulu, Houston, Jacksonville, Las Vegas, New York, Salt Lake, San Jose, Stamford, St Louis, and West Palm Beach. Dr. Mueller's estimates show asking rents dropping 2.3% in 1Q10 to produce a total 8% rent decline year over year.

Dr. Mueller is now forecasting that occupancy rates should bottom in the second quarter of 2010 and start to improve in 3Q10. This forecast is based upon a very low supply and demand beginning to improve from a recovering economy that should have produced at least 2 quarters of GDP growth. We estimate occupancies to increase a meager 0.1% for the full calendar year of 2010.

According to the report, the Houston office market is characterized as being in Phase-III hyper-supply, with new construction, increasing vacancies, the rate of rent growth beginning to decline, and at an all-time low for its historic bottom at the beginning of a cycle recovery!



Markets that have moved since the previous quarter are shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, e.g., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

Note: The 15 largest retail markets make up 50% of the total square footage of retail space that we monitor. Thus, the 15 largest retail markets are in **bold italics** to help distinguish how the weighted national average is affected.

The National & Houston Office Real Estate Markets:

According to Costar's "Year-End 2009 – National Office Market Report," the composite, national office vacancy rate for all classes of properties was 13.1% (up from 12.2 in Q1) with Q4 rental rates averaging \$22.90, down over the prior quarter. The story seemed to improve in Q4 over prior quarters, with "net absorption for the overall office market at a positive 7,208,326 square feet in the fourth quarter of 2009. That compares to negative (5,895,469) square feet in the third quarter 2009, negative (18,647,313) square feet in the second quarter 2009, and negative (22,648,906) square feet in the first quarter 2009."²⁰ Q4 average rates varied by property class, with Class-A at \$27.40, Class-B at \$20.62, and Class-C at \$17.31 – all down slightly over Q3.

According to CoStar's "Year-End 2009 – Houston Office Market Report," "Total office inventory in the Houston market area amounted to 258,807,504 square feet in 4,641 buildings as of the end of the fourth quarter 2009. The Class-A sector consisted of 108,857,569 square feet in 365 projects. There were 1,929 Class-B buildings totaling 109,485,969 square feet, and the Class-C sector consisted of 40,463,966 square feet in 2,347 buildings. Within the Office market, there were 421 owner-occupied buildings accounting for 23,106,465 square feet of space."²¹

The same report also advised that the overall Houston MSA Office market remained flat at 14.4% vacancy from Q3 to Q4 for the year – a rise of almost one percentage point from Q1. The end-of-fourth-quarter, per class property vacancy rates were 15% for Class-A, 14.8% for Class-B, and 11.4% for Class-C. 2009 Q4 vacancy rates also varied significantly between the Central Business District (CBD) and Suburban Markets at 10.7% and 15.2% respectively. Another interesting observation was that the CBD vacancy rate dropped half a percentage point from Q1 to Q4, while the Suburban Markets vacancy rate increased by 1.5% over the same period. Clearly the suburban office market is softer than the CBD.

"The average quoted rate within the Class-A sector was \$28.99 at the end of the fourth quarter of 2009, while Class-B rates stood at \$18.78, and Class-C rates at \$15.54."²²

Relative to this Westchase Plaza case study, it should be noted that while the property is located within the Houston urban core (inside Sam Houston Beltway #8), it is not located in the CBD, and falls within the definition of "suburban market."

Finally, no data was available on either hybrid retail/office properties (two dimensional) or mixed-use property types (three-dimensional). The point being that the Westchase project falls outside the parameters of classic office property performance reporting data.

Based on my (Kyle Cascioli) empirical observations having spent one year in the field in Houston on this repositioning assignment, typical hybrid retail office properties (two dimensional), located in suburban markets were primarily retail centers with second story office. While no secondary market data is available (to our knowledge) to track second story, retail center, office space vacancy in Houston's suburban markets, my conservative, empirical observation would place the second story hybrid/retail office vacancy rate at 60%+ in Houston's Suburban Markets.

²⁰ "Year-End 2009 – National Office Market Report," Alfredo Negron (research manager), CoStar Office Report 2010

²¹ "Year-End 2009 – Houston Office Market Report," Alfredo Negron (research manager), CoStar Office Report 2010

²² Ibid

The National & Houston Retail Real Estate Markets:

According to CoStar's "Year-End 2009 – Houston Retail Market Report," "Total retail inventory in the Houston market area amounted to 298,754,547 square feet in 12,547 buildings and 3,441 centers as of the end of the fourth quarter 2009."²³ The report further advises that 3,347,602 square feet of new retail space was brought to the market in 2009, with an additional 714,044 under construction at the close of the fourth quarter.

The report also advised that the overall composite vacancy rate for all retail product types ended the year at 8.8%, down from 9% in the Q1. Net absorption for the year was positive with 1,140,499 square feet in Q1, (463,869) square feet in Q2, 898,423 square feet in Q3, and 1,840,198 square feet in Q4 for a total of 3,415,251 square feet of total, positive absorption.

Regarding composite retail lease rates, "Average quoted asking rental rates in the Houston retail market were up over previous quarter levels (2009), and up from their levels four quarters ago. Quoted rents ended the fourth quarter 2009 at \$15.76 per square foot per year. That compares to \$15.18 per square foot in the third quarter 2009, and \$15.57 per square foot at the end of the first quarter 2009. This represented a 3.8% increase in rental rates in the fourth quarter, and a 1.21% increase from four quarters ago."²⁴

Perhaps more than any other real estate product, shopping centers fall into many product types, including strip neighborhood, community, lifestyle, and power centers, in addition to regional malls. Costar tracks five (5) retail product types including power centers, specialty centers, general retail, shopping centers, and malls.

At just under 50,000 square feet, Westchase is a non-grocery anchored neighborhood center that houses retailers that provide sales of convenience goods and personal services for the day-to-day living needs of the immediate neighborhood, including fast food and sit-down restaurants. For purposes of CoStar's retail market performance data reporting, Westchase Plaza falls into the broader "Shopping Center" reporting category, which includes all Community Centers, Neighborhood Centers, and Strip Centers.

Houston presently has 3,330 retail "Shopping Center" properties consisting of 4,245 buildings, totaling 144,720,538 square feet, and ended the year with a 12.2% overall vacancy rate. Rental rates ended the year at an average of \$15.66 per square foot, up from \$15.16 per square foot in 2008.

"Net absorption in the Shopping Center sector has totaled 2,043,672 square feet over the past four quarters. In addition to the positive 1,1001,187 square feet absorbed this quarter (Q4), positive 630,001 square feet was absorbed in the third quarter 2009, negative (189,329) square feet was absorbed in the second quarter 2009, and positive 597,464 square feet was absorbed in the first quarter 2009."²⁵

As we move to the "Property Section" of this case study, we will begin to better understand the "Contemporary Urban Anthropology" of our "Neighborhood Center," and what direction we should take our target-marketing efforts in the context of Houston's office and retail market cycle performance characteristics.

²³ "Year-End 2009 – Houston Retail Market Report," Alfredo Negron (research manager), CoStar Office Report 2010

²⁴ Ibid

²⁵ Ibid

The Westchase Plaza Property Trade area:

At the core of “Contemporary Urban Anthropology (CUA)” is the appreciation that real estate utility is determined by a given real estate parcel - and its improvements - contribution to its surrounding environment and is a function of anthropological considerations. Those considerations include factors such as where do people of a given community live, work, learn, recreate, worship, and do commerce, while also taking into consideration the region’s current economic and business cycle characteristics. CUA further recognizes that the given trade area’s physical and cultural characteristics including topography, geology, hydrology, infrastructure, demographics, socioeconomics, climate, and other factors are known to impact real estate utility.

Real estate practitioners and academics trying to unlock the intrinsic value of a given real estate parcel and its improvements must invest the time to painstakingly understand their property’s trade area much like field anthropologists and archeologists do. Below is a hand-drawn poster board map of the Westchase Plaza property trade area that took several weeks of field work to create through systematically driving the trade area and mapping out the economic, cultural, recreational and domestic staples of the community. By doing so, we can better understand the anthropological pieces of the trade area and how these pieces, or staples, fit together via ground transportation links and other physical characteristics that influence the geometric shape of the trade area. Additionally, such intense field research helps to better understand the ethnocentricity, demography, and sociology of our trade area.



Empirical Anthropological Trade Area Mapping – Primary Research

Westchase Plaza's immediate trade area's geometric shape is square (a polygon - specifically a quadrilateral), not uncommon in cities where the grid street system is the prevalent layout. The perimeter borders of this immediate trade area are Westheimer to the north (the main retail strip in southwest Houston), Bellaire to the south (the gateway to new Chinatown that runs east and west on Bellaire starting at Fondren), Fondren to the east (old furniture row from Westheimer to West Park Tollway), and the Sam Houston Beltway #8 to the west (dominated by Class A and B suburban office properties that are common to The Westchase District). Houston's MSA epitomizes urban sprawl in that the city has no significant commuter rail lines, and since it is considered to be the Energy Capital of the World, it is not surprising that its contemporary anthropological culture has resulted in it being a hugely automobile dependent environment.

As discussed, trade areas come in all shapes and sizes, and while most standardized demographic trade areas are abstracted in geographic radii, trade areas are rarely concentric circles. The majority of trade areas are polygons, and the shapes of those polygons are defined mostly by the given trade area's physical and cultural characteristics including topography, geology, hydrology, infrastructure, demographics, ethnicity, and socioeconomics. This is exactly the case with Westchase.



Typical Concentric Circle Geocentric Trade Area

Historically, real estate practitioners and academics use traditional aerial photography, both overheads like the aerial photo of the Westchase Plaza trade area below or oblique (at an angle) aerial photos. While the use of traditional aerial photography is an essential component of real estate trade area analysis, and new technological tools continue to evolve that help us to identify the economic, cultural, recreational and domestic staples of the community described above, there is no substitute for empirical anthropological observation.



Overhead aerial photo of the Westchase Plaza Trade area – Secondary Research

The next step in defining the geographic parameters of a property's trade area is to understand the critical mass of the property itself relative to drawing power, and define the property's extended trade area. By this, we mean to

understand the size of the property we are dealing with and the synergism of its tenant-mix. Is the subject property a regional mall, an office property located within a significant business park, a site contiguous to a hospital, or a neighborhood shopping center? The higher the critical mass of the property, its tenant-mix synergism, and trade area, the greater the drawing power, and the larger that geometric trade area will be.

Westchase Plaza is a 49,573 square foot hybrid retail and office property that falls into the neighborhood shopping center category and on its own merits, would lack the critical mass to draw from significant distances. However, this lack of critical mass and its associated ability to draw is mitigated by its proximity to two major highways.

With the exception of the Buffalo Bayou – and the corresponding drainage system – Houston has no significant rivers, topographical, or geological barriers that bisect the MSA. As such, the city has evolved in a relatively balanced, concentric, perimeter growth pattern, and given the lack of zoning discussed earlier, the city lends itself to sprawl. This is apparent in the city's highway system, which is a series of concentric beltways that wrap it. The two major beltways wrapping the city are the "Inner-Loop" #610 and the "Outer-Loop" Sam Houston Beltway, or Beltway #8. These beltways are then linked to the suburban communities they serve, and the CBD, by diagonal running highways that in total lay out very much in the pattern of a clock – see the diagram below.



In a pragmatic sense, highways can often serve as psychological barriers with regard to traffic patterns, in that commuters and consumers tend to avoid major intersections as a function of increased traffic congestion. This is clearly the case with the Sam Houston Beltway, and to a slightly lesser extent, the case with the Westpark Tollway just south of the property. The Westpark Tollway, which runs diagonally from north to south through Westchase Plaza's immediate trade area, is a heavily trafficked highway that links State Highway #6 to Highway #59 and the inner-loop (#610) as well as the downtown CBD. These two highways serve to increase the drawing capability or "range" of the immediate trade area and those properties located in that trade area including Westchase Plaza.

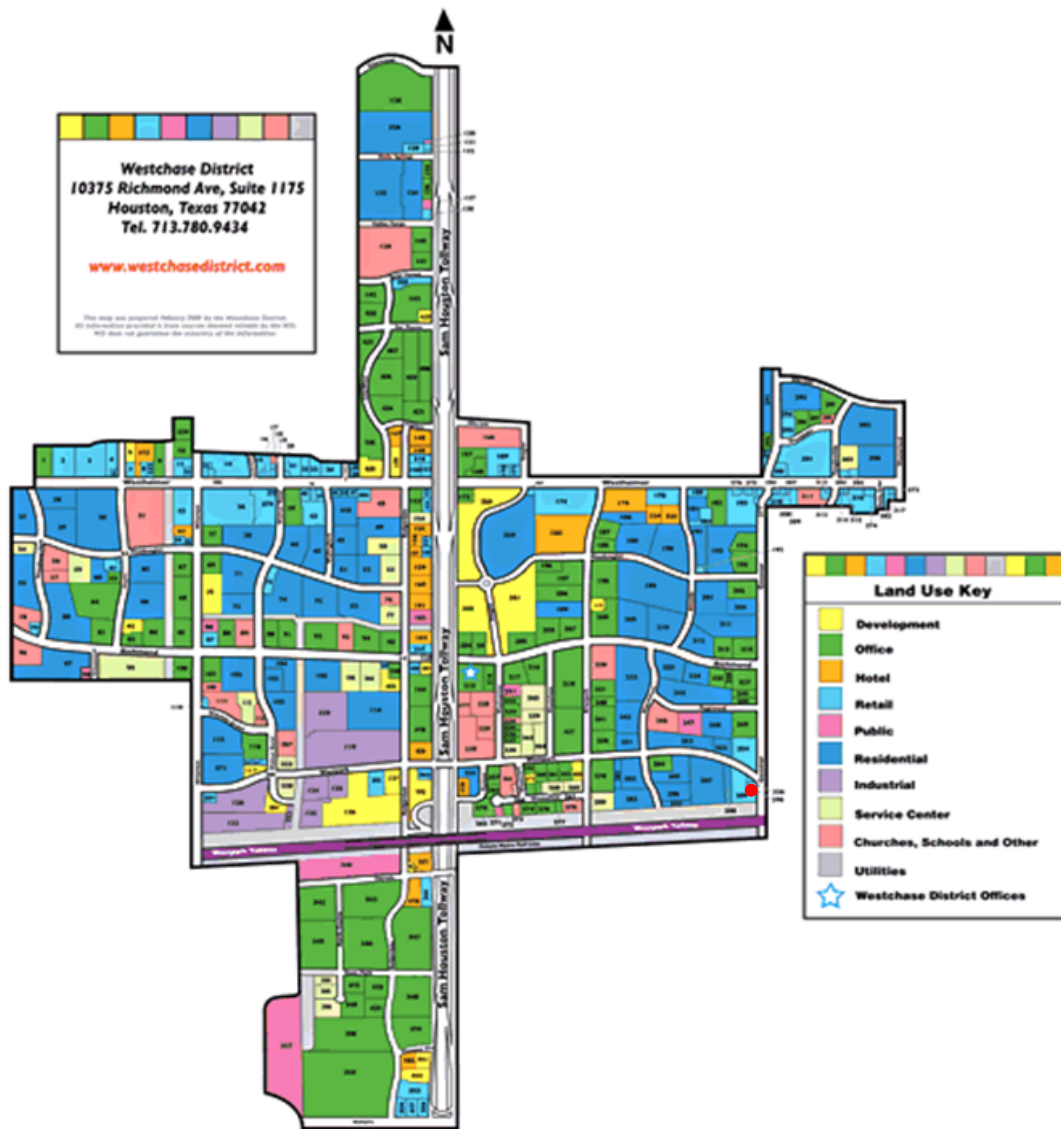
Like Houston itself, Westchase Plaza is in an extremely diverse and eclectic trade area whose geometric shape is a quadrilateral comprised of four distinctly different rectangles of smaller, mini, incongruous trade areas. Westchase Plaza is the epicenter of this quadrangle.

The Northwest rectangle is composed of class A suburban office properties with higher end apartments and multifamily residential properties, and is technically located in the prestigious suburban, deed-restricted business park of the Westchase District. This is the upscale component of Westchase Plaza's immediate trade area that the REIT had hoped would attract traditional office users, such as law and engineering firms.



The Northwest rectangle of Westchase Plaza's Immediate Trade area – Westchase District

Given the property's proximity to the seam of transition between the other three distinctly different rectangles of smaller, mini, incongruous trade areas described above, Westchase Plaza was unable to attract traditional suburban office space users to the two-story anchor office space of the redeveloped property.



As can be seen from the Westchase District land use map above, Westchase Plaza (red dot) is barely located in the district at the extreme, southeast corner of this planned urban development (PUD) at South Gessner and Westpark Drive.

The Northeast rectangle of the Westchase Plaza's immediate trade area is a fragmented retail, and lower-end single family residential neighborhood, whose ethnocentricity is primarily Hispanic and Caucasian, with a lower-to-midpoint socioeconomic demographic. The fragmented retail character of this residential neighborhood is reflected in a mix of independent (non-regional or national) auto repair operations, used car lots, a significant Hispanic banquet room facility, night clubs, and eclectic retail operations including the Texas Barber and Beauty Schools, which trains many students that come to them from the Texas Department of Corrections for job training skills.



The Southwest rectangle of the property's immediate trade-area is a commercially fragmented mix of class B and C office properties, industrial light-assembly and warehouse operations, and low-to-mid price point residential apartment

complexes, including government subsidized (Section 8) housing projects. The ethnocentricity of this neighborhood varies, but is dominated by both Hispanic and Asian residents, and is characterized by a low-to-middle socioeconomic demographic.



The Southeast rectangle of the property's immediate trade-area is a Houston retail bazaar landmark, and perhaps one of the most commercially and culturally diverse neighborhoods in the country. This deep-discount and off-price mix of independent retailers operating out of steel butler buildings, and small warehouses, "sell everything from jewelry, designer clothes, sunglasses, perfumes, furniture, luggage, and handbags. Most of the stores are run by Indian,

Pakistani, Chinese, and Thai shopkeepers, but other cultures are represented too. Occasionally, one will get raided for selling designer knock-offs.²⁶ This sub-market is further characterized by low-end residential apartment complexes, many of which are government subsidized (Section 8) housing projects.



Now that we understand the fascinating diversity in Westchase Plaza's immediate trade area as characterized by these four, distinctly different rectangles of smaller, mini, incongruous trade areas or sub-markets, the challenges facing the re-tenanting of our subject property's two-story anchor office space is obvious.

Our next step is to define and accurately profile the demographics of our trade area and now that its geometric shape is known, we can better abstract the data to have a more thorough understanding of the trade area's true demographic profile.

²⁶ "Frommers Texas, 5th Edition, Neil Schlecht, Eric Peterson, and David Baird, July 20, 2009

As stated previously, real estate practitioners and academics traditionally have looked at trade areas as concentric circles, that is, “as-the-crow-flies.” And at this point, we think we have demonstrated that this is rarely the case via our “Contemporary Urban Anthropological (CUA)” approach to “Highest and Best Use (HBU)” analyses.

That said, let us look at a comparison between the traditional demographic analysis of the Westchase Plaza immediate trade area under the historic concentric circle abstraction and under our CUA polygon abstraction. Please refer to the “SitesUSA” demographic profiles for both geographic trade areas that follow.

Demographic Variable	Concentric Circle Abstract (3 Mile)	CUA Polygon Abstract
Population	194,212	44,582
Median Household Income	\$56,239	\$39,760
Race & Ethnicity - White	52.6%	40.9%
Housing Units – Owner Occupied	32%	18.6%
Occupation – Professional & Related	22.4%	18.6%
Occupation – Percent White Collar	67%	59.4%
Educational Attainment	25.4%	18.9%
Units In Structure – Single Detached	20.9%	9.9%

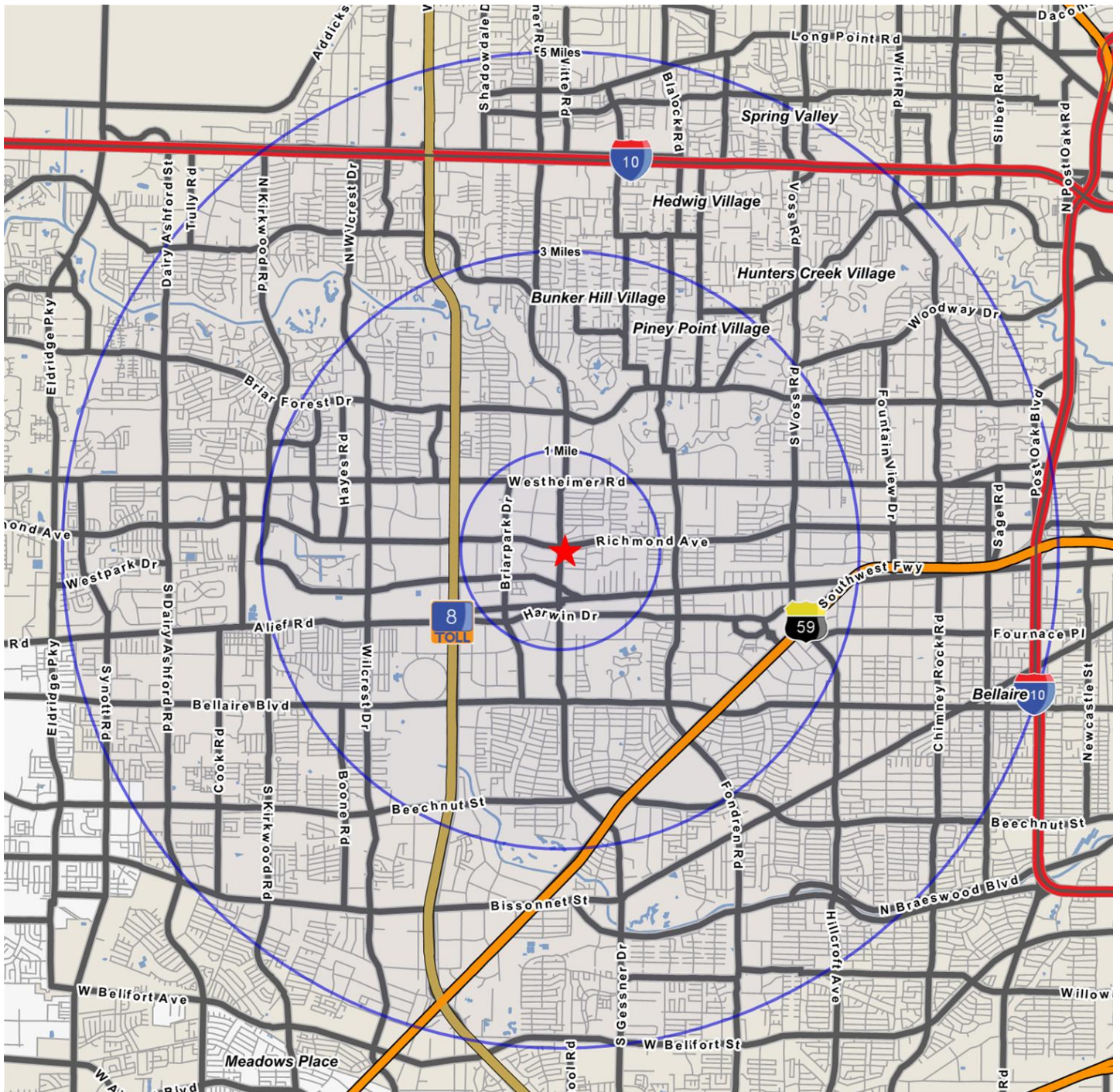
The comparison is startling! Clearly, Westchase Plaza’s trade area appears much more demographically challenged under the CUA analysis than under the traditional, concentric circle analysis. Under the traditional marketing approach, we would likely target mainstream retailers and traditional suburban office users given the strong demographics, and this is what was done unsuccessfully prior to my (Kyle Cascioli) my engagement and our employing the CUA approach.

Only now, can we begin to effectively map out our repositioning strategy for the property and ask the questions.

What end-space user can conceivably best “fit” the anthropology of this trade-area, and will therefore be willing to pay whatever rental premium can be achieved for Westchase Plaza?

Once we define, profile, and identify these “CUA Highest and Best Use (HBU)” end-space users, how should we rank them?

And finally and most importantly, how will we be able to “proactively” engage the decision influencers, decision-makers, and business owners of these targeted HBU end-space users in order to present a legitimate and verifiable business opportunity to them that will cause them to take action?



Traditional Concentric Circle Radii Trade Area Map

DEMOGRAPHIC PROFILE EXPANDED

1990 - 2000 Census, 2009 Estimates & 2014 Projections

Calculated using Proportional Block Groups



Lat/Lon: 29.72728/-95.53973

April 2010

RF5

**3700 S Gessner
Houston, Texas**

1.00 mi radius

3.00 mi radius

5.00 mi radius

Population

Estimated Population (2009)	26,829		194,212		529,983	
Census Population (1990)	21,951		154,546		422,175	
Census Population (2000)	26,521		191,712		515,736	
Projected Population (2014)	27,388		196,775		533,176	
Forecasted Population (2019)	27,866		199,547		542,767	
Historical Annual Growth (1990 to 2000)	4,570	2.1%	37,166	2.4%	93,560	2.2%
Historical Annual Growth (2000 to 2009)	308	0.1%	2,500	0.1%	14,248	0.3%
Projected Annual Growth (2009 to 2014)	559	0.4%	2,563	0.3%	3,192	0.1%
Est. Population Density (2009)	8,544.31	psm	6,892.81	psm	6,775.20	psm
Trade Area Size	3.14	sq mi	28.18	sq mi	78.22	sq mi

Households

Estimated Households (2009)	12,315		81,784		209,845	
Census Households (1990)	11,655		71,718		184,134	
Census Households (2000)	12,543		82,540		209,695	
Projected Households (2014)	12,696		84,849		213,409	
Forecasted Households (2019)	19,743		131,947		331,829	
Households with Children (2009)	3,066	24.9%	22,813	27.9%	67,129	32.0%
Average Household Size (2009)	2.16		2.35		2.51	

Average Household Income

Est. Average Household Income (2009)	\$54,539		\$70,133		\$77,347	
Proj. Average Household Income (2014)	\$63,483		\$79,916		\$88,446	
Average Family Income (2009)	\$63,786		\$87,539		\$94,250	

Median Household Income

Est. Median Household Income (2009)	\$43,895		\$56,239		\$61,904	
Proj. Median Household Income (2014)	\$47,148		\$59,539		\$65,499	
Median Family Income (2009)	\$48,212		\$68,529		\$74,751	

This report was produced using data from private and government sources deemed to be reliable. The information herein is provided without representation or warranty.

Per Capita Income						
Est. Per Capita Income (2009)	\$25,570		\$29,927		\$30,924	
Proj. Per Capita Income (2014)	\$29,954		\$34,850		\$35,700	
Per Capita Income Est. 5 year change	\$4,384	17.1%	\$4,923	16.5%	\$4,776	15.4%
Other Income						
Est. Median Disposable Income (2009)	\$37,882		\$46,755		\$51,020	
Est. Median Disposable Income (2014)	\$40,131		\$49,229		\$53,713	
Disposable Income Est. 5 year change	\$2,249	5.9%	\$2,474	5.3%	\$2,692	5.3%
Est. Average Household Net Worth (2009)	\$332,073		\$446,800		\$503,282	
Daytime Demos						
Total Number of Businesses (2009)	2,257		13,509		34,380	
Total Number of Employees (2009)	26,894		155,711		381,885	
Company Headqtrs: Businesses (2009)	34	1.5%	134	1.0%	298	0.9%
Company Headqtrs: Employees (2009)	4,322	16.1%	19,726	12.7%	35,489	9.3%
Unemployment Rate (2009)	5.10%		4.30%		4.50%	
Employee Population per Business	11.9 to 1		11.5 to 1		11.1 to 1	
Residential Population per Business	11.9 to 1		14.4 to 1		15.4 to 1	
Race & Ethnicity						
White (2009)	13,471	50.2%	102,119	52.6%	283,220	53.4%
Black or African American (2009)	5,199	19.4%	29,002	14.9%	88,601	16.7%
American Indian & Alaska Native (2009)	64	0.2%	447	0.2%	1,268	0.2%
Asian (2009)	2,865	10.7%	26,020	13.4%	58,305	11.0%
Hawaiian & Pacific Islander (2009)	41	0.2%	375	0.2%	936	0.2%
Other Race (2009)	3,718	13.9%	26,957	13.9%	74,282	14.0%
Two or More Races (2009)	1,471	5.5%	9,293	4.8%	23,372	4.4%
Not Hispanic or Latino Population (2009)	14,462	53.9%	114,110	58.8%	314,555	59.4%
Hispanic or Latino Population (2009)	12,367	46.1%	80,102	41.2%	215,429	40.6%
Not of Hispanic Origin Population (1990)	16,522	75.3%	120,587	78.0%	332,348	78.7%
Hispanic Origin Population (1990)	5,428	24.7%	33,958	22.0%	89,827	21.3%
Not Hispanic or Latino Population (2000)	16,575	62.5%	127,946	66.7%	349,007	67.7%
Hispanic or Latino Population (2000)	9,946	37.5%	63,766	33.3%	166,728	32.3%
Not Hispanic or Latino Population (2014)	13,964	51.0%	108,688	55.2%	294,181	55.2%
Hispanic or Latino Population (2014)	13,424	49.0%	88,087	44.8%	238,995	44.8%
Hist. Hispanic Ann Growth (1990 to 2009)	6,939	6.7%	46,143	7.2%	125,602	7.4%
Proj. Hispanic Ann Growth (2009 to 2014)	1,057	1.7%	7,985	2.0%	23,566	2.2%
Age Distribution						
Age 0 to 4 yrs (2009)	2,275	8.5%	15,508	8.0%	43,161	8.1%
Age 5 to 9 yrs (2009)	1,757	6.6%	13,113	6.8%	38,533	7.3%

Age 10 to 14 yrs (2009)	1,368	5.1%	10,984	5.7%	33,783	6.4%
Age 15 to 19 yrs (2009)	1,453	5.4%	11,173	5.8%	32,992	6.2%
Age 20 to 24 yrs (2009)	2,698	10.1%	16,749	8.6%	41,017	7.7%
Age 25 to 29 yrs (2009)	3,298	12.3%	19,214	9.9%	45,889	8.7%
Age 30 to 34 yrs (2009)	2,770	10.3%	17,161	8.8%	43,777	8.3%
Age 35 to 39 yrs (2009)	2,240	8.3%	14,956	7.7%	40,864	7.7%
Age 40 to 44 yrs (2009)	1,882	7.0%	13,226	6.8%	37,477	7.1%
Age 45 to 49 yrs (2009)	1,605	6.0%	12,457	6.4%	35,953	6.8%
Age 50 to 54 yrs (2009)	1,575	5.9%	12,179	6.3%	34,313	6.5%
Age 55 to 59 yrs (2009)	1,249	4.7%	10,798	5.6%	30,110	5.7%
Age 60 to 64 yrs (2009)	917	3.4%	8,475	4.4%	23,237	4.4%
Age 65 to 74 yrs (2009)	1,002	3.7%	10,194	5.2%	27,804	5.2%
Age 75 to 84 yrs (2009)	528	2.0%	5,630	2.9%	15,380	2.9%
Age 85 yrs plus (2009)	212	0.8%	2,395	1.2%	5,692	1.1%
Median Age (2009)	30.3	yrs	33.0	yrs	33.2	yrs

Gender Age Distribution

Female Population (2009)	13,110	48.9%	95,849	49.4%	263,776	49.8%
Age 0 to 19 yrs (2009)	3,280	25.0%	24,313	25.4%	71,611	27.1%
Age 20 to 64 yrs (2009)	8,880	67.7%	61,236	63.9%	164,462	62.3%
Age 65 yrs plus (2009)	950	7.2%	10,301	10.7%	27,704	10.5%
Female Median Age (2009)	30.5	yrs	33.9	yrs	34.2	yrs
Male Population (2009)	13,719	51.1%	98,362	50.6%	266,207	50.2%
Age 0 to 19 yrs (2009)	3,574	26.0%	26,465	26.9%	76,859	28.9%
Age 20 to 64 yrs (2009)	9,353	68.2%	63,979	65.0%	168,176	63.2%
Age 65 yrs plus (2009)	792	5.8%	7,918	8.1%	21,172	8.0%
Male Median Age (2009)	30.1	yrs	32.1	yrs	32.3	yrs

Household Income Distribution

HH Income \$200,000 or More (2009)	311	2.5%	4,619	5.6%	14,774	7.0%
HH Income \$150,000 to \$199,999 (2009)	274	2.2%	2,935	3.6%	9,047	4.3%
HH Income \$100,000 to \$149,999 (2009)	901	7.3%	7,776	9.5%	21,936	10.5%
HH Income \$75,000 to \$99,999 (2009)	1,191	9.7%	8,028	9.8%	20,829	9.9%
HH Income \$50,000 to \$74,999 (2009)	2,274	18.5%	15,263	18.7%	36,853	17.6%
HH Income \$35,000 to \$49,999 (2009)	2,546	20.7%	13,924	17.0%	33,903	16.2%
HH Income \$25,000 to \$34,999 (2009)	1,762	14.3%	10,073	12.3%	25,373	12.1%
HH Income \$15,000 to \$24,999 (2009)	1,634	13.3%	9,183	11.2%	23,081	11.0%
HH Income \$0 to \$14,999 (2009)	1,422	11.5%	9,984	12.2%	24,049	11.5%
HH Income \$35,000+ (2009)	7,498	60.9%	52,545	64.2%	137,342	65.4%
HH Income \$75,000+ (2009)	2,678	21.7%	23,358	28.6%	66,587	31.7%

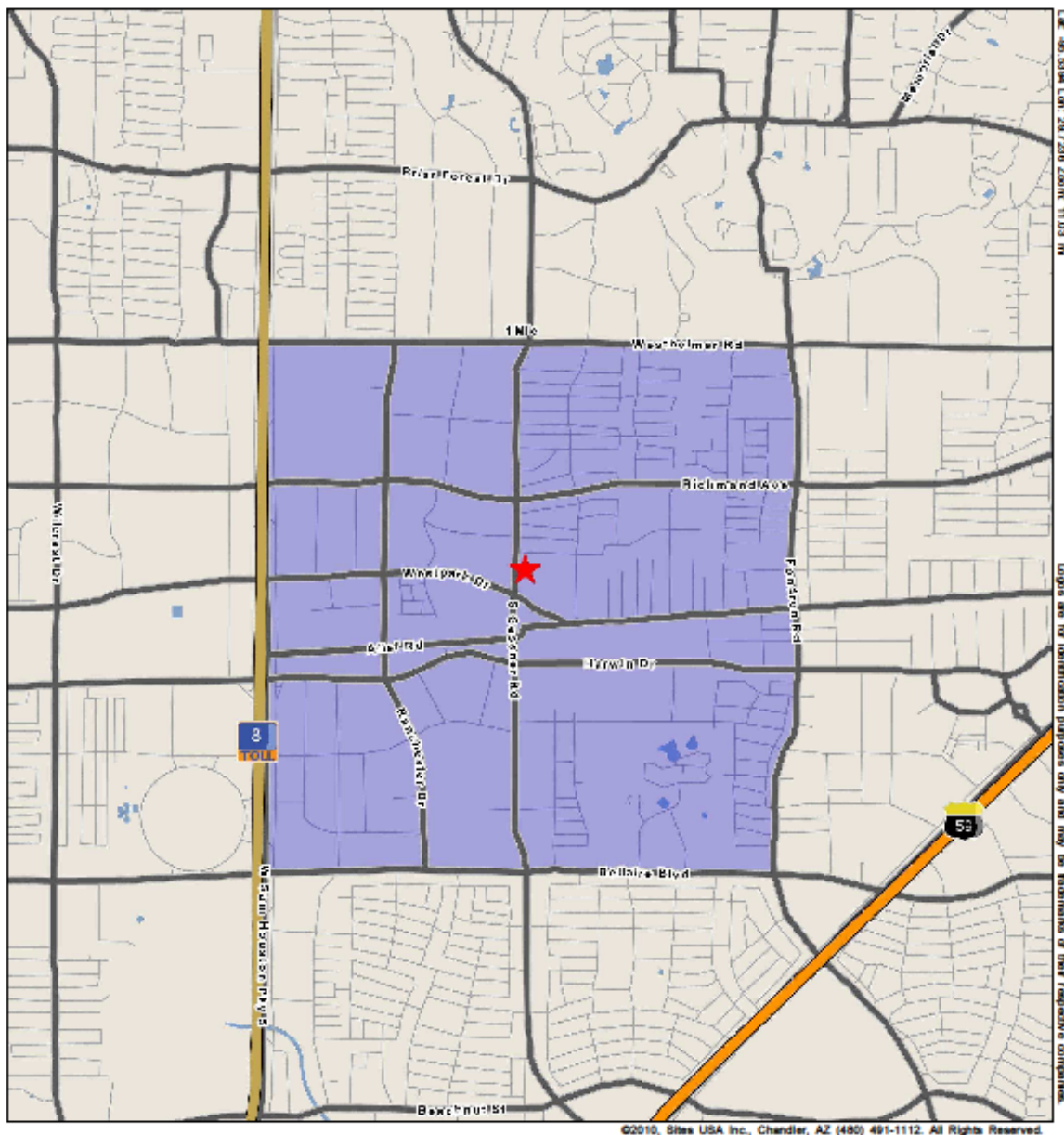
Housing

Total Housing Units (2009)	14,951		98,896		253,437	
Housing Units, Occupied (2009)	12,315	82.4%	81,784	82.7%	209,845	82.8%
Housing Units, Owner-Occupied (2009)	2,694	21.9%	26,182	32.0%	81,191	38.7%
Housing Units, Renter-Occupied (2009)	9,621	78.1%	55,602	68.0%	128,654	61.3%
Housing Units, Vacant (2009)	2,635	17.6%	17,112	17.3%	43,592	17.2%

Median Years in Residence (2009)	2.2 yrs		2.7 yrs		2.9 yrs	
Marital Status						
Never Married (2009)	8,382	39.3%	53,708	34.8%	134,189	32.4%
Now Married (2009)	7,972	37.4%	67,037	43.4%	189,539	45.8%
Separated (2009)	1,730	8.1%	11,070	7.2%	30,227	7.3%
Widowed (2009)	586	2.7%	6,293	4.1%	16,917	4.1%
Divorced (2009)	2,671	12.5%	16,195	10.5%	42,918	10.4%
Household Type						
Population Family (2009)	17,852	66.5%	141,853	73.0%	410,182	77.4%
Population Non-Family (2009)	8,758	32.6%	50,597	26.1%	115,628	21.8%
Population Group Qtrs (2009)	219	0.8%	1,761	0.9%	4,173	0.8%
Family Households (2009)	5,598	45.5%	42,977	52.5%	120,583	57.5%
Married Couple With Children (2009)	1,688	21.2%	13,699	20.4%	40,641	21.4%
Average Family Household Size (2009)	3.19		3.30		3.40	
Non-Family Households (2009)	6,717	54.5%	38,808	47.5%	89,263	42.5%
Household Size						
1 Person Household (2009)	5,485	44.5%	31,825	38.9%	73,978	35.3%
2 Person Households (2009)	3,154	25.6%	21,781	26.6%	54,673	26.1%
3 Person Households (2009)	1,468	11.9%	9,957	12.2%	27,122	12.9%
4 Person Households (2009)	1,164	9.4%	9,369	11.5%	27,534	13.1%
5 Person Households (2009)	610	4.9%	4,958	6.1%	14,721	7.0%
6+ Person Households (2009)	436	3.5%	3,894	4.8%	11,817	5.6%
Household Vehicles						
Total Vehicles Available (2009)	18,508		130,187		338,458	
Household: 0 Vehicles Available (2009)	1,257	10.2%	7,665	9.4%	18,837	9.0%
Household: 1 Vehicles Available (2009)	6,926	56.2%	41,773	51.1%	99,737	47.5%
Household: 2+ Vehicles Available (2009)	4,132	33.6%	32,347	39.6%	91,271	43.5%
Average Vehicles Per Household (2009)	1.5		1.6		1.6	
Labor Force						
Est. Labor: Population Age 16+ (2009)	21,144		152,541		407,757	
Est. Civilian Employed (2009)	14,735	69.7%	100,695	66.0%	266,165	65.3%
Est. Civilian Unemployed (2009)	1,073	5.1%	6,600	4.3%	18,266	4.5%
Est. in Armed Forces (2009)	15	0.1%	61	0.0%	163	0.0%
Est. not in Labor Force (2009)	5,321	25.2%	45,185	29.6%	123,162	30.2%
Occupation						
Occupation: Population Age 16+ (2000)	14,781		98,228		252,732	
Mgmt, Business, & Financial Operations (2000)	2,380	16.1%	15,961	16.2%	41,179	16.3%
Professional and Related (2000)	3,154	21.3%	22,005	22.4%	57,776	22.9%
Service (2000)	2,498	16.9%	16,404	16.7%	41,098	16.3%

Sales and Office (2000)	4,406	29.8%	27,822	28.3%	69,112	27.3%
Farming, Fishing, and Forestry (2000)	34	0.2%	199	0.2%	454	0.2%
Construct, Extraction, & Maintenance (2000)	960	6.5%	7,276	7.4%	20,744	8.2%
Production, Transp. & Material Moving (2000)	1,348	9.1%	8,561	8.7%	22,369	8.9%
Percent White Collar Workers (2000)		67.2%		67.0%		66.5%
Percent Blue Collar Workers (2000)		32.8%		33.0%		33.5%
Consumer Expenditure (in \$,000,000s)						
Total Household Expenditure (2009)	\$569		\$4,425		\$12,108	
Total Non-Retail Expenditures (2009)	\$326	57.3%	\$2,546	57.5%	\$6,976	57.6%
Total Retail Expenditures (2009)	\$243	42.7%	\$1,879	42.5%	\$5,132	42.4%
Apparel (2009)	\$27	4.8%	\$214	4.8%	\$586	4.8%
Contributions (2009)	\$20	3.5%	\$173	3.9%	\$491	4.1%
Education (2009)	\$13	2.3%	\$113	2.6%	\$319	2.6%
Entertainment (2009)	\$31	5.5%	\$247	5.6%	\$678	5.6%
Food And Beverages (2009)	\$89	15.6%	\$674	15.2%	\$1,828	15.1%
Furnishings And Equipment (2009)	\$24	4.3%	\$194	4.4%	\$537	4.4%
Gifts (2009)	\$15	2.6%	\$121	2.7%	\$339	2.8%
Health Care (2009)	\$36	6.3%	\$268	6.1%	\$721	6.0%
Household Operations (2009)	\$19	3.4%	\$162	3.7%	\$453	3.7%
Miscellaneous Expenses (2009)	\$10	1.7%	\$74	1.7%	\$200	1.6%
Personal Care (2009)	\$8	1.5%	\$64	1.5%	\$175	1.4%
Personal Insurance (2009)	\$6	1.0%	\$47	1.1%	\$131	1.1%
Reading (2009)	\$2	0.3%	\$15	0.3%	\$40	0.3%
Shelter (2009)	\$109	19.1%	\$853	19.3%	\$2,344	19.4%
Tobacco (2009)	\$4	0.7%	\$28	0.6%	\$75	0.6%
Transportation (2009)	\$114	20.0%	\$868	19.6%	\$2,360	19.5%
Utilities (2009)	\$42	7.4%	\$310	7.0%	\$832	6.9%
Educational Attainment						
Adult Population (25 Years or Older) (2009)	17,278		126,685		340,496	
Elementary (0 to 8) (2009)	1,985	11.5%	14,457	11.4%	41,125	12.1%
Some High School (9 to 11) (2009)	1,483	8.6%	9,782	7.7%	26,992	7.9%
High School Graduate (12) (2009)	3,647	21.1%	24,540	19.4%	64,847	19.0%
Some College (13 to 16) (2009)	3,148	18.2%	21,985	17.4%	58,761	17.3%
Associate Degree Only (2009)	970	5.6%	7,066	5.6%	18,847	5.5%
Bachelor Degree Only (2009)	3,908	22.6%	32,130	25.4%	83,849	24.6%
Graduate Degree (2009)	2,136	12.4%	16,725	13.2%	46,075	13.5%
Units In Structure						
1 Detached Unit (2000)	1,413	10.3%	18,765	20.9%	63,903	28.1%
1 Attached Unit (2000)	763	5.6%	5,933	6.6%	15,682	6.9%
2 to 4 Units (2000)	987	7.2%	5,392	6.0%	13,041	5.7%
5 to 9 Units (2000)	1,740	12.7%	8,023	8.9%	18,128	8.0%
10 to 19 Units (2000)	2,149	15.7%	13,087	14.6%	26,244	11.5%
20 to 49 Units (2000)	1,121	8.2%	7,376	8.2%	16,477	7.2%
50 or more Units (2000)	5,490	40.1%	31,048	34.6%	73,521	32.3%
Mobile Home or Trailer (2000)	8	0.1%	70	0.1%	322	0.1%
Other Structure (2000)	13	0.1%	49	0.1%	92	0.0%

Homes Built By Year						
Homes Built 1999 to 2000	193	1.4%	2,154	2.4%	4,496	2.0%
Homes Built 1995 to 1998	288	2.1%	3,891	4.3%	9,693	4.3%
Homes Built 1990 to 1994	633	4.6%	3,109	3.5%	9,647	4.2%
Homes Built 1980 to 1989	4,141	30.3%	21,592	24.1%	53,455	23.5%
Homes Built 1970 to 1979	5,963	43.6%	37,017	41.2%	86,234	37.9%
Homes Built 1960 to 1969	1,763	12.9%	16,716	18.6%	44,522	19.6%
Homes Built 1950 to 1959	567	4.1%	4,217	4.7%	15,546	6.8%
Homes Built Before 1949	136	1.0%	1,048	1.2%	3,818	1.7%
Home Values						
Home Values \$1,000,000 or More (2000)	6	0.4%	389	2.0%	1,107	1.7%
Home Values \$500,000 to \$999,999 (2000)	12	0.7%	1,183	6.0%	4,016	6.3%
Home Values \$400,000 to \$499,999 (2000)	5	0.3%	616	3.1%	2,441	3.8%
Home Values \$300,000 to \$399,999 (2000)	3	0.2%	1,216	6.2%	4,331	6.8%
Home Values \$200,000 to \$299,999 (2000)	56	3.5%	2,274	11.6%	7,811	12.2%
Home Values \$150,000 to \$199,999 (2000)	133	8.3%	2,208	11.3%	7,616	11.9%
Home Values \$100,000 to \$149,999 (2000)	639	40.0%	3,430	17.5%	11,624	18.1%
Home Values \$70,000 to \$99,999 (2000)	392	24.6%	5,016	25.6%	14,541	22.7%
Home Values \$50,000 to \$69,999 (2000)	122	7.7%	2,181	11.1%	6,791	10.6%
Home Values \$25,000 to \$49,999 (2000)	228	14.3%	953	4.9%	3,394	5.3%
Home Values \$0 to \$24,999 (2000)	0		146	0.7%	448	0.7%
Owner Occupied Median Home Value (2000)	\$105,120		\$189,964		\$190,033	
Renter Occupied Median Rent (2000)	\$538		\$560		\$554	
Transportation To Work						
Drive to Work Alone (2000)	10,797	72.9%	71,669	72.9%	185,996	73.5%
Drive to Work in Carpool (2000)	2,041	13.8%	13,823	14.1%	36,017	14.2%
Travel to Work - Public Transportation (2000)	1,083	7.3%	6,408	6.5%	15,095	6.0%
Drive to Work on Motorcycle (2000)	0		41	0.0%	138	0.1%
Walk or Bicycle to Work (2000)	430	2.9%	3,117	3.2%	6,495	2.6%
Other Means (2000)	146	1.0%	949	1.0%	2,555	1.0%
Work at Home (2000)	305	2.1%	2,304	2.3%	6,664	2.6%
Travel Time						
Travel to Work in 14 Minutes or Less (2000)	2,378	16.4%	19,170	20.0%	47,167	19.2%
Travel to Work in 14 to 29 Minutes (2000)	5,671	39.1%	37,611	39.2%	95,997	39.0%
Travel to Work in 30 to 59 Minutes (2000)	5,480	37.8%	33,404	34.8%	86,547	35.1%
Travel to Work in 60 Minutes or More (2000)	967	6.7%	5,823	6.1%	16,585	6.7%
Average Travel Time to Work (2000)	26.6	mins	25.5	mins	26.0	mins



3700 South Gessner
Houston, TX

April 2010

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EXPANDED PROFILE

1990 - 2000 Census, 2009 Estimates with 2014 Projections
Calculated using Proportional Block Groups



Westheimer Trade Area**Westheimer
Trade Area****Houston, Texas****Population (2009)**

Estimated Population	44,582	
Census Population (1990)	34,754	
Census Population (2000)	44,563	
Projected Population (2014)	46,853	
Forecasted Population (2019)	48,118	
Historical Annual Growth (1990 to 2000)	9,809	2.82%
Historical Annual Growth (2000 to 2009)	18	-
Projected Annual Growth (2014 to 2009)	2,271	1.02%
Estimated Population Density	9,040	<i>psm</i>
Trade Area Size	4.93	<i>sq mil</i>

Households (2009)

Estimated Households	18,550	
Census Households (1990)	17,185	
Census Households (2000)	19,052	
Projected Households (2014)	19,727	
Forecasted Households (2009)	30,678	
Households with Children	5,595	30.16%
Average Household Size	2.39	

Average Household Income (2009)

Est. Average Household Income	\$49,185	
Proj. Average Household Income (2014)	\$57,002	
Average Family Income	\$55,360	

Median Household Income (2009)

Est. Median Household Income	\$39,760	
Proj. Median Household Income (2014)	\$42,600	
Median Family Income	\$41,776	

Per Capita Income (2009)

Est. Per Capita Income	\$20,830	
Proj. Per Capita Income (2014)	\$24,349	
Per Capita Income Est. 5 year change	\$3,519	16.90%

Other Income (2009)

Est. Median Disposable Income	\$34,615	
Est. Median Disposable Income (2014)	\$36,704	
Disposable Income Est. 5 year change	\$2,089	6.04%
Est. Average Household Net Worth	\$289,074	

Daytime Demos (2009)

Total Number of Businesses	3,559	
Total Number of Employees	38,149	
Company Headqtrs: Businesses	46	1.28%
Company Headqtrs: Employees	5,426	14.22%
Unemployment Rate	5.05%	
Employee Population per Business	10.7	to 1
Residential Population per Business	12.5	to 1

EXPANDED PROFILE**1990 - 2000 Census, 2009 Estimates with 2014 Projections***Calculated using Proportional Block Groups*

Lat/Lon: 29.72127/-95.53896

Westheimer Trade Area**Westheimer
Trade Area****Houston, Texas****Race & Ethnicity (2009)**

White	18,231	40.89%
Black or African American	8,323	18.67%
American Indian & Alaska Native	116	0.26%
Asian	7,420	16.64%
Hawaiian & Pacific Islander	56	0.12%
Other Race	7,881	17.68%
Two or More Races	2,555	5.73%
Not Hispanic or Latino Population	22,199	49.79%
Hispanic or Latino Population	22,382	50.21%
Not of Hispanic Origin Population (1990)	24,617	70.83%
Hispanic Origin Population (1990)	10,137	29.17%
Not Hispanic or Latino Population (2000)	25,617	57.49%
Hispanic or Latino Population (2000)	18,946	42.51%
Not Hispanic or Latino Population (2014)	22,074	47.11%
Hispanic or Latino Population (2014)	24,778	52.89%
Hist. Hispanic Ann Growth (1990 to 2009)	12,246	6.36%
Proj. Hispanic Ann Growth (2014 to 2009)	2,396	2.14%

Age Distribution (2009)

0 to 4 yrs	4,106	9.21%
5 to 9 yrs	3,170	7.11%
10 to 14 yrs	2,447	5.49%
15 to 19 yrs	2,642	5.93%
20 to 24 yrs	4,379	9.82%
25 to 29 yrs	5,091	11.42%
30 to 34 yrs	4,450	9.98%
35 to 39 yrs	3,743	8.39%
40 to 44 yrs	3,090	6.93%
45 to 49 yrs	2,634	5.91%
50 to 54 yrs	2,494	5.59%
55 to 59 yrs	1,946	4.36%

60 to 64 yrs	1,453	3.26%
65 to 74 yrs	1,723	3.86%
75 to 84 yrs	897	2.01%
85 yrs plus	318	0.71%
Median Age	29.64	yrs
Gender Age Distribution (2009)		
Female Population	21,587	48.42%
0 to 19 yrs	5,897	27.32%
20 to 64 yrs	14,106	65.35%
65 yrs plus	1,584	7.34%
Female Median Age	30	yrs
Male Population	22,994	51.58%
0 to 19 yrs	6,468	28.13%
20 to 64 yrs	15,173	65.99%
65 yrs plus	1,354	5.89%
Male Median Age	29.42	yrs

EXPANDED PROFILE

1990 - 2000 Census, 2009 Estimates with 2014 Projections
Calculated using Proportional Block Groups

Lat/Lon: 29.72127/-95.53896

Westheimer Trade Area		Westheimer Trade Area	
Houston, Texas			
Household Income Distribution (2009)			
\$200,000 or More	356	1.92%	
\$150,000 to \$199,999	296	1.59%	
\$100,000 to \$149,999	1,136	6.12%	
\$75,000 to \$99,999	1,481	7.98%	
\$50,000 to \$74,999	3,279	17.68%	
\$35,000 to \$49,999	3,767	20.31%	
\$25,000 to \$34,999	2,754	14.84%	
\$15,000 to \$24,999	2,777	14.97%	
\$0 to \$14,999	2,706	14.59%	
\$35,000+	10,313	55.60%	
\$75,000+	3,268	17.62%	
Housing (2009)			
Total Housing Units	22,315		
Housing Units, Occupied	18,550	83.13%	
Housing Units, Owner-Occupied	3,444	18.56%	
Housing Units, Renter-Occupied	15,107	81.44%	
Housing Units, Vacant	3,765	16.87%	
Median Years in Residence	2	yrs	
Marital Status (2009)			

Never Married	12,947	37.28%
Now Married	13,964	40.21%
Separated	3,289	9.47%
Widowed	1,010	2.91%
Divorced	3,519	10.13%
Household Type (2009)		
Population Family	32,514	72.93%
Population Non-Family	11,827	26.53%
Population Group Qtrs	240	0.54%
Family Households	9,738	52.49%
<i>Married Couple With Children</i>	3,136	22.46%
<i>Average Family Household Size</i>	3.3	
Non-Family Households	8,813	47.51%
Household Size (2009)		
1 Person Household	7,129	38.43%
2 Person Households	4,655	25.10%
3 Person Households	2,556	13.78%
4 Person Households	2,140	11.53%
5 Person Households	1,179	6.35%
6+ Person Households	892	4.81%
Household Vehicles (2009)		
Total Vehicles Available	29,629	
Household: 0 Vehicles Available	2,106	11.35%
Household: 1 Vehicles Available	10,264	55.33%
Household: 2+ Vehicles Available	6,181	33.32%
Average Vehicles Per Household	1.6	

EXPANDED PROFILE

1990 - 2000 Census, 2009 Estimates with 2014 Projections

Calculated using Proportional Block Groups

Lat/Lon: 29.72127/-95.53896

Westheimer Trade Area		Westheimer Trade Area
Houston, Texas		
Labor Force (2009)		
Est. Labor: Population Age 16+	34,350	
Est. Civilian Employed	22,613	65.83%
Est. Civilian Unemployed	1,736	5.05%
Est. in Armed Forces	17	0.05%
Est. not in Labor Force	9,985	29.07%
Occupation (2000)		
Occupation: Population Age 16+	22,455	

Mgmt, Business, & Financial Operations	2,863	12.75%
Professional and Related	4,191	18.66%
Service	4,670	20.80%
Sales and Office	6,271	27.93%
Farming, Fishing, and Forestry	43	0.19%
Construct, Extraction, & Maintenance	1,915	8.53%
Production, Transp. & Material Moving	2,502	11.14%
<i>Percent White Collar Workers</i>		59.34%
<i>Percent Blue Collar Workers</i>		40.66%
Consumer Expenditure (2009)		
Total Household Expenditure	\$801 M	
<i>Total Non-Retail Expenditures</i>	\$459 M	57.23%
<i>Total Retail Expenditures</i>	\$343 M	42.77%
Apparel	\$38.5 M	4.81%
Contributions	\$27.2 M	3.40%
Education	\$18.3 M	2.29%
Entertainment	\$44.0 M	5.49%
Food And Beverages	\$126 M	15.77%
Furnishings And Equipment	\$33.6 M	4.19%
Gifts	\$19.9 M	2.49%
Health Care	\$51.4 M	6.41%
Household Operations	\$26.9 M	3.36%
Miscellaneous Expenses	\$13.9 M	1.73%
Personal Care	\$11.8 M	1.47%
Personal Insurance	\$7.68 M	0.96%
Reading	\$2.64 M	0.33%
Shelter	\$152 M	19.03%
Tobacco	\$5.87 M	0.73%
Transportation	\$161 M	20.05%
Utilities	\$59.9 M	7.48%
Educational Attainment (2009)		
Adult Population (25 Years or Older)	27,838	
Elementary (0 to 8)	4,578	16.45%
Some High School (9 to 11)	2,764	9.93%
High School Graduate (12)	6,156	22.11%
Some College (13 to 16)	4,607	16.55%
Associate Degree Only	1,380	4.96%
Bachelor Degree Only	5,275	18.95%
Graduate Degree	3,077	11.05%

EXPANDED PROFILE

1990 - 2000 Census, 2009 Estimates with 2014 Projections

Calculated using Proportional Block Groups

Lat/Lon: 29.72127/-95.53896

Westheimer Trade Area

Houston, Texas

**Westheimer
Trade Area**

Units In Structure (2000)		
1 Detached Unit	1,995	9.69%
1 Attached Unit	816	3.96%
2 to 4 Units	1,568	7.61%
5 to 9 Units	2,340	11.36%
10 to 19 Units	3,123	15.16%
20 to 49 Units	1,618	7.86%
50 or more Units	9,087	44.12%
Mobile Home or Trailer	29	0.14%
Other Structure	20	0.10%
Homes Built By Year		
1999 to 2000	451	2.19%
1995 to 1998	563	2.73%
1990 to 1994	773	3.75%
1980 to 1989	5,819	28.25%
1970 to 1979	9,080	44.09%
1960 to 1969	2,665	12.94%
1950 to 1959	939	4.56%
Built Before 1949	307	1.49%
Home Values (2000)		
\$1,000,000 or More	-	0.02%
\$500,000 to \$999,999	1	0.04%
\$400,000 to \$499,999	1	0.04%
\$300,000 to \$399,999	2	0.08%
\$200,000 to \$299,999	32	1.60%
\$150,000 to \$199,999	158	7.95%
\$100,000 to \$149,999	864	43.49%
\$70,000 to \$99,999	492	24.77%
\$50,000 to \$69,999	169	8.51%
\$25,000 to \$49,999	268	13.50%
\$0 to \$24,999	-	-
Owner Occupied Median Home Value	\$100,047	
Renter Occupied Median Rent	\$484	
Transportation To Work (2000)		
Drive to Work Alone	15,607	69.43%
Drive to Work in Carpool	3,538	15.74%
Travel to Work - Public Transportation	1,875	8.34%
Drive to Work on Motorcycle	-	-
Walk or Bicycle to Work	793	3.53%
Other Means	287	1.28%
Work at Home	378	1.68%
Travel Time (2000)		
Travel to Work in 14 Minutes or Less	3,872	17.52%
Travel to Work in 14 to 29 Minutes	8,556	38.71%
Travel to Work in 30 to 59 Minutes	7,911	35.79%
Travel to Work in 60 Minutes or More	1,762	7.97%
Average Travel Time to Work	27.2	mins

The Westchase Plaza Property:

Built in 1981, Westchase Plaza was a nearly 44,000 square foot Neighborhood Shopping Center with a traditional lineup of retail service and convenience product providers located on the Northwest corner of South Gessner Road and West Park Drive – just north of what would later become the Westpark Tollway.

In 1979, the trade area was predominately Caucasian with some Hispanic households according to Wally Wounes and Mike Hachicho, owners of Verona’s Italian restaurant, located across the street from Westchase Plaza on the Northeast corner of South Gessner and West Park Drive. With over 20 years in business at this location, we interviewed the restaurateurs, who explained that the neighborhood remained that way up until the mid-1980’s, until the Savings and Loan debacle. After the Savings and Loan Crisis, which resulted in a plethora of foreclosures in the submarket, the socioeconomics, demographics, and ethnocentricity of the area changed dramatically.

It should be noted that primary research, such as interviewing business owners and inhabitants (natives) in the immediate trade area is an essential component of the “Contemporary Urban Anthropology (CUA)” process.

Mike and Wally further explained that those changes included an exodus of Caucasian households and an influx of Hispanics, African-American, Asian, Indian households, and other ethnic groups with lower incomes. The effect on the subject property was a shift from typical neighborhood retail and service uses, to more entertainment uses, including a succession of property owners and nightclubs catering to various ethnic patron groups. This was also true for another larger retail center, located across the street from the subject property on the Southwest corner of South Gessner and Westpark Drive, which is also owned by Whitestone REIT and is now named Sunridge Plaza. The restaurateurs also said that a significant increase in neighborhood crime accompanied these changes.

Several significant commercial anthropological infrastructure improvements also occurred in the submarket over this period of time that included the creation of the Westpark Tollway in the early 1990’s, and the following development of the Metro Transit System “Park N’ Ride” soon thereafter. This added a Transit Oriented District (TOD) component to the immediate trade area, that would prove critical to the successful repositioning of Westchase Plaza.

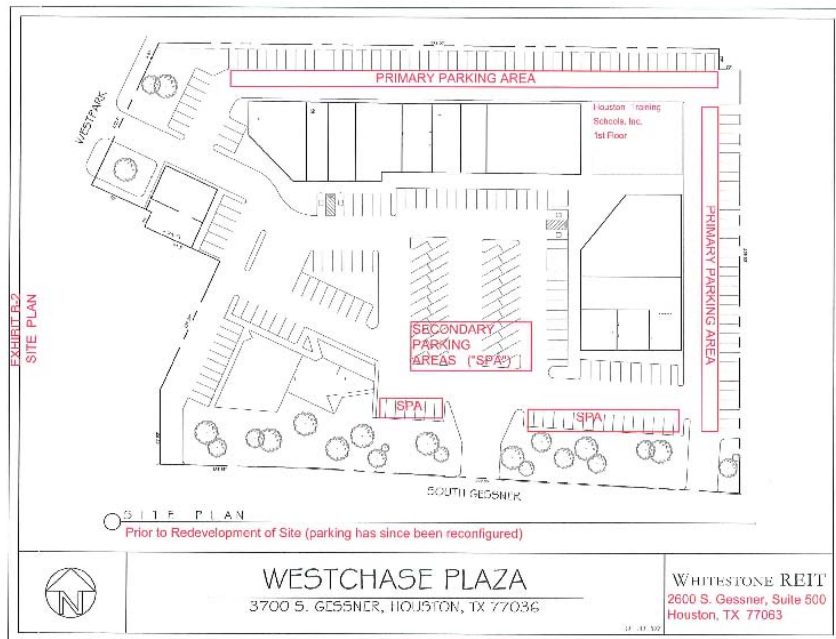
As discussed in “*The Westchase Property Trade Area*” section of this case study, the property is technically located in the prestigious Westchase District, located in the heart of Houston’s affluent west side. Attributes of this suburban planned urban development (PUD) included:

- Master planning
- Extraordinary landscaping
- Abundant shopping, restaurants and entertainment alternatives
- Nearby housing from the affordable to the luxurious
- A prestigious location for businesses which several are on the *Houston Chronicle’s* 2009 Top 100 list and professionals
- A vast, highly-skilled and educated labor pool
- Highly ranked public and private schools
- Extraordinary public safety with supplemental police
- Exceptional highway access that reduces commute times and puts more productive hours in every day

Given the CUA of Houston relative to its populace's heavy dependence on the automobile for transportation, the last attribute (highway access) became a significant differentiating driver of value to both the subject property and the Westchase District. That is, the District and corresponding trade areas improved access to ground transportation links via Beltway 8 West, I-10 West, Highway #59, and the Westpark Tollway, gives the extended trade area broad geographic reach to the Houston MSA.

The center's namesake (Westchase), was clearly chosen to brand the property this prestigious area. However, this was problematic given the subject property's location at the perimeter southeast corner section of the Westchase District. In this area the District's prestige is compromised given the stigmatization associated with the transitional trade area seam, which separates the "true" Westchase District from the lower socioeconomic demographics and diverse ethnicity as previously noted.

At the time of the subject property's redevelopment, the center was architecturally dated, and less than 50% leased to an eclectic tenant-mix of smaller service retail operators, and whose anchor space had been vacated by a former ethnic nightclub operation. The property also had abundant parking for its size, which would also be critical to the successful re-tenanting of the project. This redevelopment cost Whitestone approximately \$1.5 million, took over nine months to complete from the date of plan approval, and served to greatly modernize and improve the look of the center.



Westchase Plaza Site Plan

The project pro-forma rental rates were budgeted at \$12.00 per square foot with triple NNN expenses estimated at \$4.00. per square foot excluding janitorial services (\$16 per square foot rental rate). As addressed in *"The National & Houston Office Real Estate Markets"* section of this case study, Houston Class-C office rates averaged \$15.54 per square foot in 2009 (gross) according to CoStar. While the Westchase Plaza is an attractive property given its redevelopment, we believe it falls into the Class-C office and retail categories given both the trade area issues and that the center is a "hybrid" retail and office center. CoStar also reported that Class-C retail rental rates averaged \$15.66 per year (triple NNN).

Photos Before the Redevelopment



Photos After the Redevelopment



As the before and after photos demonstrate, Whitestone creatively added value to this redevelopment through both a rehabilitating aesthetic face-lift, and by expanding the physical structure by nearly 6,000 square feet through the addition of a second floor (where there was none before) in the elbow of the "L" configured center. This space was

previously home to the former night clubs and was an open building to the roof of what would become the second floor via the redevelopment.

The following traditional (non-CUA) “Westchase Redevelopment Marketing Plan Outline” was developed by Whitestone REIT in June of 2007, and is fairly representative of traditional, mainstream property marketing plans.

WEST CHASE REDEVELOPMENT
MARKETING PLAN OUTLINE

Purpose: Develop a marketing plan that targets specific tenant prospects to constitute a specific and suitable mix of tenants for the demographics of this property.

Note: This approach requires collaboration with and cooperation of each WR department.

A. ANALYSIS:

1. Demographic analysis of property trade area

a. Traffic Counts

- i. Public street
- ii. Property entry

b. Population Density and Characteristics

- i. Households
 - 1. Owner
 - 2. Renter
- ii. Household Income
- iii. Income by Age
- iv. Household Expenditures by Category
- v. Population Projections
- vi. Ethnic Characteristics

2. Competitive Analysis:

a. Business by Type

- i. Number of Businesses
- ii. Employment
- iii. Number of Employees per Business

b. Competitor Properties w/in [X] Radius

- i. Inventory Tenants
- ii. Composite All Tenants to Analyze for Opportunities

3. Budget Analysis

- a. Current Rent Rates
- b. Projected Rent Rates
- c. Pro-Forma's

4. Tenant Analysis

- a. Rent Roll
- b. Lease Expiration
- c. Current Rents
- d. Renewal Rents
- e. Payment History
- f. Fit Decision
 - i. Approach for renewal
 - ii. Approach for non-renewal
 - iii.

B. IDEAL TENANT PROFILE

- a. Identify Tenant Categories to Ideally Merchandise Tenant Mix
- b. Identify Specific Tenant Prospects
 - i. Identify Specific Contact Person

- ii. Determine Local Locations
- iii. Research Expansion Plans

C. MARKETING PLAN

- a. Identify Time Lines on Gantt Chart
 - i. Coordinate with Construction Dept
 - ii. Agreement with Leasing Dept
 - iii. Agreement with Property Management
 - iv. Approval by Senior Management
- b. Identify “Why Do Business with WR” (Property Specific)
 - i. Strengths - Make List of Reasons Why X Property is Ideal For Prospect
 - ii. Shorts - Develop Offense for Objections
- c. Develop Marketing Concept and Collateral Material
 - i. Property Theme (if any)
 - ii. Complete One Pager
 - iii. Complete Brochure Template
 - iv. Complete Electronic Brochure
 - v. Property Signage
- d. Develop Prospect Approach – Collaborate with Leasing and PM
 - i. Influence List All Leasing Agent Relationships (CRM)
 - 1. Corporate
 - 2. Franchise
 - 3. Category
 - ii. Assign Lead Leasing Agent
 - iii. Identify Leasing Milestones and Deadlines
 - iv. Prospect Contact (CRM)
 - 1. Direct
 - 2. Direct Mail
 - 3. Email
 - 4. 3rd Party Introduction
 - 5. Linked In, etc.
 - v. Prospect Follow Up (CRM)
 - 1. Determine follow up interval
 - 2. Determine follow up approach
 - 3. Track follow up in CRM (Required)

D. MEASUREMENT AND MONITORING

- a. Weekly Leasing Activity Reports
 - i. Contacts
 - 1. Results
 - 2. Comments
 - 3. Follow up Plan
 - ii. New Leases Signed
 - iii. Progress Towards Goal
- b. Suggested Refinements

It is important to take note of the two highlighted sections, Item A1, “Demographic Analysis,” and Item B, “Ideal Tenant Profile,” because these are the two most critical components of analyses for any property reuse and repositioning efforts as we have seen in the “*Westchase Plaza Trade Area*” analysis section of this case study.

By evaluating the trade area from the traditional geocentric (concentric circle) perspective and not employing the “Contemporary Urban Anthropological (CUA)” approach to “Highest and Best Use (HBU)” analysis, the REIT’s efforts were less effective as they resulted in the pursuit of targeted end-space uses that would have a low probability of success.

That is, the leasing team would be given a marketing plan that would be very difficult to execute successfully.

Once the decision was made to redevelop, renovate, modernize, and expand the center to include a two-story office anchor space in the elbow of this “L” configured physical structure for the reasons cited under the “*The Client (Whitestone REIT)*” section of this paper, pre-leasing marketing efforts were then initiated in accordance with this Marketing Plan.

As we can see from the “Pre-Leasing” brochure on the following pages, the property’s speculative office space component was marketed primarily to the traditional office space users of The Westchase District and Medical uses including dental. These efforts were less successful for the reasons outlined in the “*Trade Area Analysis*” section of this case study, and the office space component of this redeveloped property remained vacant until the “Contemporary Urban Anthropological (CUA)” approach was later initiated and successfully executed.

And while all of Whitestone’s marketing collaterals are very professional and contain the necessary property information, they simply were targeted to less appropriate end-space users.

Herein lies our most critical observation of what is wrong, not with Whitestone’s efforts, but rather with the traditional appraisal definition of HBU analysis. HBU analysis focuses primarily on quantitative property analysis (rental rates), to find the HBU, while CUA analysis focuses almost entirely on qualitative market factors (anthropology) to determine the HBU. In a uniform, homogenous, and evenly distributed trade area, both approaches should result in the same targeted user for HBU of a given property. But with the exception perhaps of rural, agricultural markets, master-planned communities, and deed restricted suburban business parks, this is almost never the case.

Under the traditional HBU approach, Whitestone executives could not help but focus on the two classes of end space-users that would pay the highest rents in the subject property’s trade area, Westchase suburban office and medical uses. However, as we now understand from the theory of CUA introduced in this white paper and supported by this case study that was not achievable.

This is also evidenced by the differences between the 2007 pre-leasing brochure and the 2009 post-redevelopment leasing brochure. The 2009 post-redevelopment brochure is nearly void of any references to the prestigious, suburban office park (Westchase District) that the subject property is technically domiciled, but in reality is a market that the property does not serve.

NOW PRE-LEASING!

WESTCHASE PLAZA REDEVELOPMENT · RETAIL AND OFFICE SPACE



WESTCHASE PLAZA RETAIL AND OFFICE SPACE

► WESTCHASE PLAZA in Houston, Texas is strategically positioned at S. Gessner Rd. and Westpark Dr. The property is located in the Westchase District, one of Houston's premier master planned developments with 1,500 businesses, 55,000 employees, 14.2 million square feet of office space in 97 office buildings, 2.4 million square feet of retail space in 36 shopping centers and over 120 restaurants.

► Originally constructed in 1981, the property is currently undergoing a significant amount of renovation including the addition of 10,000 square feet of office space suitable for medical and dental practices, financial services and investments, as well as other office based disciplines.



► The daily vehicle traffic counts through the intersection of S. Gessner Rd. and Westpark Dr. exceed 70,000. The retail areas are ideal for vehicular traffic dependent businesses such as fitness centers, day spas, ice cream parlors, kolache and donut stores, postal, delivery and copy services, and mobile phone stores to name a few.

**3700 S. Gessner Rd.
Houston, Texas 77063**

713.827.9595 Fax: 713.465.8847
www.whitestonereit.com

PROPERTY HIGHLIGHTS:

RENTABLE AREA: 48,000 Square
Feet Office and Retail Space Available

YEAR BUILT: 1981

SITE AREA: 4.66 Acres

STORIES: Single story retail space
and two story office space available

PARKING: Ample parking on surface
spaces in front of the building

CONSTRUCTION: Steel construction
with stucco and stone

FOR MORE INFORMATION

© 2007 Whitestone REIT, Houston, Texas



WHITESTONE REIT





LOCATION AND PROJECT FEATURES:

Strategically positioned at S. Gessner Rd. and Westpark Dr.

TRAFFIC COUNTS: 70,000+ vehicles daily through intersection of S. Gessner Rd. and Westpark Dr.

MINIMUM SPACE: Approximately 1,000 square feet

AMPLE PARKING: Easy ingress and egress.

DEMOGRAPHICS: Within 3 Miles

2006 Estimated Population 212,471

2006 Median Age 33

2006 Households Estimate 89,018

2006 Average Household Income \$73,655

LOCATION:

WESTCHASE PLAZA

3700 S. Gessner Rd., Houston, Texas 77063

CONTACT:

713.827.9595 ext. 3007



WHITESTONE REIT

3400 South Central Road, Suite 900, Houston, Texas 77068

Whitestone REIT, a Houston, Texas based company owns and operates more than 3 million square feet of retail, office and office warehouse properties.

For more information, visit www.whitestonereit.com

PHONE: (713) 827.9595 • FAX: (713) 465.0047

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Whitestone's efforts to target medical uses is also worth noting from a CUA perspective in that while the use is appropriate for the center, both the Houston marketplace and Westchase Plaza's trade area are saturated with medical uses given that Houston is a sanctuary city with great ethnocentric diversity of both legal and illegal aliens. The cultural and behavioral anthropology of the Houston MSA is such that there is a prevalence of "Doc-In-A-Box (independent retail medical facilities unaffiliated with hospitals)" as they are called, because many immigrants, legal and illegal, are reluctant to go to large hospitals for either general health or emergency purposes, and many have no health insurance. This is further exacerbated by the fact that many of them (legal and illegal aliens) are dependent on public transportation and have language barriers that tend to keep them in their ethnic neighborhoods, where they can maintain relations with medical doctors that share their ethnic origins.


While it was prudent to pursue these local medical uses, the market was over-saturated with them, and once established in a given location and retail center, those medical space users are reluctant to move for fear of patients not finding their new locations and the cost to do so.

Finally, our "Contemporary Urban Anthropological (CUA)," approach recognized that these medical user based marketing efforts were further challenged because they took place at a time immediately preceding the Obama administration's - and a Democratically controlled Congress and Senate's - controversial efforts to pass a national healthcare bill. This historic effort had many medical professionals both on edge and immobilized as they waited to see if the bill would pass, and ultimately sort out what it would mean for their business models and their futures.



Westchase Plaza Marketing Brochure targeting Medical uses


2009 Westchase Plaza Office Space Marketing Brochure




Up to 15,000 sf. Available for Single Tenant

- Two-story shell: 5,000 to 15,000 sf contiguous space available.
- Build to suit.
- January 2009 completion.
- Expansive glass, open reception area — airy & bright.
- Private elevator.
- Building signage available with facility naming rights, based on size.
- Adjacent to Westpark Toll Road — easy access.
- On site day care available.
- Ample 5.4:1,000 parking ratio.
- Covered parking planned, private back entrance.
- Professional management — owner managed & leased.

**New Office Space in Redeveloped
Mixed-Use Center**
3700 S. Gessner • Houston, Texas





PROPERTY DEBUT FEBRUARY 2009




Unique NEW office space in corner of newly redeveloped mixed-use center.

- Located in exclusive deed-restricted, Westchase District on Houston's west side.
- Immediately adjacent to Westpark Tollway.







WHITESTONE REIT
Creating Communities in Our Properties™
2800 South Gessner Suite 500 • Houston, Texas 77063 • Toll Free 866.789.7348 • Fax 713.465.8847

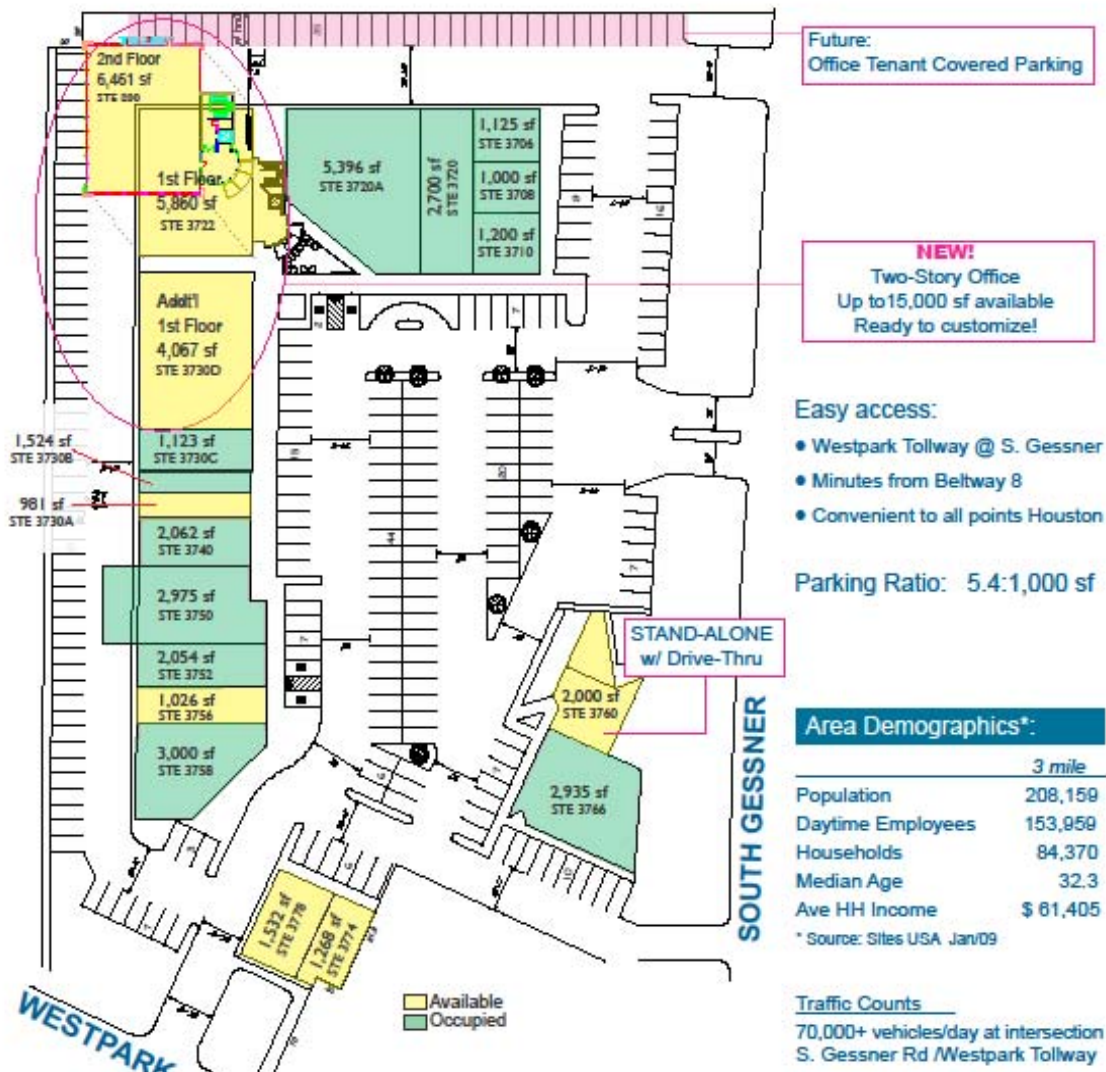
713.827.9595
www.whitestonereit.com

Post-Development Westchase Plaza Marketing Brochure – Front Page
Note: References to Westchase District less prominent than in “Pre-Leasing Brochure



Redeveloped Mixed-Use Center: **NEW** retail plus office space in Westchase Area.

3700 S. Gessner • Houston, Texas



This site plan rendering is provided solely to depict the basic size and location of the building(s), property grounds, parking areas and amenities as it is currently or planned by Whitestone REIT. Whitestone REIT reserves the right to alter the design, including but not limited to its architectural scheme, general layout, points of ingress and egress, available square footage, and parking areas. Existing tenant names and locations are subject to change without notice. Suite or unit numbers are depicted as reference only.



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9/09

The Problem:

In the most global sense, the problem facing Whitestone REIT with regard to the Westchase Plaza speculative redevelopment was how to find an appropriate and acceptable anchor tenant for the two story office portion of the center (approximately 12,000 square feet) in the middle of an unprecedented, historical, commercial real estate down-cycle.

In fact, it is debatable whether or not the period characterized by the “post-financial illiquidity crisis” of 2008 is a down-cycle, “structural price-correction,” or both. We believe it is both, but that the “structural price correction” is the more significant component that is negatively impacting current property values, rental rates, market velocity, space user demand, and deal-flow.

We also believe that the project suffers from the real estate “principle of regression” in that the redevelopment has physically over-improved the subject property relative to its surrounding commercial properties. This reduces Westchase Plaza’s rental pricing power in the immediate trade area when compared with other physically comparable properties in the extended trade area.

Another issue that is key to the importance of the “Contemporary Urban Anthropological (CUA)” approach to “Highest and Best Use (HBU)” analysis as it relates to landlords and owners repositioning and property reuse efforts, is that it lends itself well to a “proactive” marketing approach to commercial property leasing as opposed to a “passive” marketing approach.

By this, we mean that the majority of traditional commercial real estate transactions occur as a function of brokers representing tenants in the marketplace, and thereby acting as gatekeepers, or screens that filter the inventory of properties that will be presented to the end-space user. Additionally, many landlords and commercial property owners rely on passive and semi-passive methods, such as property signage, print advertising, direct-mailings, CoStar listings, and the use of online commercial property websites, like LoopNet, to market their available space. Cold-calling is the most proactive, often expensive, and time consuming, approach that landlords and commercial property owners use to market their properties, and those efforts are often geocentric and not CUA-HBU targeted and end-user based.

We believe that this Westchase Plaza case study demonstrates just this point, that the traditional geocentric direct marketing and cold-calling approach is less effective than the CUA-HBU direct marketing and cold-calling approach and how the “Contemporary Urban Anthropological (CUA)” model of HBU increases the probability of “proactive,” direct marketing and cold-calling success.

Finally, Whitestone’s reliance on traditional HBU analysis that was pegged to the range of office rents prevalent in the high-end “Westchase District” suburban office submarket, led them to undertake the property redevelopment strategy that they pursued perhaps without fully recognizing the challenges that this strategy would present. And had the financial crises of 2008 not occurred, it may very well have worked.

Based on our prior CUA, demographic, trade area polygon abstracting versus the traditional concentric circle trade area abstracting, we understood why we needed to look in an alternative direction if we were to successfully anchor, and re-tenant Westchase Plaza. And that is just what we did.

The Approach:

As articulated in the *“What do we mean when we refer to real estate property use and reuse, in the context of Highest and Best Use (HBU), as Contemporary Urban Anthropology (CUA)?”* subsection of the *“What is Contemporary Urban Anthropology”* at the beginning of this paper, it means that real estate practitioners must first thoroughly understand the current anthropology of the trade area that the subject property is located in.

In this context, real estate practitioners can determine and modify the traditional real estate appraisal definition of “highest & best use (HBU),” to include qualitative factors that consider the most appropriate use relative to urban and suburban real estate utility. This real estate utility is determined by the given real estate improvement’s functional contribution to its surrounding environment relative to those anthropological considerations such as where do people of a given community live, work, learn, recreate, worship, do commerce, and takes into consideration current economic and business cycle characteristics. This contemporary anthropological approach to HBU also considers the trade area’s physical and cultural characteristics including topography, geology, hydrology, infrastructure, demographics, socioeconomics, climate, and other factors.

To understand the current anthropology of the trade area it is helpful to understand the historic anthropology. In the case of Westchase Plaza, we saw in the *“Let us look at the City of Houston as an example of the effects of Contemporary Urban Anthropology”* section, how Houston evolved into the pro-commerce community that is, and how the community’s early merchant culture set the stage for its evolution. Specifically, how Houston has no zoning laws as a function of that early merchant culture, and how the lack of zoning regulations has resulted in extremely fragmented land use in the urban core.

This fragmented land use has had an adverse effect on the HBU of Westchase Plaza relative to the redevelopment strategy of modernizing the architectural theme of the center and increasing the gross leasable area to include a two story office component as the center’s anchor space. This strategy was further marginalized given the structural price correction due to the financial dislocation in the capital markets, hyper-supply in Houston’s office marketplace, and the other anthropological influences as described in *“The Westchase Property Trade Area”* section of this paper.

As we also saw in *“The Westchase Plaza Property”* section of this paper, the CUA approach defined the trade area markedly differently than did the traditional geocentric (concentric circle) demographic data abstraction approach often associated with traditional HBU analysis. More importantly, the HBU approach, which focuses primarily on “highest economic return,” pegged the two-story office space component of the property to the high-end suburban office submarket that the subject property is technically domiciled in – The Westchase District. And pragmatically, we saw that the Westchase Plaza’s two story office component, was not deliverable to that suburban office submarket as a “like-property” or “market comparable.”

At the core of the “Contemporary Urban Anthropological (CUA)” methodology or approach to HBU is the premise that if real estate practitioners and academics focus on the best end-real estate use, the best anthropological fit, of a given property, then the highest economic return (HBU) will result, and not the other way around.

In this way, traditional HBU is a global, “top-down,” theoretical valuation model that does not consider probability of success or “HBU achievability,” while CUA is a granular, “bottom-up,” empirical valuation model based on HBU achievability.

The Solution:

Upon consideration of the trade area's "Contemporary Urban Anthropological (CUA)" characteristics as described the "The Westchase Property Trade area" section of this paper and having evaluated the challenged initial marketing efforts identified in "The Westchase Plaza Property" section, we developed the "CUA Highest & Best Use (HBU)," end-user profile below:

- **Significant size space user with potential to occupy 12,000 SF**
- **Non-traditional office user or destination oriented retail user**
- **Conspicuous user as described above willing to pay a premium for street visibility and signage**
- **Growth industry class given business down-cycle, financial illiquidity, and historic unemployment**
- **Commercial enterprise with broad ethnic, socio-economic, and demographic appeal**
- **National, regional, or local operator with track record of success and creditworthiness to support significant landlord tenant finish contribution**
- **Lessee willing to commit to ten (10) year primary lease term**
- **Name recognition tenant that would have public relations impact on newly redeveloped center and media appeal**

Based on this profile, the following narrow, commercial enterprise categories were targeted, including:

Ethnic Media Operations:

- **Television Stations**
- **Radio Stations**
- **Weekly Newspapers**
- **Specialty magazine publishers**
- **Ethnic Advertising, Talent, and Modeling Agencies**

While Houston is clearly an ethnocentrically diverse community as we have seen, and we did successfully engage several ethnic media related space users at Westchase Plaza, however, the media industry "business space" was contracting, not expanding, during this troubling economic period. Hence, these efforts were not as productive as we would have hoped, and we quickly moved our CUA marketing efforts to the vocational training school industry segment.

Vocational training schools were targeted early on given the high rate of national, regional, and local unemployment at this time. This was because trade schools tend to be economically counter-cyclical, and expand in economically challenging times.

“The great Recession and its jobless recovery have funneled tens of thousands of unemployed workers into vocational education programs and their promise of more secure, well-paid work.²⁷” During this recession, there are more college graduates with degrees than the number of jobs requiring degrees available to employ those graduates. During this period of high unemployment, vocational school enrollment was rising as more families looked for affordable educational alternatives to traditional four-year college programs.

Given the historic influx of international immigration to Houston, as discussed in the *“Houston as an example of the effects Contemporary Urban Anthropology,”* section of this paper, it was observed that the city had a significant, healthy vocational school industry segment well positioned to accommodate this economic counter-cyclical growth, and that presented a target-rich stable of local operators to solicit for school expansion.

The American Recovery and Reinvestment Act of 2009, otherwise known as the “Stimulus” or “Recovery” Act, has made nearly \$50 billion available for education spending, which includes slightly expanded grants and financial aid for vocational training and retraining programs. Additionally, the Pell Grant, which is often used to finance vocational training tuition, could be further increased as the Obama Administration attempts to gain government control of educational financial aid by its efforts to make the Student Loan Bill a part of the Comprehensive Health Care Bill.

Finally, “Revenue at for-profit technical and trade schools has jumped by over 12% over the last 12 months, compared to average growth between 5% and 6% in 2006 and 2007, according to the financial analysis firm Sageworks.”²⁸

In Houston, local cosmetology school operators concur that at the local level, they have seen annualized growth in excess of 20% from 2008 through first quarter of 2010, and feel that the rate would have been even higher if it were not for the debilitating economic effects from “Hurricane Ike” in 2008. Again, this is reflective of the regional strength of the Texas economy when compared to other regions in the country as addressed in *“The Economic Market Conditions”* of this case study. Vocational school categories include:

- **Vocational Training Schools**
 - **Health**
 - **Cosmetology**
 - **Court Reporting**
 - **Culinary**
 - **Language**
 - **Paralegal**
 - **Professional**
 - **Technology**

Given all of the factors cited above, and our considering the “Highest and Best Use (HBU)” of Westchase Plaza from a “Contemporary Urban Anthropological (CUA)” perspective, it became clear that the vocational school industry segment was the segment to focus on for the subject property’s two-story anchor office space requirement given the demographic, ethnocentric, and socioeconomic characteristics of the “immediate trade area.”

Upon further evaluation of the space requirements of these vocational school category users, the cosmetology school sector proved to fall more within the 12,000 square foot and below space range that the Westchase anchor office space offered. Language schools were often too small, and the Health, Court Reporting, Paralegal, Professional, and

²⁷ “Vocational School Enrollment Booms Amid White-Collar Bust,” Rob Reuteman, CNBC.com December 3, 2009

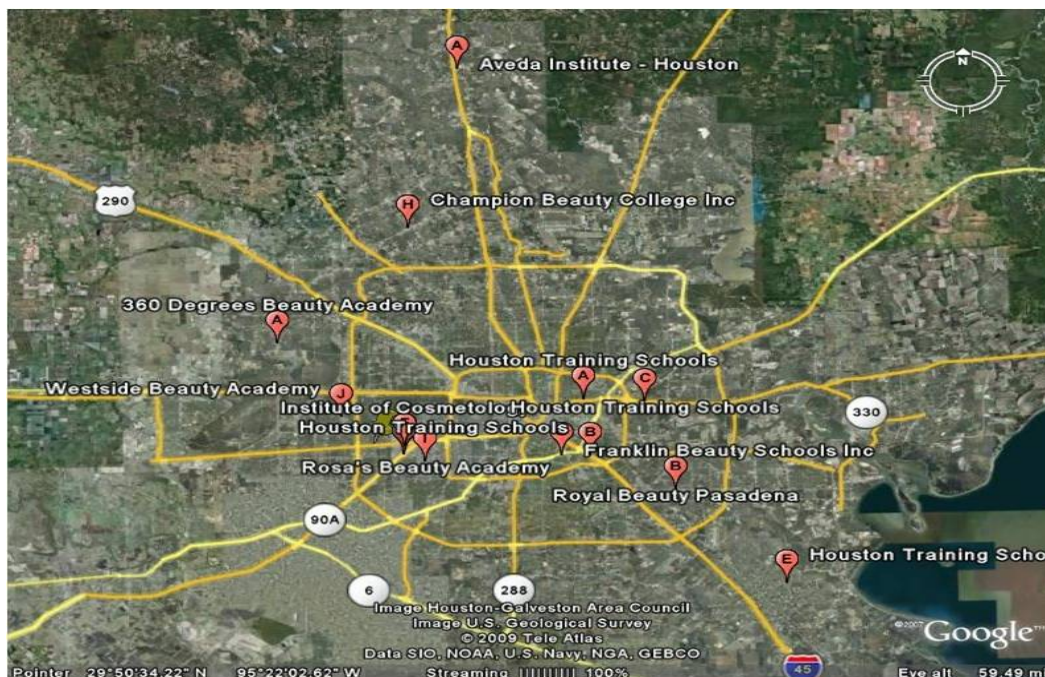
²⁸ Ibid

technology schools' space requirements were often too large to be accommodated at Westchase Plaza. The Culinary school sector had more regional drawing power given the high cost of tenant finish improvements (plumbing and kitchen build-out), which explained why there were not as many of those facilities in the Houston MSA when compared with cosmetology schools, as had been expected. This discovery also ties to our CUA methodology, since Houston has more restaurants per capita than any other MSA (noted in the *"Let us look at the City of Houston as an example of the effects of CUA"*), and we therefore expected the city to have a higher demand for chiefs, which in theory would imply a higher demand for culinary training.

The major "players" identified in Houston's beauty, or cosmetology "business space" included:

- **Regency Beauty Institute (National)**
- **Aveda Institutes (National)**
- **Paul Mitchell Cosmetology Schools (National)**
- **Remington Colleges (National)**
- **Millian Institute of Cosmetology (Regional)**
- **Houston Training Schools (local; 4 Schools)**
- **Royal Beauty Schools (local; 2 Schools)**
- **National Beauty College (local; 1 School)**
- **Franklin Beauty School (local; 1 School)**
- **Institute of Cosmetology (local; 1 School)**
- **Matrix Beauty School (local; 1 location)**
- **360 Degree Beauty School (local; 1 School)**

Once these players were identified, we mapped out their geographic locations within the Houston Metropolitan Statistical Area (MSA) in order to evaluate both their geographic distribution and sub-market coverage – see map below.



Houston Cosmetology School Competitive Geographic Distribution

After evaluating the distribution of these beauty and cosmetology school competitors within MSA, we used a sales contact software database in order to identify the decision-influencers, decision-makers, and owners of these targeted businesses. See sample database contact sheets on the following pages (pages 63 and 64).

The next step was to prepare a one-page initial prospecting introduction letter with all of the necessary collateral materials that would support our contention that there was a legitimate opportunity to be had by these businesses at Westchase Plaza at this time. This would serve as an informative mechanism to “proactively” engage these decision-influencers, decision-makers, and business owners in order to present a legitimate and verifiable business opportunity to them.

This is the key difference between the CUA approach and that of traditional commercial real estate property marketing. In traditional commercial real estate property marketing, “bricks & mortar” are being presented. The property’s location, architectural theme, tenant-mix, traffic counts, available space, access to public transportation, global demographics, and other property features and amenities are what is being marketed with CUA.

By defining the “Highest & Best Use (HBU)” of a given property using the “Contemporary Urban Anthropological (CUA)” approach, real estate practitioners are able to market business opportunities to prospective tenants, the core of which relate to the anthropology of the trade area and then tie to the subject property’s traditional real estate features, amenities, and other physical characteristics. See sample one-page initial prospecting introduction letter on page 65.

At this point, we have now defined the economic expansion opportunities for cosmetology and beauty schools as a function of the historic high unemployment rate, continued Houston immigrant in-migration, and the impact of the Obama Administration’s economic stimulus package that has increased the amount of Federal financial aid to eligible vocational program students.



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Franklin Beauty Schools Inc Houston, TX

Address Information

Address: 4885 North Linder King Jr Rd
City: Houston
State: TX
ZIP Code: 77021-2808
Phone: (713) 845-8383
Map & Directions: [Map and Directions](#) [Directions](#)

Toll Free Number: Not Available
Fax: Not Available
Line of Business: Colleges & Universities
Primary SIC: 8221-01
NAICS: 61131000
IUSA Number: 88-088-4732
EIN(s): Not Available

Notes

My Notes:

Add / Edit Notes and Follow Up:

Optional Follow Up Date / Time:

at 6:00 AM [Save](#)

Corporate Information

Corporate Employees: 7
Location Employees: 7
Est. Annual Sales: [View](#)
Type of Business: Private Owned
Location Type: Single Loc
Franchise Code(s): Institution
Metropolitan Area: Houston, TX
County: Harris
View Web Site: Not Available
Number of Personal Computers: 2 - 9 PCs
Home Business: No
Public Company: No
Lat/Long: 028700800 • 095335116

Years in Database: 21
Year Established: 1876
Ticker Symbol: Not Available
Stock Exchange: None
Annual Reports: Not Applicable
Parent Company: None
Foreign Parent: No
Forbes 1000 Ranking: Not Applicable
SQ Footage: 10,000 - 39,999
Hours of Operation: Not Available
Credit Cards Accepted: Not Available

Management Directory

Title	Name	Gender	Bio
Owner	Mr. Ron Jensen	Male	

Corporate Family Tree

Corporate Linkage

Company Description

✓ **Primary Line of Business:**
Schools-Universities & Colleges Academic (SIC 8221-01)
The Franchise Code(s) associated with their Primary Line of Business is/are Certificate/Vocational, Private And Parochial

Business Profile:
N/A

Other Lines of Business: **SIC:** **Brand/Specialty:**
Barbers Equipment & Supplies (Wholesale) 5887-35
Beauty Schools 7231-35

Primary Line of Business:
Colleges & Universities (NAICS 61131000) - Service Establishment
Equip Merchant Whols, Cosmetology & Barber Schools

Other Lines of Business: **NAICS:**
Service Establishment Equip Merchant Whols 42387000
Cosmetology & Barber Schools 61131002

Location Image Company News Click on the source file to view it.

DATE: ARTICLE: SOURCE:
None on File

Business Expenditures

The estimated annual spending range for this business are displayed in the categories below:

Spending Category	Range	Spending Category	Range
Accounting		Technology	
Insurance		Legal	
Office Equipment and Supplies		Package/Container	
Postal		Purchase Point	
Rent and Leasing		Management/Administration	
Contract Labor	Not Available	Telecommunications	

Competitors Report

[About Competitors Report](#)

Central For Entrepreneurship 4800 Calhoun Rd Houston, TX 77004	Houston Community College 6815 Rustic St Houston, TX 77067	Lutheran Fm. Bldg. - Oldham 3006 Roe Dr Houston, TX 77087	Mason OH Bldg College 2524 Delano St Houston, TX 77004
Texas A&M University 8100 Cleburne St Houston, TX 77004	Texas Southern University 6815 Rustic St Houston, TX 77067	University Of Houston 3875 Holman St Houston, TX 77004	University Of Houston Spring 4605 Cullen Blvd Houston, TX 77004
University Of Houston System 4800 Calhoun Rd Houston, TX 77004	University of Houston - Clear Lake 4850 Ballpark St Houston, TX 77064		

Nearby Businesses

Best Denim 4877 Martin Luther King Jr Bl Houston, TX 77021	Liquorland Inc 4877 Martin Luther King Blvd Houston, TX 77021	E & N Health Bldg 4973 Martin Luther King Jr Bv Houston, TX 77021	Fat Ball Transportation 4973 Martin Luther King Jr Bl Houston, TX 77021
McCook & Associates Group 4818 Martin Luther King Jr Houston, TX 77021	McCooking Co 4875 Martin L King Jr Blvd Houston, TX 77021	Multi-Pass Car Wash Plus 4987 Martin Luther King Blvd Houston, TX 77021	4971 Martin Luther King Jr Bl Houston, TX 77021
Swift Burger Shop 4885 Martin Luther King Jr Bv Houston, TX 77021	Wendy's Restaurants 4818 Martin Luther King Jr Bl Houston, TX 77021		

UCC Filings

[About UCC Filings](#)

UCC Filed Date: 02-07-1995	Expiration Date: 02-07-2005
Filing Number: 550002927	Jurisdiction: SEC of State TX
Secured Party: INDEPENDENCE BANK NA, PO BOX 840600 HOUSTON, TX 77284	Collateral: Undefined
UCC Filed Date: 04-04-2006	Expiration Date: 04-04-2013
Filing Number: 00011706240	Jurisdiction: SEC of State TX
Secured Party: WELLS FARGO BANK NA, 15511131 5 XTH AND MARQUETTE MINNEAPOLIS, MN 55473	Collateral: Undefined

Public Filings

Filing Date	State	County	Type	Amount or Liability	Case Number
20080225	TX	Harris	Federal tax lien	\$34,495.00	20080010821

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WHITESTONE REIT

September 17, 2009

Carolyn McAlister
Houston Training Schools
10314 East Freeway
Houston, TX, 77385

Hi Carolyn:

Please allow us to introduce ourselves as the *leasing team responsible for securing a Beauty School operation for our Westchase Plaza property* located less than two (2) miles from the Texas Barber & Beauty Schools.

Westchase Retail & Office Plaza (WCOP) is a newly redeveloped 50,289 square foot combined office & retail property located in the southeast quadrant of the Westchase District. This municipal district comprises a 4.2 square mile area centered on the Sam Houston Tollway between Buffalo Bayou on the north and US Highway 59. The Westchase District is home to many prestigious corporations including BMC Software, Chevron, Dow Chemical, and Jacobs Engineering.

Adjacent to the Westpark Toll Road on the northwest corner of South Gessner and Westpark Drive, the WCOP draws from a nearby clerical and administrative labor pool of 64,037 apartment dwellers as well as 153,959 daytime employees. Additionally, the property is within close proximity to some of Houston's most upscale executive housing in the Memorial Villages' neighborhoods to the north. *This property is located across the street from the Metro "Park & Ride," and has two bus stops (Metro #46, Gessner Crossroad & #146, Harwin Express) on site to better service students requiring public transportation.*

The property recently underwent a million dollar plus exterior renovation, and can provide up to 15,000 square feet of highly-visible office space to appropriate office users including prominent building signage. Ancillary retail exists onsite to serve our future office users including a Valero Convenience Store & Gas station, Subway Sandwich Shop, Chinese Restaurant, Bimbos Bakery, Ted's Fast Seafood, Beauty Salon, Copy Plus Print Shop, a Daycare Center, and banquet room operation that would be excellent for holding Beauty School graduation ceremonies.

Whitestone REIT is a real estate investment trust based in Houston with a nearly 3,000,000 square foot real estate portfolio of quality retail, office, and industrial properties in Texas, Arizona, and Illinois. *We have an in-depth understanding of Beauty School operations and are prepared to "turn-key," an upscale, "state-of-the-art" facility for qualified operators such as the Houston Training Schools.*

Thank you for your consideration of this property inquiry, and we hope to move forward in drawing up a space plan for this space with you soon.

Sincerely Yours,

Kyle Cascioli
VP of Leasing & Special Projects

Raquel Benitez
Leasing Agent

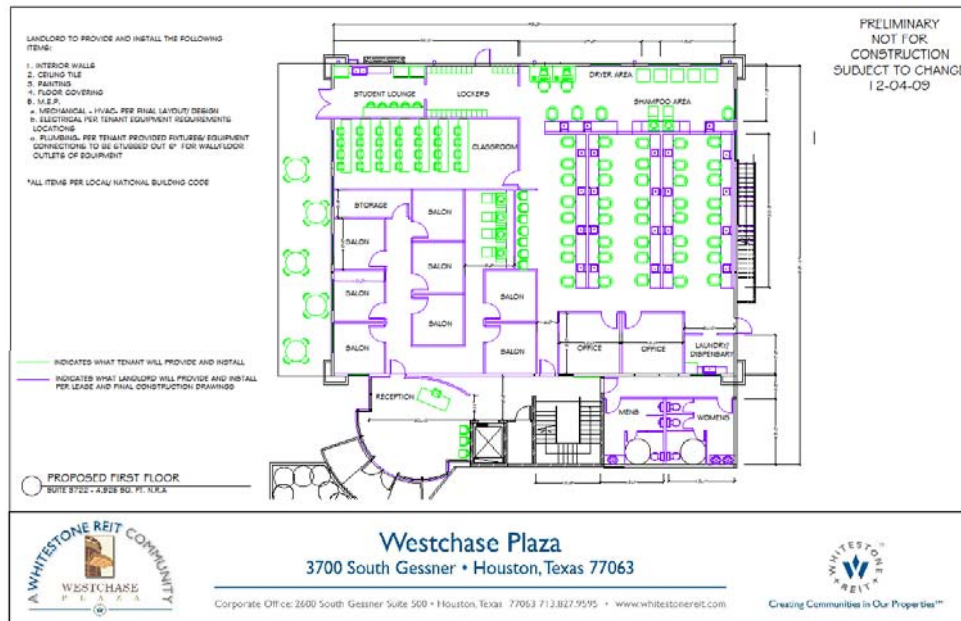
2602 South Gessner
Suite 500
Houston, Texas 77063

Phone (713) 627-8853
Toll free (866) 789-7378
Fax (713) 625-8817

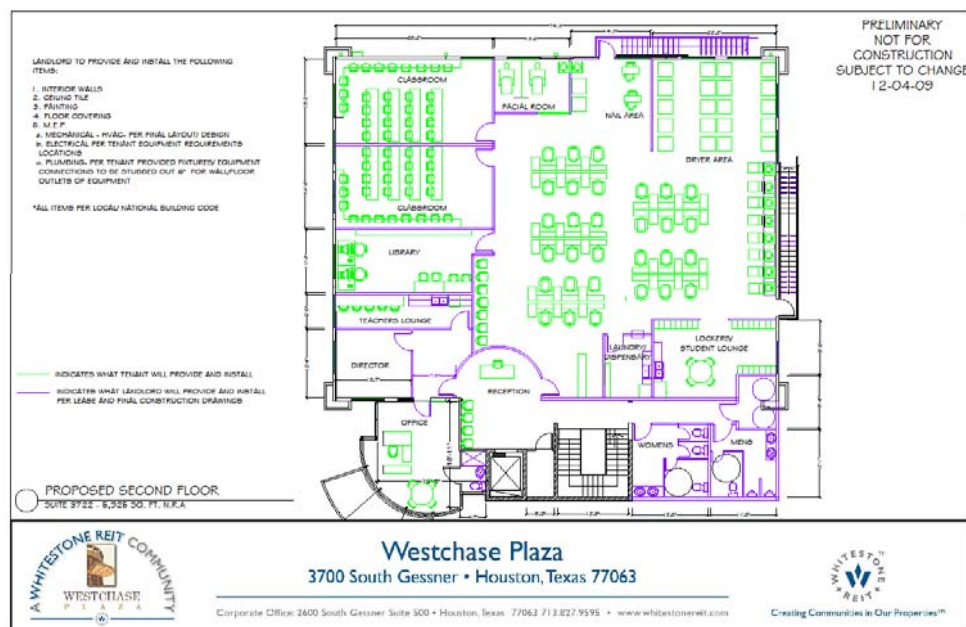
info@whitestonereit.com
www.whitestonereit.com

The Initial Cosmetology School Marketing Package - Construction Drawings:

In addition to the initial one-page marketing letter and collateral materials discussed in the last section, we also prepared detailed floor plans for the building illustrating a potential layout of a cosmetology school in the two-story Westchase building. This demonstrated our understanding of cosmetology school operations and the trust's interest in securing a cosmetology school for Westchase Plaza, including their financial commitment to delivering such a school for a qualified operator (tenant).



Westchase Plaza Anchor Space First Floor Concept Plan



Westchase Plaza Anchor Space Second Floor Concept Plan

The Two Cosmetology School Prospects:

Upon the direct engagement (no brokers or intermediaries were involved in these negotiations or the final transaction) of the identified players in the Houston cosmetology and beauty school space, two well established, independent operators within the urban core expressed legitimate interest in Westchase Plaza.

In addition to validating the “Contemporary Urban Anthropological (CUA)” approach, the engagement of these two legitimate prospects also served to create the necessary negotiating leverage, which was essential to maximizing the leasehold value critical to achieving the traditional, economic, appraisal definition of “Highest & Best Use (HBU)” for the property. This is another key marketing advantage of the CUA approach. By targeting an industry segment, such as cosmetology schools, the landlord’s ability to create negotiating leverage (competition) for a given property increases.

CUA methodology also extends beyond that of the industry segment itself, to include the history and culture of the targeted end-space users business as well. This is important in that it allows us to understand the given target’s culture in addition to their business and revenue models. Furthermore, it is essential to gaining the targets trust and creating comfort in the real estate business opportunity.

It should also be noted that cosmetology, beauty, and barber schools are highly regulated at the state level. Those wishing to pursue careers in the these industries are required to take extensive, supervised training, pass state exams, take continuing education, and be licensed. As such, the vocational programs and schools that provide them are monitored and regulated by state agencies. Additionally, if they chose to accept Federal financial tuition aid as previously discussed, they are subject to additional regulation at the Federal level that requires them to provide the Federal tuition aid regulatory agencies with audited financials as well as other stringent educational accreditation requirements. In Texas, the Texas Department of Regulatory Agencies, has specific facilities’ requirements that dictate the amount of space necessary in addition to how those facilities must be designed.

This adds an additional component of complexity to the real estate equation when dealing with cosmetology or beauty schools.

Franklin Beauty School:

“The Franklin School of Beauty was formally established by Nobia Franklin in 1917 after several years of creating and selling beauty products from her home in San Antonio, Texas. Following a few initial moves that included Houston, the school was eventually based in Chicago.

When Nobia died, her property and business were left to her daughter Abbie. When she came of age, Abbie married J. H. Jemison who then managed the Franklin Beauty School. The young couple soon made the decision to close the Chicago location and re-open the salon and school permanently in Houston in 1935. Positive decisions were made that greatly facilitated the expansion of the business. It soon became apparent that J. H. possessed the marketing and leadership acumen that would make the Franklin Beauty School a great success in Houston. In partnership with Abbie, Jemison spent 35 years in business making a vast contribution to raising the civil status of young beauticians of color.

J. H. Jemison also dedicated himself to leadership in the community. His involvement was pivotal in such endeavors as desegregating Houston's city golf courses, establishing a Girl Scout camp so young Black girls could participate in camping activities, and serving as President of the Youth Council of the N.A.A.C.P.”²⁹

At the time that we solicited their potential interest in the Westchase Plaza property, The Franklin Beauty School had celebrated its 92nd year of operation with over four generations of leadership by same family.

Located in South Houston, near the University of Houston on Martin Luther King Boulevard, The Franklin Beauty School historically has catered to Houston's black cosmetology student base.

Houston Training Schools:

The beauty school entity that was to ultimately become the Houston Training School (HTS) was founded in the early 1980's, and began to struggle in 1985. It was at this time that the landlord of one of the properties that housed one of the two predecessors' schools, gained legal control of the business, changed the name to HTS, and continued operating the enterprise as a going concern. After a five-year period of mediocre performance being operated by the landlord, a consulting group from a competitive regional beauty school chain of thirty schools based in Dallas was brought in to assume daily management activities at HTS under a consulting agreement that included an option to purchase the enterprise in a bulk sale and transfer.

A key member of this four-person consulting team was Carolyn McAllister, who was vice president of the Dallas based beauty school chain's southern Texas region (that included nine schools), and in that role had moved to Houston in 1985. Coincidentally, Ms. McAllister had lived for several years in the Westchase Plaza trade area at that time.

In the early 1990's, the owner of the Dallas based chain had lost the firm's Federal tuition aid accreditation, which compromised the business model of both that chain and HTS. Upon this occurrence, the landlord that had gained control of HTS and had retained the Dallas chain's consulting group dismissed that group as consultants. He then retained Carolyn McAllister as an independent consultant under the same terms that had been granted to the Dallas based beauty school chain, which also included the same purchase option agreement.

As secretary of HTS (and an officer of the firm), Carolyn McAllister assumed personal liability of the operating agreement with the landlord, thereby taking on entrepreneurial risk, and through her efforts was able to grow the firm's net profit in one year by over one thousand (1,000) percent! By using those profits to both meet HTS operating expenses and fulfill the terms of the purchase agreement with HTS legal owner and landlord, she was able to gain sole control and ownership of the firm by 1996. The rest was history, as Ms. McAllister was able to build the beauty school chain into the leading cosmetology educational training school provider in Houston's urban core, and a direct competitor of the Franklin Beauty School.

At the time that we approached Ms. McAllister to solicit her potential interest in Westchase Plaza for an additional school location, HTS had four Houston schools in operation, had been in business for over 20 years, had increased the firm's annual student volume to over 700 pupils, and had made HTS a keen competitor in the cosmetology school space by whom other competitors benchmark their performance.

It should be noted that HTS primarily targets Hispanic students, and offers English language training as a separate training program to immigrants of many ethnicities, races, nationalities, and places of origin.

²⁹ Franklin Beauty School website, 2010

The Lease Negotiations

After “blitzing” Houston’s cosmetology school space, we quickly categorized our prospect base as to whether or not they had immediate interest, potential interest, or no interest.

The Franklin Beauty Schools (FBS) had expressed immediate interest and had met us at Westchase Plaza multiple times, and as a result, we began working with them soon thereafter in designing a series of potential space plans for their occupancy. Their interest in the building was to aggressively combine a barber school (new to their business model) and hair salon with the beauty school, and to lease the entire 12,000 square foot, two-story anchor office space all at the same time. When we first contacted Ron Jemison, Jr., (great grandson of the founder) he advised that our timing could not have been better in that they were considering expanding with a second school due to favorable economic climate for vocational schools previously discussed in this paper.

Within 90 days we had a lease to Franklin for legal review.

Carolyn McAllister was an elusive decision-maker. She was a hard decision-maker to communicate with, and it took a very concerted effort to pursue her in expansion dialogue without alienating her in the process. While she did not express immediate interest, we pursued her nonetheless since HTS was the dominant cosmetology school operator in the urban core with four schools. It was not until she learned that Franklin Beauty School had requested a lease, that she engaged us seriously in dialogue regarding Westchase Plaza. She later revealed after we advised her that we had generated a lease for FBS at Westchase Plaza that her primary motive in expanding to Westchase Plaza was to prevent Franklin, a respected competitor in the urban core, from establishing a foothold in southwest Houston, where they could more readily compete with HTS Southwest Freeway (Highway #59) school. Additionally, Carolyn was at capacity at the Southwest Freeway school, and felt that the Westchase location could handle overflow from the southwest freeway school as well as gain more geographic penetration into southwest Houston near the city’s major retail strip – Westheimer Road. Additionally, Carolyn felt that she could not pass up the opportunity to have a landlord build-out a new beauty school facility for her and to her specifications. HTS plan for staged expansion into the balance of the building could include administrative sales offices (call center), or additional classroom space for beauty or language school use.

One significant objection that we had to overcome with Carolyn McAllister was her perception that the Westchase Plaza immediate trade area was predominantly Asian, which it was not. While new Chinatown was tangent to the southern border of the trade area, as discussed in “*The Westchase Trade Area*” section of this case study, the immediate trade area had a significant Hispanic population, which is the primary student target of HTS. Through our extensive – and documented – analyses of the trade area via the CUA methodology, we were able to assist Carolyn with her own primary research that ultimately led her to the conclusion that our trade area analyses were correct. This is especially significant, in that Carolyn McAllister had lived in this area during the 1980’s, and had her own opinions regarding this area.

It was at this point that an interesting family dynamic began to reveal itself with regard to the FBS lease negotiations. Ron Jemison, Sr. (FBS Patriarch), who had been contacted at several critical junctures during the initial marketing courtship to keep discussions on track, became less available, and delegated the negotiations to his son, Ron, Jr., responding that although he (Ron, Sr.) would personally guarantee the lease, it was Ron, Jr.’s “deal to make.” From that point on, Ron, Jr. became more elusive, as we waited and waited for the FBS legal lease comments.

As we became more frustrated with the constant delays in getting lease comments from the FBS, we turned our attention back to Carolyn McAllister at HTS, and given her interest in protecting her territory from the FBS, she engaged us in constructive dialogue, agreed to fair, and competitive lease terms, and advised us that she was prepared to execute a lease quickly and without delay if we were prepared to end negotiations with FBS.

It should be noted that our preference was to go with the FBS in that they were prepared to lease the entire two-story office space at lease execution, whereas HTS was going to take down the anchor building in stages – first floor first.

This resulted in Whitestone's constantly weighing the probability of executing a lease with HTS, and hoping that FBS would step up, produce lease comments, and execute a lease in a timely manner. While FBS did produce lease comments, Ron, Jr., continued to be elusive, and Whitestone began to lose confidence in Ron Jr., and that the FBS transaction was real. FBS later revealed that they were having trouble expanding their line-of-credit (LOC) with their bank in spite of their strong financials and rich history as a result of the financial illiquidity in the capital markets as previously discussed in this paper. Both Ron, Jr., and Ron, Sr., felt this was necessary in order to provide the required operational cash-flow stability during the new school's start up period at Westchase Plaza. Their bank would not expand their LOC in spite of the fact that the LOC was fully collateralized by certificates of deposit.

The Franklin Beauty School was given the opportunity to lease the space in stages as was HTS, but declined to pursue that option.

Interestingly enough, Whitestone was prepared to provide the necessary financial assistance to FBS to create the comfort level they needed to proceed with their aggressive new business model (12,000 square feet with a barber school and hair salon), but Ron, Jr. was unwilling to engage the REIT's senior officers directly and the window of opportunity whereby the REIT would have assisted FBS with financing dissipated.

FBS was notified that a lease was provided to HTS for execution, and made overtures to finally executing and delivering the lease that they had for nearly fourteen weeks, but in the end failed to do so.

Prior to agreeing to execute the lease at Westchase Plaza, Carolyn McAllister was concerned that, since the REIT owned the Sunridge Center across the street from Westchase, that they would consider putting the FBS – or any other vocational school – in that property, thereby increasing her competition for students. As such, she introduced a limited use restriction on Sunridge as a requirement of her executing a lease at Westchase. Reluctantly, the trust REIT agreed.

On February 25, 2010, six (6) months after we had hand delivered the initial CUA cosmetology marketing package to the twelve targeted cosmetology school operators in the Houston MSA, Whitestone executed a ten year lease (at an effective pro-forma rate) to anchor Westchase Plaza with Carolyn McAllister and Houston Training Schools.

HOUSTON TRAINING SCHOOLS, INC.

811 BRADFORD #1A

KEMAIL, TX 77565

281-535-0290

April 15, 2010

Kyle Cascioli
Whitestone REIT
2600 South Gessner
Suite 500
Houston, TX 77063

Dear Kyle:

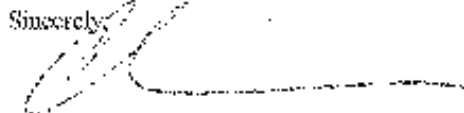
I just wanted to take a moment to write this recommendation letter on your behalf. The work you did in presenting the Westchase leasehold opportunity for Houston Training Schools was outstanding.

When you first approached me, I had absolutely no interest in expanding or relocating any of my four vocational schools. Your persistence, understanding of my business model in relation to the current economy, and in depth knowledge of your property's trade area ultimately convinced me that this was the time for expansion. The Westchase property is ideal for an additional location.

Your consultative style and personal demeanor allowed me to feel comfortable during the entire process. While I always knew that you represented the landlord, I felt that we were able to work together and come to an agreement that is fair to all of us.

Thank you for your fine work. Please feel free to use me as a professional reference, and I look forward to the possibility of working together in the future.

Sincerely,



Carolyn McAllister
President

cm



The Validity of Contemporary Urban Anthropology as a Model for Real Estate Reuse:

Income producing property value is a function of both the property's stabilized net operating income (NOI), and the capitalization rate that it can command in a given market at a static point in time.

In the case of problematic and underperforming properties, they often can only be returned to productive reuse through proactive leasing efforts and capital re-investment. The hypothesis of this white paper is to make the case that by engineering proactive leasing efforts around the methodology of "Contemporary Urban Anthropology (CUA)," that any given property in any given market can be repositioned to its classic appraisal definition of "Highest & Best Use (HBU)."

When passive marketing methods do not produce the tenancy results that a given property owner or landlord seeks, what proactive efforts can be undertaken?

Historically, proactive efforts involve sending out entry level leasing agents or the runners of brokers to "cold-call" the immediate trade area. Often these efforts do not produce the desired results on behalf of ownership, and there are obvious reasons for it.

Typically, these tasks are assigned to entry level leasing and brokerage personnel that usually do not have the prospecting skills, business acumen, or local product knowledge to be effective at making these calls. It takes specialized skills to solicit door-to-door in office buildings, shopping centers, and industrial parks. An individual needs to deal effectively with receptionists trained to screen solicitors and to make an introductory presentation that will resonate effectively. This involves getting the point of the visit across quickly and the ability to disarm the reticence of administrative personnel to deal with salespeople. And if fortunate enough to have made a timely call and engage a leasing decision-influencer or decision-maker in real time, to quickly demonstrate an understanding of the prospect's business, link that understanding with the purpose of the call, and have the local competitive market product knowledge to make a good impression. Direct marketing and cold-calling is an art form to be sure and more experienced real estate practitioners with the requisite skills are often loath to do it. Hence, it falls to the responsibility of those least equipped to be effective at it.

It is for the reasons cited above that most real estate practitioners and academics view direct-marketing and cold-calling efforts as costly, labor intensive, and less likely to bear fruit than traditional, passive real estate marketing approaches. And they are correct – when such efforts are only geocentrically based. By this we mean, competitive property and trade area specific such as canvassing a neighborhood with no other reference other than that, and relying on the sheer volume of calls and the "law of large numbers."

It was through years of doing just that, that I (Kyle Cascioli) decided there must be a better way, and upon graduating from the MBA program at the University of Denver in 1994, and taking on the North Valley Mall repositioning assignment for First Union Real Estate Investments, that I first began to conceive of and refine the methodology of "Contemporary Urban Anthropology (CUA)" as described in this paper. And I have used this method successfully for the past fifteen years to reposition displaced commercial real estate in all property categories on a national scale.

The importance of recognizing that real estate utility is determined by a given real estate parcel and its improvement's relationship to its surrounding environment cannot be underestimated. Furthermore, that relationship is a function of anthropological and cultural considerations. These considerations include the relationship of the property to where the people of that community live, work, learn, recreate, worship, do commerce, and takes into consideration current economic and business cycle characteristics" This contemporary anthropological approach to real estate also considers

a given community's physical characteristics, including topography, geology, hydrology, infrastructure, climate, and other factors.

It is through this scientific method and process that we can engineer proactive commercial real estate sales and leasing efforts in a way that those who are charged with undertaking those efforts – whether experienced real estate practitioners, neophytes, or academics – will have a comprehensive, understanding of a the property's trade area. By gaining that understanding, we expose what end-use(s) may be missing, or needed, or timely, or appropriate, and most importantly – best fits the trade area and subject property from a functional, anthropological perspective. Not only do we expose those end-uses, but we prioritize, or rank them, as to their level of appropriateness, and we believe that there is a correlation between securing the highest ranking targeted use, and maximizing the traditional appraisal definition of the HBU of a property.

This methodology then brings clarity to proactive real estate leasing, sales, and marketing efforts. It empowers and alters the traditional passive real estate marketing dynamic by answering those optimal use questions. And once those questions are answered, the probability of timely reuse and re-tenanting commercial property success is enhanced by defining the mission and providing a clear vision to property reuse and repositioning.

We strongly believe that this white paper and associated case study both explains and demonstrates how the traditional appraisal definition of "Highest & Best Use (HBU), is complimented through the methodology of "Contemporary Urban Anthropology (CUA)."