



OVERVIEW

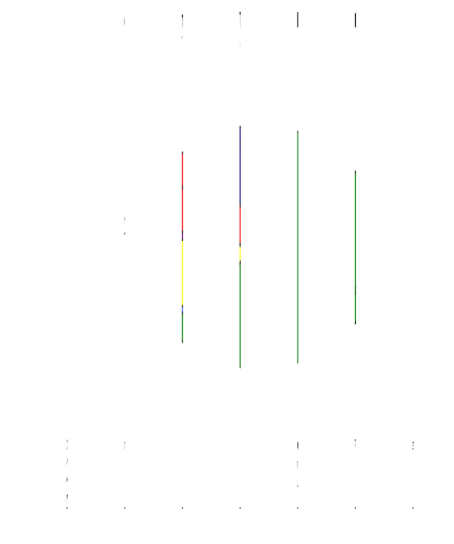
Amid all the troubling national news, the Corpus Christi Office Market reported a fairly stable year in 2008. Other than Whataburger's announcement to relocate to San Antonio, the local office market has remained unchanged. The majority of transactions continued to be in the form of shorter term deals with minimal tenant improvements as Landlord's and Tenant's wait to see if there will be a trickle down from the national level. Much of the reported activity was due to growth from locally based tenants. Unfortunately this gain was offset by a handful of existing corporate downsizings. As expected, the slowdown in the Oil and Gas industry is now making a presence in the market with a number of firms trying to sublease excess space.

The Southside continued to remain stable; however rental rate increases have been minimal at best. The primary objective of Landlords has been to retain their existing tenant base and minimize tenant improvement dollars. As for the Downtown submarket, large blocks of quality space are still available. Many of the CBD's middle-tier office projects are offering quality space at increased rates from one year ago, with a possible discount for longer term deals not requiring significant improvements. These increases have been made possible by the large jump in the Class A sector and the increases in operating expenses (property taxes/insurance). Although the Class A pricing is in line with the level of debt placed on the assets, it is a tough pill to swallow for many tenants. It is expected that a number of tenants will be trading down from Class A properties in order to save \$5.00 to \$7.00 per square foot in 2009. These large blocks of space have continued to suppress the suburban market rental growth. And despite the low vacancies, rents are significantly below the level required to justify new construction. There has been and will unlikely be no new speculative office construction in the Corpus Christi market over the next twelve months.

We should mention that we have continued to see a handful of small medical build-to-suit, owner-user facilities come on-line over the past 18 months. The majority have involved small single-tenant projects along Holly Road or within the Esplanade development. The only significantly sized medical project has been the Wellspring Medical Plaza Building at Spohn South. Other than the CBD, office buildings of all sizes may be exposed to medical prospects due to the actions hospitals must take due to the Stark law.

INVENTORY

As of the end of 2008 the overall Corpus Christi Office Market had a total inventory of 6.62 million square feet in 242 buildings throughout the city's seven submarkets. With respect to class, the majority of the area's inventory is located in the Class B market. Projects in this sector have a total square footage of 3.46 million, which represents just over 52% of the total market. As expected, the sector is followed by the Class C and Class A markets with inventory totals of 2.3 million square feet (34%) and 879,739 square feet (14%) respectively. To put the size of the market into perspective, Year-End data from the Dallas/Fort Worth, Houston, Austin, and San Antonio markets report overall Non-Owner-Occupied inventory levels of 176 million, 162.6 million, 41.1 million and 24.5 million square feet respectively. The inventory is primarily distributed over the Downtown, Mid-City and



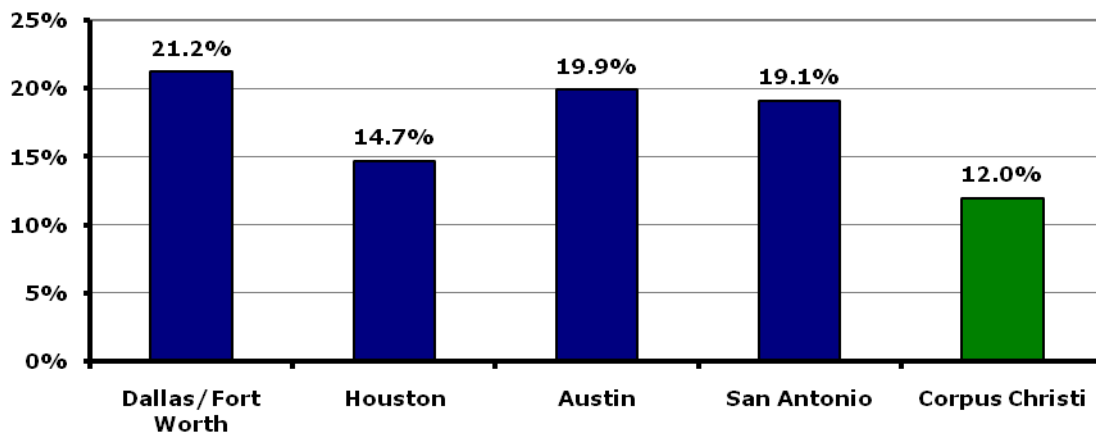


Southside submarkets. Together, these three segments of the market account for roughly 91% of the city's total square footage.

VACANCY

As for vacancy, our survey indicated a market-wide vacancy rate of 12%. The square footage was fairly evenly distributed across all classes, with vacancies reported at 9.5% for Class A properties, 10% for Class B, and 13.5% for Class C. The majority of the space, 75%, is located within the Downtown submarket, which is currently reporting an overall rate of 18%. The submarket s followed by the Southside and Mid-City submarkets with overall rates of 8% and 5%.

Major Texas Market Vacancies First Quarter 2009



In comparison to the other major Texas markets, our local market appears to be holding its own. Statistical data from these markets show Class A, B and C vacancy rates for Dallas/Fort Worth, Houston, Austin, and San Antonio at 21.2%, 14.7%, 19.9% and 19.1%.

One should take caution about drawing any specific conclusions concerning these rates. Historically, the Corpus Christi market has remained at a fairly stable level compared to these other markets. While the local market may hover between 12% and 15%, areas such as Dallas, Houston and Austin fluctuate from 10% to 20% depending on what part of the development cycle the market is in. With the exception of DFW, the other Texas markets are seeing a decrease in vacancies as net absorption numbers have caught up with the new construction totals reported over the past years.

As we have stated before, this is not to say that there is nothing to learn from these markets. One important factor that we should focus on is at what point in the real estate cycle is real rental rate appreciation possible. In reality, local rental rates have been relatively stagnant for years. The primary argument for this lack of increase has been that local vacancy rates have not been at a level to warrant an adjustment above expense increases. This is no longer the case on the Southside and rents have increased as a result. In addition to the lack of available space, the

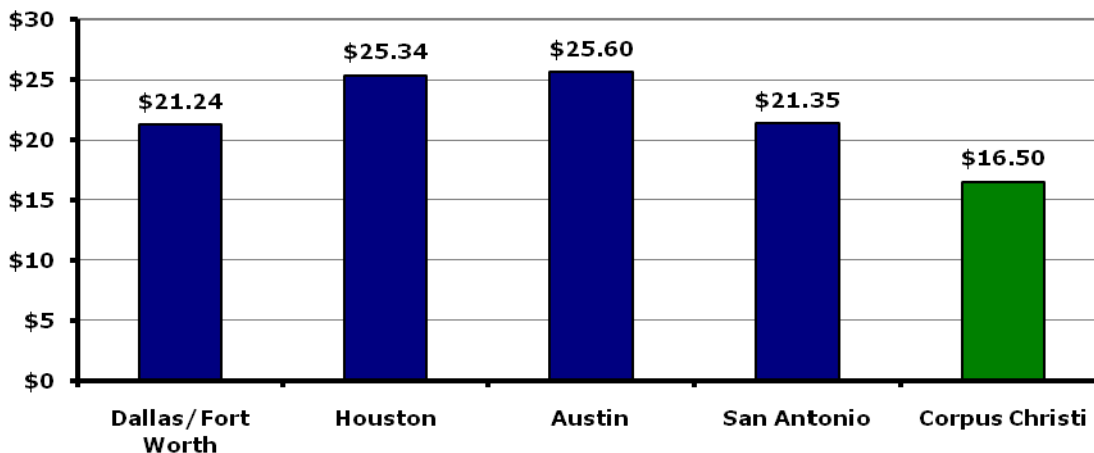


increase has also been a result of new owners and their necessity to increase rents in order to push NOI to the black. The primary necessity has been to cover the increase in taxes. With building sales come higher tax assessments and thus higher tax liabilities, and owners are passing the burden onto the tenants. The unfortunate side of the story is that the increases are primarily going to cover expense increases and not actual increases in operating profit.

RENTAL RATES

According to our year-end data and the exercise above, new office development is still a ways away. As of the end of 2008, average annual full-service rental rates for Class A, B and C office properties ranged from \$13.00 to \$15.00. With respect to the three class sectors, Class A properties averaged \$18.00 to \$21.00, Class B \$13.00 to \$15.00, and Class C facilities reported rates of \$11.75 to \$13.00.

Major Texas Market Rental Rates Class "A" & "B" Projects - First Quarter 2009



The chart presented above illustrates the average Class A, B & C quoted rates for the Dallas/Fort Worth, Houston, Austin, San Antonio and Corpus Christi office markets. As the reader can see, the local market is approximately \$5.00 to \$10.00 below the average of all sectors. From an outsider's point of view, this data would appear to conflict with the previous discussion on vacancy which indicated that the local market is approximately 1 to 5 percentage points below these same markets. This provides support to the market's absence of rental rate appreciation.



DOWN AND DIRTY

There is no certainty in what the effects of our national economy will have on the Corpus Christi office market in 2009-2010. The slight increases in quoted rents are attributed to an increase property taxes and insurance. Due to the lack of job growth from outside the city, landlords should look for future growth to come from the expansion of the existing tenant base. This holds especially true for the home health and medical industries.

As for the overall economics, tenant finish is making or breaking each opportunity landlords are seeing to bring in a new Tenant. Construction costs are still far too high for new construction to compete with existing product. In coming years, projects that have invested in themselves will see more activity than those who have not. We expect windstorm insurance to force rent increases in all product types throughout Corpus Christi. Signs for 2009-2010 show much more sublease space coming online as some of our established law firms, Oil and Gas firms and ancillary services to these heavy weights in our office market reduce in size. Hopefully the big picture will settle down and offer enough comfort for our local Tenant's to carry on as usual.