

The following are current trends for the Lubbock market.

- Through August 2008, new apartment permits were already 165 units above the 2007 total.
- In October 2008, the average home price was \$132,185; a 2.89% increase over year-end 2007.
- Through September 2008, commercial construction totaled roughly \$107 million. This is on pace to be \$142 million for the year, or roughly a 6% decline from 2007.
- Unemployment in September 2008 for Lubbock was 4.0%, compared to 3.6% for the same period last year. However, this compares favorably to a statewide unemployment rate of 5.1% for September 2008 versus 4.3% in September 2007.
- Local land brokers report a slowdown in acreage tract transactions and new single-family lot development is slowing. The national residential mortgage crisis appears to be starting to have some affect locally, as mortgages are more difficult to obtain. This availability may change with current government programs.
- Although lenders across the country have essentially stopped lending, local banks report commercial money is still available to loan. Our survey of lenders indicates loan-to-value ratios are level to down slightly; however, interest rates remain favorable.

Overall, Lubbock is faring well during the national downturn, as most indicators of the economy are stable if not positive. The slowed construction during 2008 is considered a positive factor, in that the market is not overbuilding. The year ahead is anticipated to be a year of challenges for the real estate industry. The slowing of the economy could prove to be a good platform for renewed growth in 2010.

TEN ECONOMIC INDICATORS FOR LUBBOCK

Year	Airline Boardings	New Apartment Units	Total MLS House Sales	Average House Price	Retail Sales
1997	597,333	668	2,370	\$89,924	\$3,349,568,612
1998	574,780	120	2,541	\$93,789	\$3,541,579,924
1999	570,452	100	2,484	\$97,817	\$3,588,998,879
2000	578,976	28	2,592	\$97,579	\$3,578,884,718
2001	536,670	541	2,631	\$101,223	\$3,540,396,757
2002	513,096	579	2,892	\$107,891	\$3,578,830,740
2003	514,250	1,058	3,017	\$117,305	\$3,545,964,837
2004	541,549	1,260	3,296	\$120,545	\$3,786,309,987
2005	553,688	180	3,243	\$120,541	\$3,668,709,880
2006	568,918	220	3,362	\$124,719	\$4,014,197,087
2007	584,258	328	3,658	\$128,467	\$4,220,654,945
2008 YTD	429,750 (Sep)	493 (Aug)	2,866 (Oct. 9)	\$132,185 (Oct. 9)	\$1,035,427,363 (1Q)
Average	557,634	462	2,917	\$109,073	\$3,674,008,761
Year	MSA Civilian Labor Force	Unemployment Rate	New House Permits	Commercial Construction	Lubbock County Cotton Bales
1997	126,354	4.00%	542	\$98,248,695	276,000
1998	125,628	3.53%	664	\$62,397,387	222,000
1999	126,517	3.02%	747	\$93,819,305	220,500
2000	130,792	3.59%	819	\$69,625,907	160,400
2001	134,035	3.67%	941	\$83,642,408	146,000
2002	135,771	4.34%	1,137	\$70,209,202	237,000
2003	138,704	4.84%	1,288	\$85,573,681	174,800
2004	140,436	4.59%	1,204	\$74,191,144	422,700
2005	141,148	4.06%	1,129	\$92,486,822	467,000
2006	140,995	4.00%	1,123	\$140,374,335	247,800
2007	139,533	3.60%	880	\$151,236,335	482,000
2008 YTD	139,100 (Aug)	4.10% (Aug)	779 (Sep)	\$106,508,674 (Sep)	N/A
Average	134,538	3.93%	952	\$92,891,384	277,836

Averages exclude 2008 figures. All 2008 figures are year-to-date through the month referenced.

Following is a summary of the 10-year trend in five of the economic indicators.

Indicator	Trend Period	Annual Compounded Rate of Change
Airline Boardings	1997-2007	(0.22%)
House Sales	1997-2007	4.43%
Average Home Price	1997-2007	3.63%
Civilian Labor Force	1997-2007	1.00%
Commercial Construction	1997-2007	4.41%

THE APARTMENT MARKET

For the 2008 report, we have looked at a somewhat different sample set than in prior years, although it is considered representative of the market. Overbuilding is not an issue currently, with the bulk of recent activity oriented primarily to students in the Overton Park area. The 2008 survey includes 111 apartment communities with 12,213 units. The market witnessed a strong building volume of 2,318 units for the 2003-04 period, then the developers got the memo and construction declined to only 400 units during 2005-06. The market reaction has been positive for 2007 and 2008 with positive absorption and a downturn in vacancy from to 12.1% in 2007 to 11.9% for 2008. The historical vacancy chart illustrates the Lubbock supply-demand curve in dramatic fashion.



There is a higher distribution of properties with lower vacancy rates among the 111 individual apartment communities with approximately 58% of the properties at 10% or less, 26% of the properties between 11% and 20%, and 15% of the apartment communities above a 20% vacancy factor. Age and vacancy also have a certain correlation illustrated below.

Construction Period	>1999	1990's	1980's	1970's	<1970
Occupancy Rate	93.3%	90.3%	91.0%	89.1%	83.5%

The income side of the apartment picture shows overall rentals improved significantly in the 1 and 2 bedroom units and moderately for the three bedroom units. The following chart depicts an increase of \$37 or 7.7% on the one bedroom units, while two bedroom units improved by \$48 or 8% and three bedroom units improved by \$18 or 2.3%. Another positive observation is that few apartments are offering “special concessions” compared with two years ago. Concessions are limited as they were in 2007. The combined vacancy analysis and rental value increases support the premise that the “down” market is over for Lubbock’s apartments. It looks like we are back on track for solid valuation growth in the apartment sector of the economy.

The following bullet points summarize the foregoing as well as provides additional data.

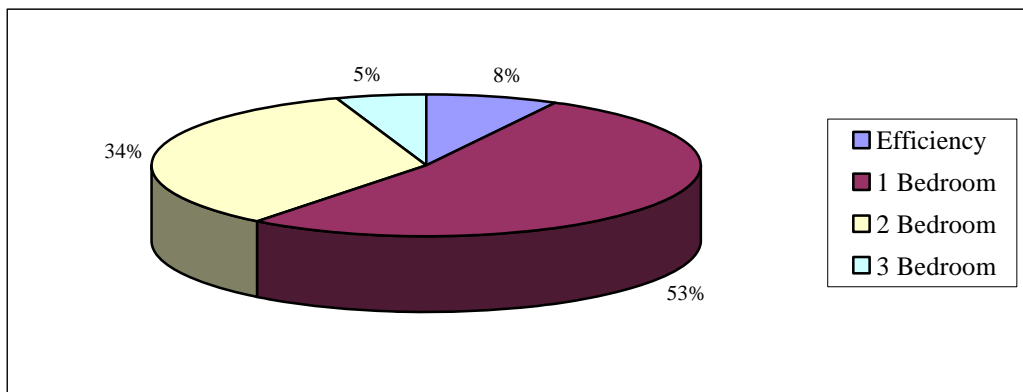
- **Improving market**
- **12,231 units (111 communities) surveyed**
- **1,453 units vacant (11.88% vacancy)**
- **Higher Percentage of communities with lower vacancies**
- **2,318 new units (15 communities) constructed 2003-04**
- **400 new units (2 communities) constructed 2005-06**
- **294 new units in Overton Park area for 2009 delivery**
- **208 new units East of 53rd & Chicago for late 2009 delivery catering to families & young professionals**

The following 5-year rental rate history chart is based on our interviews with managers for an unfurnished unit where tenants pay extra for energy expense.

Year	One Bedroom	Two Bedroom	Three Bedroom
2003	\$480	\$604	\$821
2004	\$500	\$629	\$856
2005	\$493	\$616	\$849
2006	\$480	\$590	\$769
2007	\$481	\$602	\$787
2008	\$518	\$650	\$805

- **Rents up 7.7% for one bedroom plan**
- **Rents up 8% for two bedroom plan**
- **Rents up 2.3% for three bedroom plans**
- **Rent concessions not significant**

The following pie chart reflects the breakdown by unit type in the market including tenant and landlord paid expenses based on those communities that provided their unit mix. This comprised a smaller sample than the 111 properties previously noted.



The efficiency units are not present in the newer product (built after 1990) and currently comprise about 8% of the total unit count. One bedroom units comprise about 53% of all units, two bedroom units are about 34% of the total and three bedroom units are the least prevalent with 5%.

There is usually a direct relationship between age of property and rental rates. Breaking out this data by age and bedroom type, it is clear there is an increase in price due to age factors. There were some anomalies noted, such as the one bedroom units from product built prior to 1969 having higher rents per square foot than the 1970's product, but this is due to the much smaller average unit size in the older product. The whole dollar rents maintain the expected relationships. The next chart depicts the average pricing by age for units where the tenants pay extra for energy expense.

Tenant Paid Averages by Age of Complex			
>1990			
Efficiency	N/A	N/A	N/A
1 Bedroom	693 SF	\$614	\$0.89
2 Bedroom	1022 SF	\$859	\$0.84
<u>3 Bedroom</u>	<u>1350 SF</u>	<u>\$1,060</u>	<u>\$0.79</u>
All Unit Types	955 SF	\$794	\$0.83
1980-1989			
Efficiency	434 SF	\$403	\$0.93
1 Bedroom	651 SF	\$540	\$0.83
2 Bedroom	1008 SF	\$677	\$0.67
<u>3 Bedroom</u>	<u>1246 SF</u>	<u>\$805</u>	<u>\$0.65</u>
All Unit Types	871 SF	\$627	\$0.72
1970-1979			
Efficiency	439 SF	\$421	\$0.96
1 Bedroom	674 SF	\$488	\$0.73
2 Bedroom	937 SF	\$608	\$0.65
<u>3 Bedroom</u>	<u>1189 SF</u>	<u>\$751</u>	<u>\$0.63</u>
All Unit Types	843 SF	\$574	\$0.68
<1969			
Efficiency	478 SF	\$358	\$0.75
1 Bedroom	538 SF	\$452	\$0.84
2 Bedroom	932 SF	\$577	\$0.62
<u>3 Bedroom</u>	<u>1241 SF</u>	<u>\$734</u>	<u>\$0.59</u>
All Unit Types	822 SF	\$536	\$0.65

The Takeaway: Vacancies are continuing to decrease, rents are increasing, some concessions are still in use, and the new product coming on line is generally near Texas Tech University and directed mostly to students or younger households. With guarded future development, the market is poised to further improve in the near term. Demographics for 2008 through 2013 depict a nominal uptick in renter percentage, suggesting that renter demand may increase at a slightly higher rate than noted from 2000 through 2008.

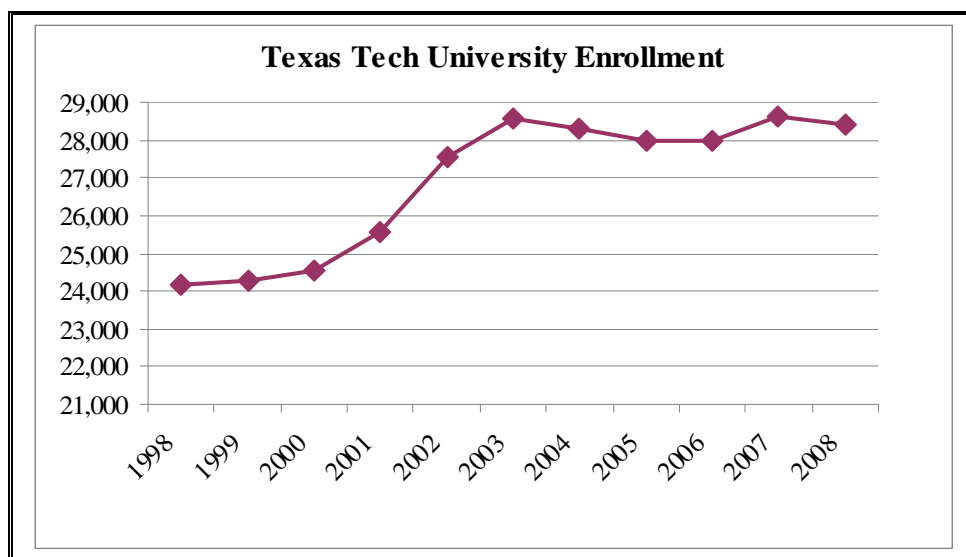
LUBBOCK STUDENT HOUSING MARKET

As part of the 21st edition of *The Blosser Report*, we are introducing the first market survey on student housing. We have segregated this from the apartment survey, since it is a specialized property type that has become prevalent in Lubbock.

In any analysis of a student housing market, it is important to understand the university being served. Of course, the primary institution served in Lubbock is Texas Tech University, and as such, we have reviewed the student enrollment trends and on-campus housing requirements and supply.

The following table and graph illustrate the enrollment trend at Texas Tech University over the last ten years.

<i>Year</i>	<i>Total Number Enrolled</i>
1998	24,158
1999	24,249
2000	24,558
2001	25,573
2002	27,569
2003	28,549
2004	28,325
2005	28,001
2006	27,996
2007	28,620
2008	28,422



Texas Tech University fall 2008 enrollment is 28,422, the second highest in the school's history. The record is 28,549 set in the fall 2003 semester. The university policy is for all students with less than 30 eligible credit hours at the time they enroll must live on campus. In 2008, there were 5,045 freshmen, leaving 23,377 students eligible for off-campus housing (excludes applicable exemptions).

The following table outlines the total student enrollments (full-time and graduate students), and the percentage of students who live on campus at a number of colleges around the State of Texas. This information was obtained from our survey.

<i>College/University</i>	<i>Location in Texas</i>	<i>Enrollment Enrollment</i>	<i>On Campus Beds*</i>	<i>% Living On-Campus</i>
Sam Houston State	Huntsville	15,933	3,322	21%
Texas A & M University	College Station	48,126	10,403	23%
Texas State University	San Marcos	29,125	6,623	24%
University of North Texas	Denton	34,795	5,141	15%
University of Texas	Austin	50,006	7,699	16%
University of Texas	Brownsville	15,688	325	2.1%
University of Houston	Houston	34,668	2,411	7.0%
Average		31,780	5,132	15%
Texas Tech University	Lubbock	28,422	6,740	24%

*University owned and operated, excluded privately owned beds.

The above table illustrates the percentage of students who reside on-campus. The range is from 2.1% to 24%, with an average of 15%. Texas Tech University is at the upper end of the range, likely largely due to its requirement that freshmen live on campus.

Texas Tech University most recently added 500 beds in a new dormitory known as Murry Hall in 2005 and reports no plans to add beds at this time.

Private Off-Campus Student Housing

Overview

Over the last ten years there has been a significant amount of development of apartment communities constructed off-campus and designed specifically for students. They are typically leased on a per bed basis, with individual leases to each occupant.

These projects generally came on line in the 1990's, and are evident in most major college towns in the United States. There are relatively few investors active in this market, as management, repairs, and reserve expenses are above that typically found in conventional multi-family housing. Features necessary for the success of off-campus housing include a close location to the

college/university with a bus stop at the project, project amenities including a pool, recreation center, and security, and technology amenities such as high-speed internet access.

These projects generally require 12-month leases to prevent occupancy decreases during the summer months. Historically, the off-campus housing projects were opened with huge success, with occupancies at or near 100% in the fall and monthly rental rates in excess of \$1.20 per square foot.

The supply of beds continued to increase through the early 2000's and some projects around the country suffered a decline in rents and occupancies. During this time period, new construction slowed, and the market generally appears in equilibrium in most areas.

Lubbock

The Lubbock market is served by a number of projects, and those surveyed for this study are summarized below.

<i>Community</i>	<i>Year Built</i>	<i>Units</i>	<i>Beds</i>
University Trails	2003	240	684
Raiders Pass	2001	264	828
University Pointe	2003	204	682
Centre at Overton Park	2005	275	393
University Fountains	2005	228	648
University Courtyard	2005	288	864
The Grove	2008	168	504
ULofts*	2007**	186	208
Raider Station*	1963	103	183
The Edge*	2009	209	328
Cottages of Lubbock	2009	200	847
TOTAL/AVERAGE	2001	2,365	6,169

* Leased by the unit. Total beds are estimated for The Edge.

** Building constructed in 1968 and renovated in 2007.

The preceding 11 communities have a total of 6,169 beds. This serves roughly 22% of the Texas Tech students. The 24% that live on campus would indicate roughly 46% of the students presently live in on-campus housing or essentially student-only off-campus properties.

If the freshmen are removed from the off-campus student to bed ratio, it results in 23,377 students that are prospective tenants for the 6,169 off-campus beds. This yields a ratio of roughly 3.79 students for every available off-campus bed.

The following data is based on the rental rates for the 11 communities and the occupancy rates for the nine stabilized communities. The 2008 built community has not yet stabilized, and the two 2009 communities are still under construction.

Stabilized Communities	8
Total Communities	11
Total Units	2,365
Total Beds (All 11 Communities)	6,169
Total Beds (8 Stabilized Communities)	4,490
Average Occupancy*	98.3%
Average Mo. Rent/SF	\$1.23

**Excludes projects not stabilized. Occupancy is calculated on a weighted per bed basis.*

The addition of the two new communities and the community not yet stabilized will result in the necessity to lease roughly 1,300 additional beds for the fall 2009 academic year.

The two communities presently under construction are located close to campus, and management of each expects to be at 100% when the fall semester starts.

The Cottages of Lubbock is a development of Capstone Companies out of Alabama, and is a relatively new concept to student housing. It has a neighborhood appearance and consists of cottages, townhomes, and duplexes. The community will offer two to five bedroom plans.

The second complex under construction is being developed by local developer - McDougal Companies. This 209 unit complex is being constructed on Indiana Avenue near University Medical Center and will open in 2009 catering primarily to graduate students.

Summary

In short, the Lubbock student market is currently supporting limited new development. However, the additional beds in 2009 will bring the percentage of student only on-campus and off-campus communities to roughly 46%, which will likely be a point where additional beds are not warranted. Additional development at this point, if absorbed, could potentially create downward pressure on rental rates.

This percentage does not consider other housing options, such as conventional apartments, single-family housing, and local residents/students living at home. The demand for more beds will likely come through an increase in enrollment, which is part of the master plan for Texas Tech University.

THE RETAIL MARKET

Retail sales in Lubbock remained relatively stable throughout 2007 with only a slight increase noted. This is generally good news for retailers, which translates to good news for landlords. We continue to not oversupply the majority of the market with new product, although southwest Lubbock does have several retail centers that require absorption prior to additional space being planned. New developments of note occurring in Lubbock since the 2007 Blosser Report include the following.

- Plains Capital completed a new branch along Quaker near 98th Street.
- McDonalds, Burger King, and Whataburger added new units along 82nd near the new Wal-Mart.
- Walgreens enters the same market as McDonalds at 82nd Street and Milwaukee.
- Gander Mountain enters the market with 51,000 square feet along West Loop 289.
- McGillicuddy's added 7,000 square feet of restaurant/bar space along Quaker, near 98th.

The largest retail development currently under way is Canyon West, a 144-acre retail and entertainment complex at Brownfield and Milwaukee. The developers are Hodges and Associates, De La Vega and Hub West. This project has added 300,000 square feet of space to the market and the ultimate plan is for 800,000 square feet of space, which would make it the largest Lubbock retail development since the South Plains Mall in 1972. Projections also call for ten restaurants to locate in the new development. The tenant roster is impressive, with retailers that include:

Target	Kirklands Home	DSW Shoe Warehouse
Burlington Coat Factory	Ross Dress For Less	Lifeway Christian Stores
Petsmart	Main Event	World Market

In renovation news, in September 2008 GRACO announced plans to redevelop its Kingsgate Center at 82nd and Quaker. The 220,000 square foot center was dealt a blow when United Super Markets and Blockbuster exited the center. GRACO now plans to turn the center into a lifestyle project, using the former grocery anchor space for a courtyard with specialty retail and restaurant space.

Following is a summary table illustrating the occupancy trend in Lubbock since 1999. This is a continuation of what *The Blosser Report* readers are accustomed to, and will be continued in future editions. However, it provides a simple average of occupancy. Beginning with this edition and in future editions, we will also report occupancy and rental rates on a weighted average basis. Further, we will provide a breakdown by age of property.

Also of note is the sample size included in this survey. We researched 139 retail centers totaling just over 4.6 million square feet of net rentable area. However, of these 139 centers, we compiled data on 85 projects with just under 3.1 million square feet of space. The most recent Blosser Report indicated 101 centers in the market; however, it is unclear how many were surveyed in a given calendar year.

The date of survey for all retail centers is 2nd and 3rd quarters of 2008.



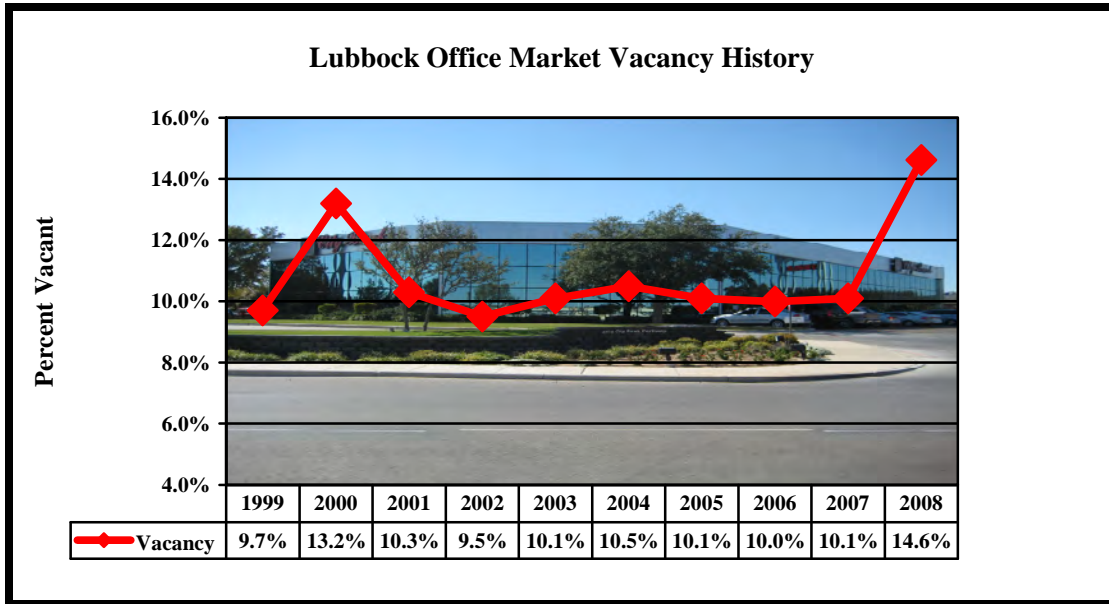
<i>Survey Parameters</i>	<i>Avg. Weighted Vacancy</i>	<i>Avg. Weighted Rent</i>
All Retail	12.38%	\$12.78/SF
Built Prior To 1980	6.37%	\$9.36/SF
Built 1980 - 1989	14.60%	\$11.21/SF
Built 1990 – 1999	5.53%	\$14.66/SF
Built 2000 or Beyond	11.88%	\$15.32/SF

The simple vacancy average for 2008 is 13.44%, which is flat from 2007. Rental rates remained in the range from the prior year.

Please note that these vacancy and absorption numbers do not include the numerous free-standing retail and big box buildings.

THE OFFICE MARKET

The 2008 sample size includes 56 surveyed buildings containing 1,140,604 square feet and does not include any Central Business District (CBD) buildings. The previous *Blosser Report* included 54 surveyed buildings with 1,309,044 square feet and included seven CBD buildings. This year’s survey does not match up with previous survey’s data set of buildings. We intend to include a separate CBD category in the next report. The following chart illustrates ten-year vacancy history for the Lubbock office building market.



The following table illustrates various statistics for the overall Lubbock office market.

OVERALL LUBBOCK OFFICE MARKET	
Total Buildings	56
Total Square Footage	1,140,604
Available Square Footage	166,740
Weighted Average Occupancy Rate	85.38%
Average Year Built	1984
Average Quoted Rental Rate	\$15.53
Median Quoted Rental Rate	\$13.25
<i>This survey does not include CBD Buildings</i>	
<i>A total of 39 buildings quoted below weighted average rental rate while 17 buildings quoted above</i>	

Previous reports broke down the overall office market supply into two submarkets being (1) those along the north line and to the north of Loop 289 South and (2) those along the south line and to the south of Loop 289 South. The following tables highlight these figures.

SUBMARKET	NORTH (1)	SOUTH (2)
Total Buildings	29	27
Total Square Footage	578,821	561,783
Available Square Footage	102,663	64,076
Weighted Average Occupancy Rate	82.26%	88.59%
Average Year Built	1979	1989
Average Quoted Rental Rate	\$15.96	\$15.09
<i>(1) North of Loop 289- includes most of Medical Office Bldgs in Survey</i>		
<i>(2) South of Loop 289 South</i>		

The south submarket includes most of the new buildings completed since 1980; however, the north submarket contains the majority of medical office buildings surrounding the Covenant Hospital campus and the University Medical Center. The following charts highlight a breakdown of the office buildings surveyed by date of construction.

PERIOD BUILT	PRIOR TO 1980	SINCE 1980
Total Buildings	21	35
Total Square Footage	296,723	843,881
Available Square Footage	53,236	113,503
Weighted Average Occupancy Rate	82.06%	86.55%
Average Year Built	1972	1991
Average Quoted Rental Rate	\$14.05	\$16.05
	<i>5 bldgs located in South</i>	<i>22 bldgs located in South</i>
	<i>16 bldgs located in north</i>	<i>13 bldgs located in north</i>

As can be seen, the newer buildings built since 1980 have an average weighted quoted rental rate that is 14% higher than those built before 1980. The average date of construction for the 21 buildings built prior to 1980 is 1972 while the 35 buildings built since 1980 have an average date of construction of 1991.

OFFICE MARKET (UNDER 10,000 SF IN NRA)

Total Buildings	24
Total Square Footage	122,565
Available Square Footage	28,769
Weighted Average Occupancy Rate	76.53%
Average Year Built	1983
Average Quoted Rental Rate	\$12.43
Median Quoted Rental Rate	\$12.08

11 Buildings Located in South

13 Buildings Located in north

We have further broken down the 56 buildings surveyed into three size categories. The first category is for those buildings that are less than 10,000 square feet in size and included 24 buildings, which is summarized in the adjacent chart. This survey indicated an average quoted rental rate of \$12.43 psf with a weighted average occupancy rate of 76.53%.

The second size category included 20 buildings ranging in size from 10,000 square feet to under 30,000 square feet. The average quoted rental rate is \$13.62 psf while the weighted average occupancy rate is computed as 77.29%, all of which is highlighted on the adjacent chart.

OFFICE MARKET (10,000 - 30,000 SF IN NRA)

Total Buildings	20
Total Square Footage	341,482
Available Square Footage	77,559
Weighted Average Occupancy Rate	77.29%
Average Year Built	1984
Average Quoted Rental Rate	\$13.62

9 Buildings Located in South

11 Buildings Located in north

OFFICE MARKET (OVER 30,000 SF IN NRA)

Total Buildings	12
Total Square Footage	676,557
Available Square Footage	60,412
Weighted Average Occupancy Rate	91.07%
Average Year Built	1986
Average Quoted Rental Rate	\$17.06

7 Buildings Located in South

5 Buildings Located in north

The third size category was for the 12 buildings over 30,000 square feet in size. These buildings indicated an average quoted rental rate of \$17.06 psf with a weighted average occupancy rate of 91.07%. This would include the larger bank anchored buildings, many of which are situated along Loop 289 South.