

A nighttime photograph of the Houston skyline, featuring several prominent skyscrapers with their windows and architectural details illuminated. The sky is a deep blue, and the city lights create a vibrant contrast. The buildings vary in height and style, with some having distinctive architectural features like a large overhang or a curved top.

HOUSTON
MULTIFAMILY TRENDS & OBSERVATIONS
MID-YEAR 2018

MORAN & COMPANY

Photography: Steve Hinds



Accelerated Hiring Expected to Continue

- Per US Bureau of Labor Statistics, Houston added an estimated 94,500 jobs annually as of June 2018, much greater than original forecast of 45,500 beginning in 2018
- Houston jobs grew at a strong annualized pace of 3.1 percent over the twelve months ending in June, unemployment steady at 4.6%
- Houston ranked #3 in the nation for total jobs gained. Primary gains came from trade, transportation, utilities, professional and business services

Strong Signs of Improvement following Hurricane Harvey

- The Houston Business-Cycle Index grew a roaring 8.9% from March to June - well above its long-run average of 3.2%
- Construction employment remains strong as renovation of flooded buildings significantly increased demand for labor. Area employment in the construction supersector climbed 11.9 percent compared to the 4.2-percent gain for the nation
- Damaged units have begun to come back online, slightly increasing supply

Disciplined New Development Will Cause Slower Growth in Supply

- Increasing occupancy and rents position capital markets positively. Occupancy forecasted to be 94.5% by Q2 2019
- Continued lease-up concessions in the marketplace have impacted debt and equity decisions for investing in new starts
- Multifamily permits were only 470 +/- units per month through 2017
- Deliveries forecasted to continue to decline through end of 2018 and 2019




Transaction Market Remains Robust with some Caution



- Ample low cost debt and equity for all multifamily asset classes still exists
- There is continuing caution in underwriting rent growth in the near term due to uncertainties in the market. Investors are projecting real rent growth in 12 months time
- Value-add deals continue to be the most attractive investment
- Some traditionally value-add capital continues to shift its focus on newer, more stabilized assets chasing a higher going in yield with lower capital risk
- Institutional investors remain cautious, but some institutional trades have occurred in 2018.
- While urban core acquisition interest continues, Institutional investors are considering suburban over urban core locations in attempt to find higher yields

Sources: Axiometrics, Dallas Federal Reserve, Bureau of Labor Statistics, Texas Workforce Commission



2ND QUARTER 2018 STATS AT A GLANCE











| <i>TOTAL UNITS</i> | <i>UNITS ADDED</i> | <i>UNITS ABSORBED</i> |
|---|---|---|
| 695,383 | 2017: 18,169 2018F: 8,568 | 2017: 28,078 2018F: 9,732 |
|  |  |  |

| <i>CURRENT OCCUPANCY</i> | <i>PROJECTED OCCUPANCY Q2 2019</i> | <i>INVENTORY GROWTH</i> |
|--|--|---|
| 93.6% | 94.8% | 2017: 2.7% 2018F: 1.2% 2019F: 1.1% |
|  |  | |

| <i>CURRENT AVERAGE EFFECTIVE RENT</i> | <i>EFFECTIVE RENT GROWTH SINCE 2010</i> | <i>EFFECTIVE RENT GROWTH</i> |
|---|---|--|
| \$1,098 | 37% | YOY Q2 2018: 4.33% |
|  |  | PROJECTED YOY Q2 2019: 4.5% |

Source: Axiometrics, Bureau of Labor Statistics, U.S. Census Bureau, Federal Reserve Bank of St. Louis, Fortune 500, & Sperling's Best

ECONOMIC DRIVERS AT A GLANCE

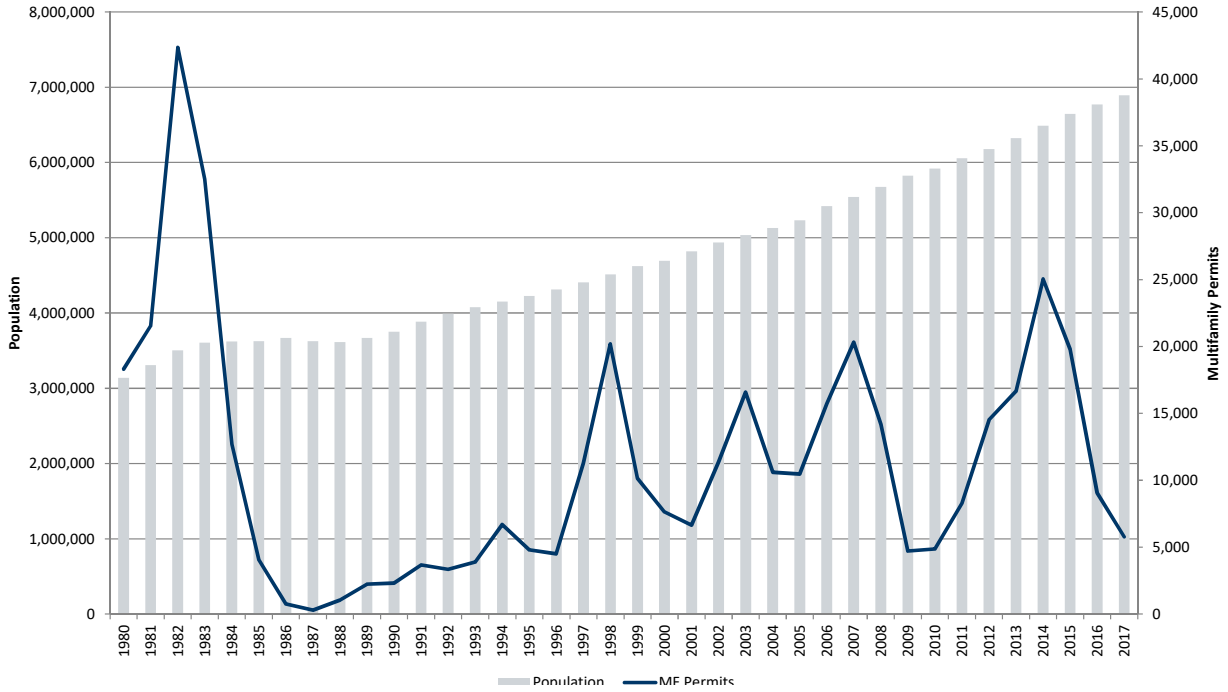
| | | |
|---|--|---|
| <p>JUNE 2018 WORKFORCE</p> <p>3,133,400</p>  | <p>JOB GROWTH</p> <p>AVG. 06/2018 YOY: 94,600</p> <p>2010-JUNE 2018: 567,300+</p> | <p>JUNE 2018 UNEMPLOYED</p> <p>HOUSTON: 4.6% U.S. 4.2%</p>  |
| <p>CENSUS BUREAU 2017 POPULATION</p> <p>6,928,233</p>  | <p>2010-2017 POPULATION GROWTH</p> <p>16.4%</p>  | <p>2010-2050 PROJECTED POPULATION GROWTH</p> <p>8,300,000+</p>  |
| <p>RIG COUNT</p> <p>12/2016: 658 12/2017: 929 YOY INCREASES: 42%</p>  | <p>FORTUNE 500 FORTUNE 1000</p> <p>FORTUNE 500: 20 FORTUNE 1000: 37</p>  | <p>CLASS A OFFICE SPACE Q2 2018</p> <p>143 MM SF \$36/SF</p>  |
| <p>Q2 2018 MEDIAN HOME PRICES</p> <p>\$244,400</p>  | <p>YOY % GROWTH MEDIAN HOME PRICES</p> <p>3.74%</p>  | <p>COST OF LIVING INDEX SPERLING'S BEST PLACES</p> <p>HOUSTON: 102 CHICAGO: 111 DENVER: 128 SEATTLE: 177 BENCHMARK: 100</p> |



HOUSTON MULTIFAMILY STARTS

Fewer permits with almost twice the total population vs. the 1980s

Multifamily starts seeing a dramatic decline on a much larger base of units and population



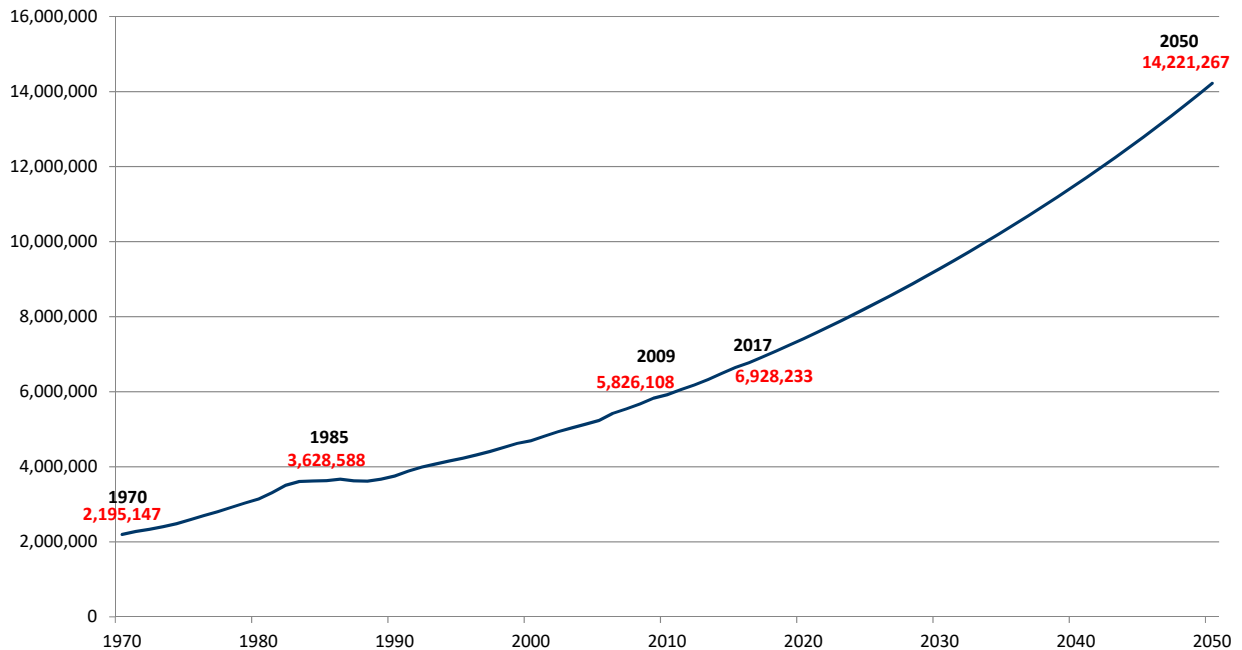
Source: U.S. Census Bureau/Real Estate Center at Texas A & M University

HOUSTON POPULATION PROJECTIONS 2010 - 2050

2010 – 2050 (Estimate) = + 8 million people

At 2.7 people per HH = 3.1MM HHs

= 77,000 HH per year

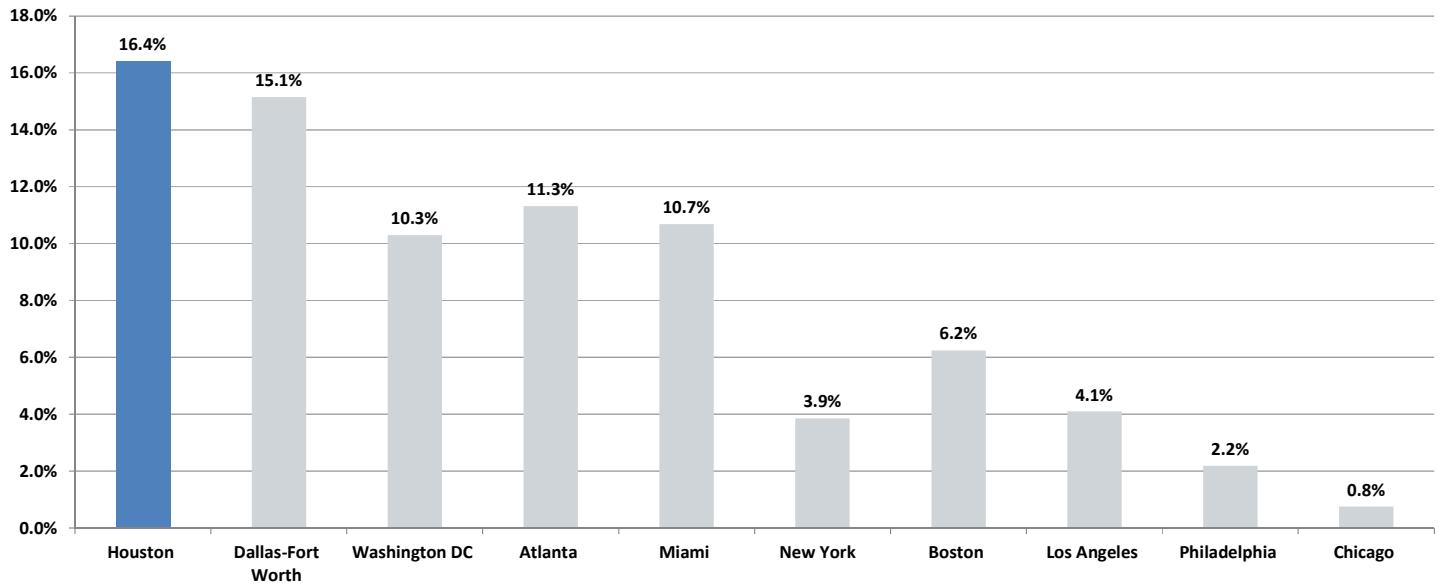


Source: U.S. Census Bureau, Real Estate Center at Texas A&M University, Texas Demographic Center

2010-2017 POPULATION GROWTH OF TEN LARGEST US METROS

Population increase Houston 2010-2017 = 972,011

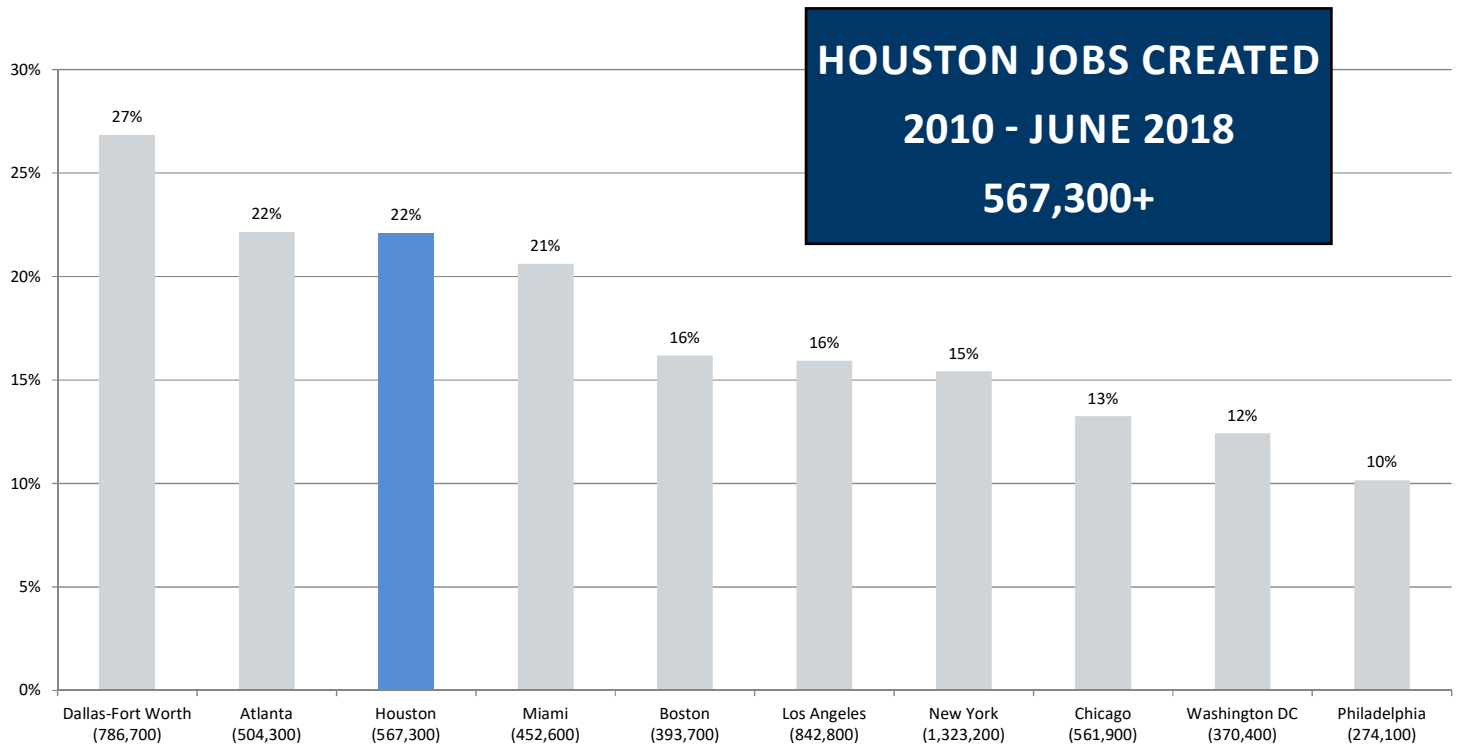
Average = 138,858/year



Source: Real Estate Center at Texas A&M University

2010- June 2018 YTD JOB GROWTH OF TEN LARGEST U.S.

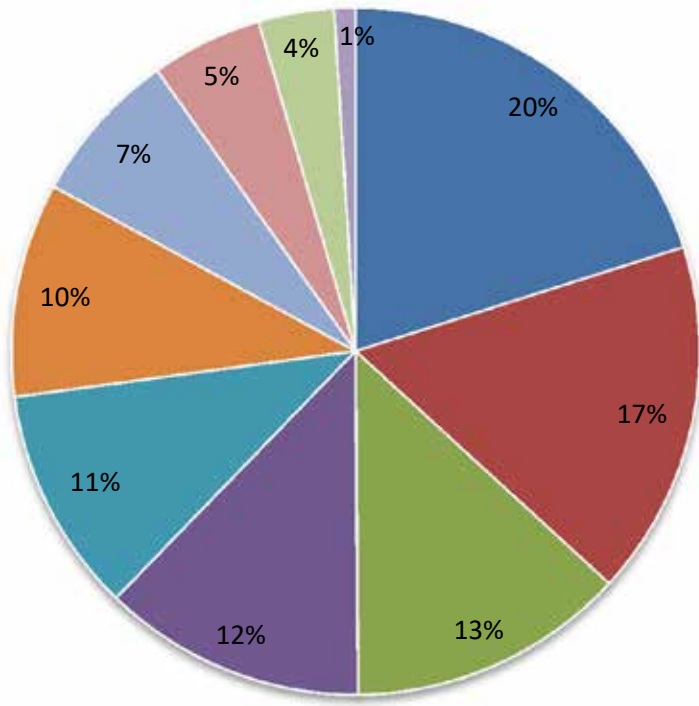
June 2018 T12 = 94,600 Jobs Added



Source: Bureau of Labor Statistics



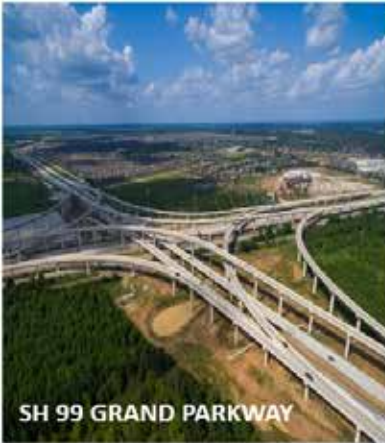
EMPLOYMENT BY SECTOR – 3,133,400 JOBS – June 2018



- Trade, Transportation, and Utilities (623,000)
- Professional and Business Services (502,000)
- Government (415,000)
- Education and Health Services (385,000)
- Leisure and Hospitality (317,000)
- Mining, Logging, and Construction (305,000)
- Manufacturing (223,000)
- Financial Activities (161,000)
- Other Services (110,000)
- Information (31,000)

Source: Bureau of Labor Statistics

PUBLIC & PRIVATE CAPITAL INVESTMENT



BILLION \$ COMPANIES AMONG HOUSTON'S FORTUNE 500/1000

| 2018 Fortune 500 / 1000 | | |
|-------------------------|------------------------------|--------------------|
| RANK | | REVENUE (Billions) |
| 28 | Phillips 66 | 91.6 |
| 54 | Sysco | 55.3 |
| 95 | ConocoPhillips | 32.5 |
| 105 | Enterprise Products Partners | 29.2 |
| 115 | Plains GP Holdings | 26.2 |
| 146 | Halliburton | 20.6 |
| 202 | Waste Management | 14.4 |
| 218 | Kinder Morgan | 13.7 |
| 220 | Occidental Petroleum | 13.2 |
| 270 | EOG Resources | 11.2 |
| 273 | Group 1 Automotive | 11.1 |
| 308 | CenterPoint Energy | 9.6 |
| 316 | Quanta Services | 9.4 |
| 334 | Targa Resources | 8.8 |
| 336 | Calpine | 8.7 |
| 352 | Westlake Chemical | 8.0 |
| 388 | National Oilwell Varco | 7.3 |
| 438 | Apache | 6.4 |
| 489 | Cheniere Energy | 5.6 |
| 518 | Marathon Oil | 5.1 |
| 538 | Dynegy | 4.8 |
| 573 | Crown Castle International | 4.3 |
| 583 | Noble Energy | 4.2 |
| 589 | KBR | 4.1 |
| 618 | Crestwood Equity Partners | 3.8 |
| 639 | Buckeye Partners | 3.6 |
| 640 | MRC Global | 3.6 |
| 699 | Tailored Brands | 3.3 |
| 721 | Service Corp. International | 3.0 |
| 801 | NOW | 2.6 |
| 845 | Par Pacific Holdings | 2.4 |
| 860 | Patterson-UTI Energy | 2.3 |
| 905 | Kirby | 2.2 |
| 950 | Genesis Energy | 2.0 |
| 964 | Kraton | 1.9 |
| 965 | Stewart Information Services | 1.9 |
| 980 | Oceaneering International | 1.9 |



Source: Fortune

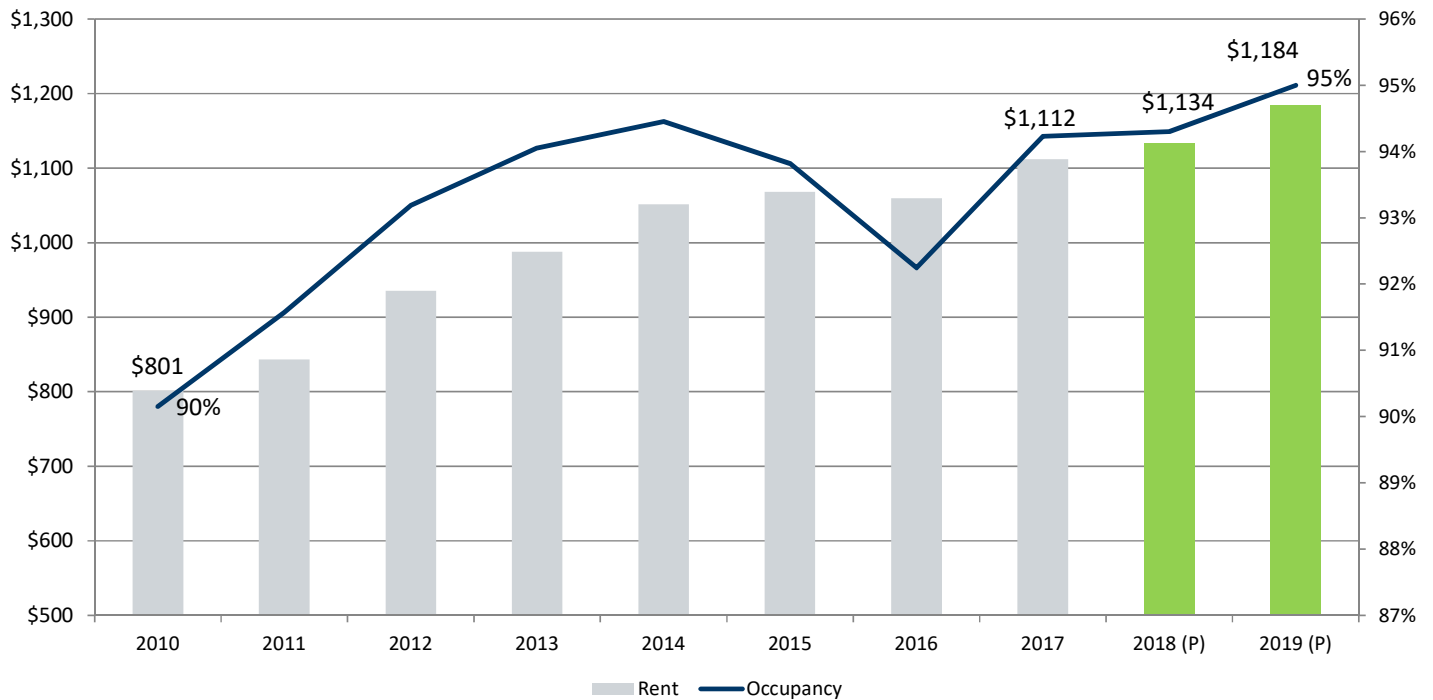


| | Houston Metro |
|---------------------------------------|---------------|
| Existing Apartment Units | 695,383 |
| Units added since 2010 | 105,183 |
| Units absorbed since 2010 | 119,469 |
| <hr/> | |
| Average Gross Occupancy Q2 2018 | 93.6% |
| Annual % Change | 1.2% |
| <hr/> | |
| Current Period Effective Rent Q2 2018 | \$1,098 |
| Annual % Change | 4.3% |

Source: Axiometrics

EFFECTIVE RENT GROWTH AND OCCUPANCY

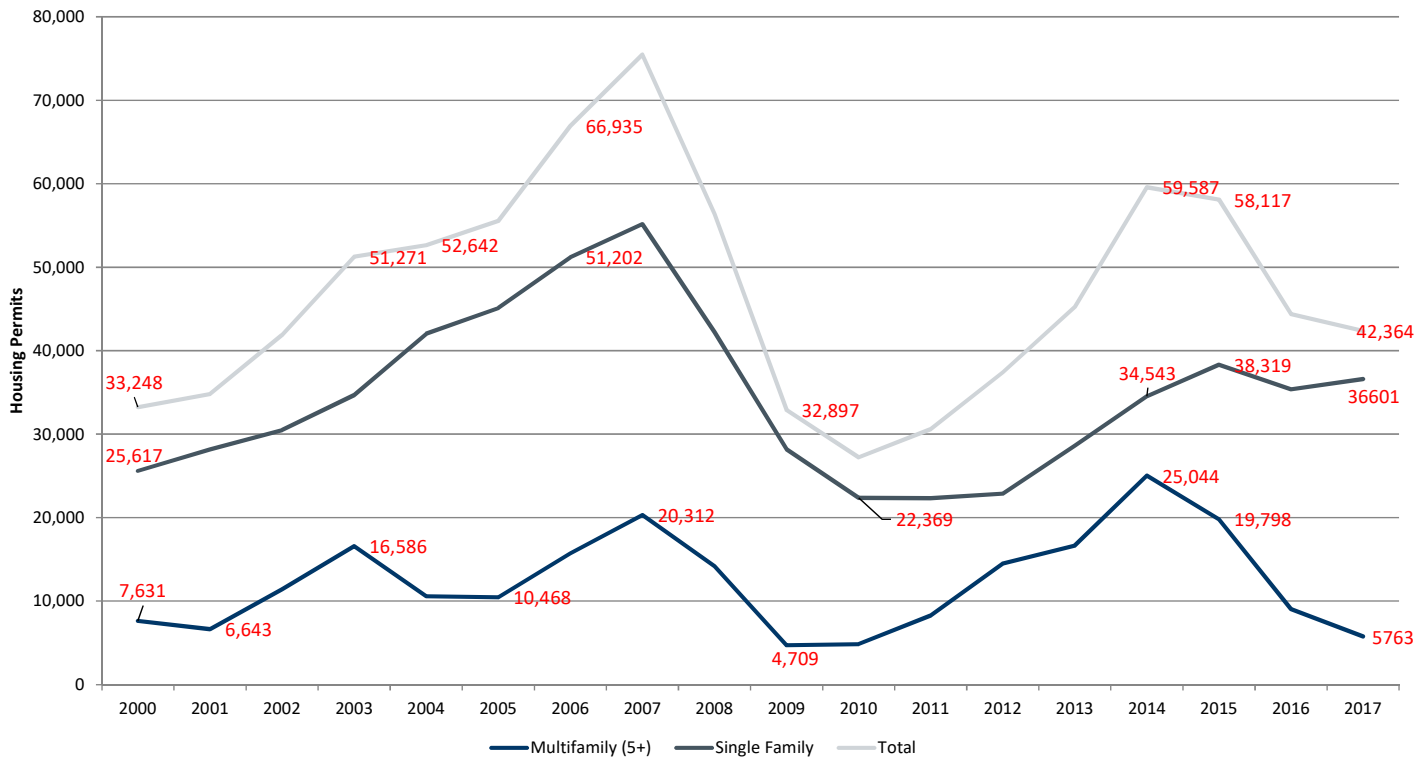
2010 – 2019 (projection)
37% Rent Increase 2010 to Q2 2018



Source: Axiometrics

TOTAL HOUSING PRODUCTION

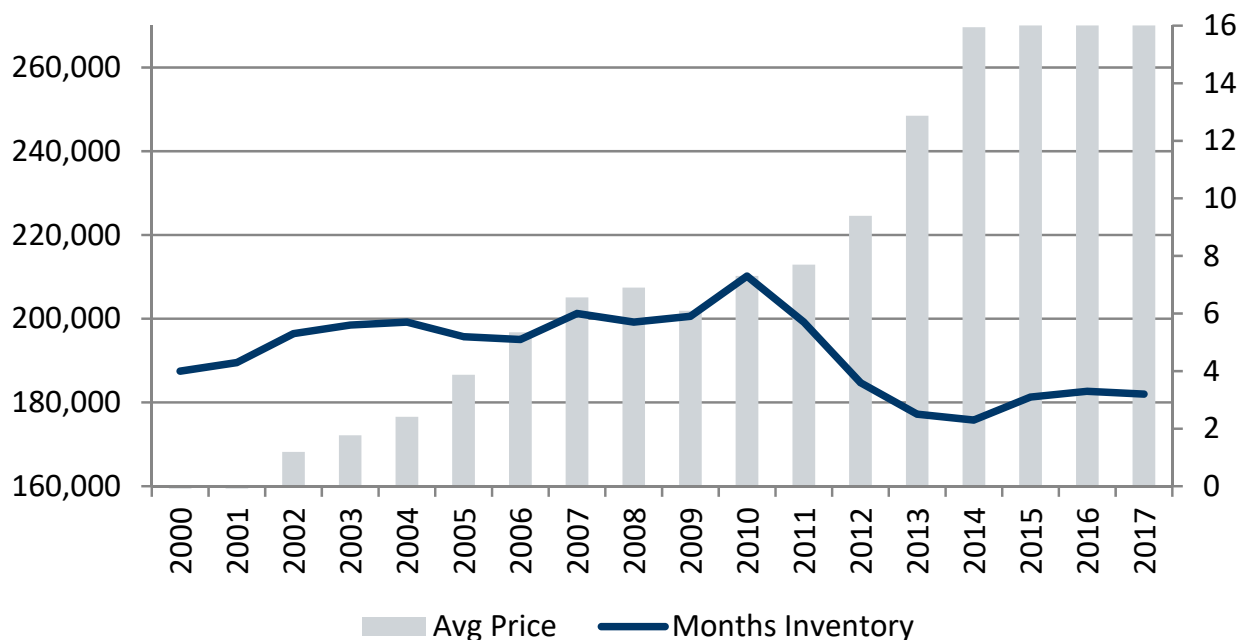
Total housing production still below peak
Houston added 850,000(+/-) people since 2009



Source: U.S. Census Bureau

HOME OWNERSHIP

Death of affordable single-family homes as prices rise and inventory declines
Current 4.0 month inventory
 Building fewer homes and at higher price point

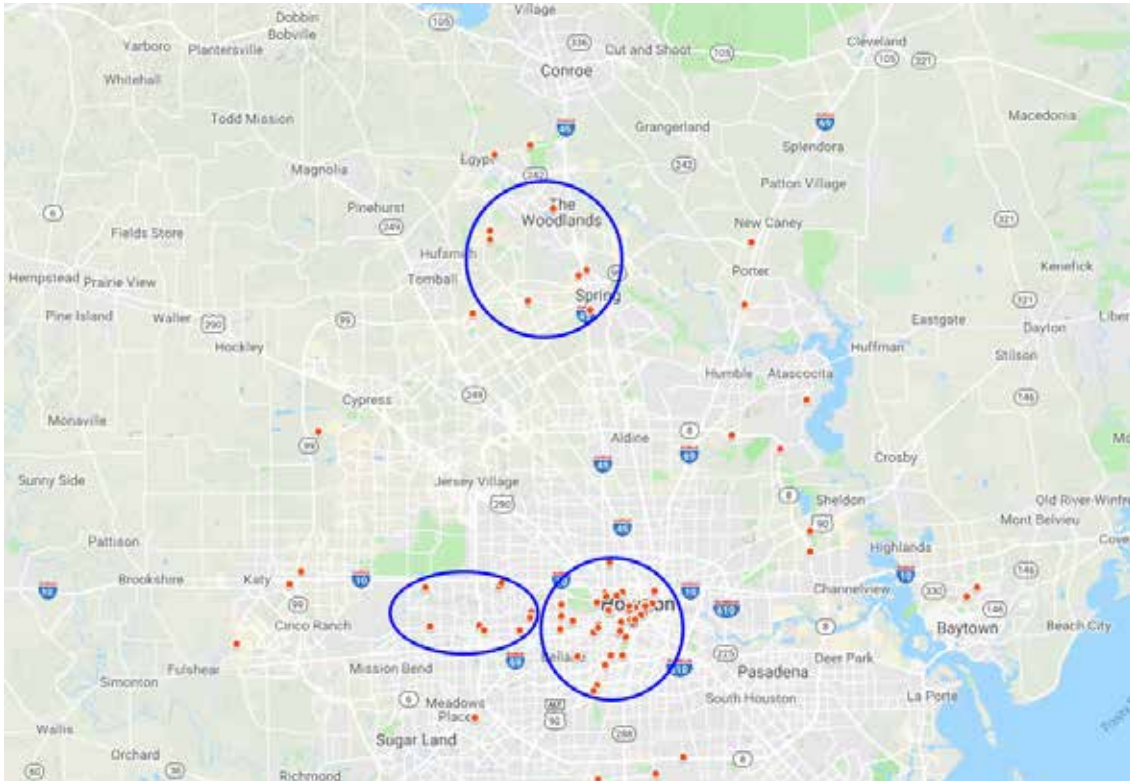


Source: Real Estate Center at Texas A & M University



WHERE IS THE PIPELINE CONCENTRATED? THINK JOBS!!!

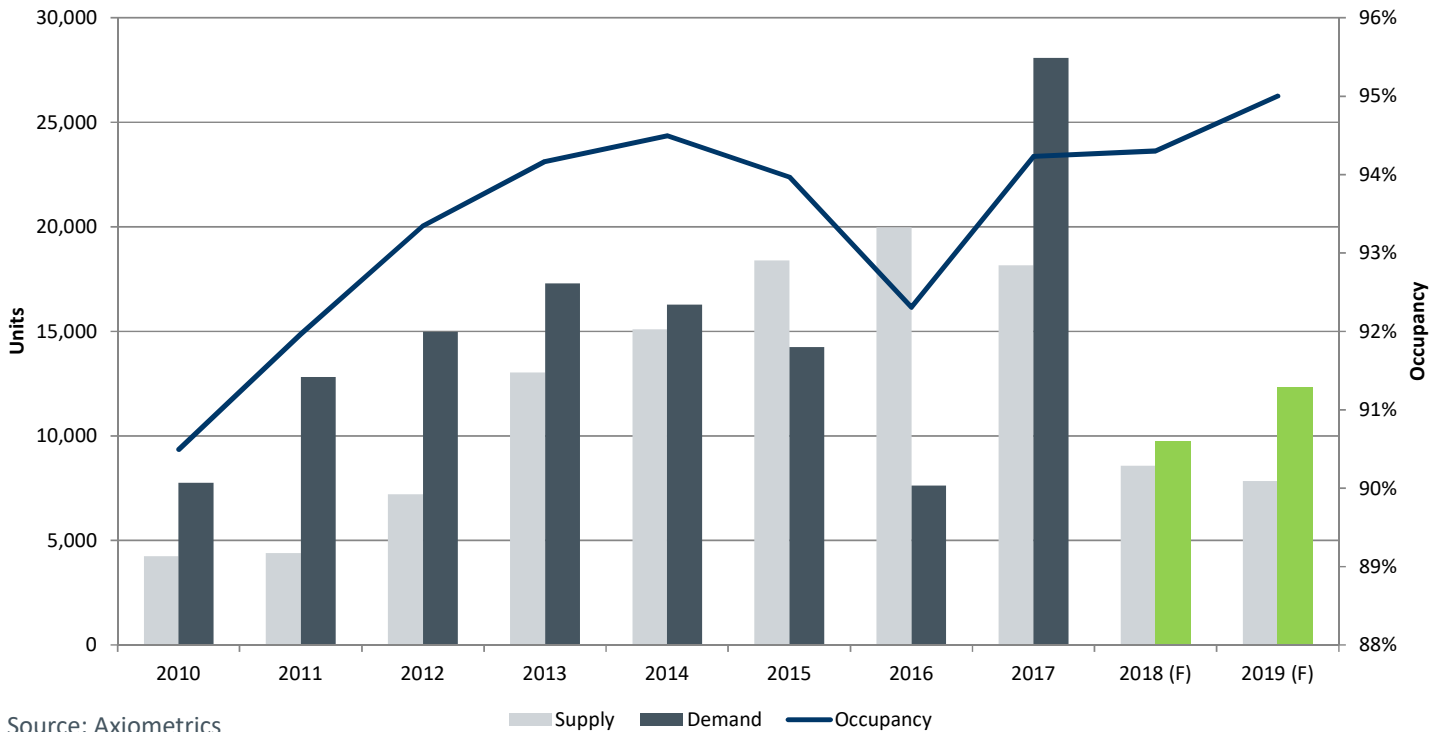
Current lease-ups and projects under construction



Source: Axiometrics

HOUSTON SUPPLY & DEMAND

Demand Expected to Outpace Supply in 2018 & 2019

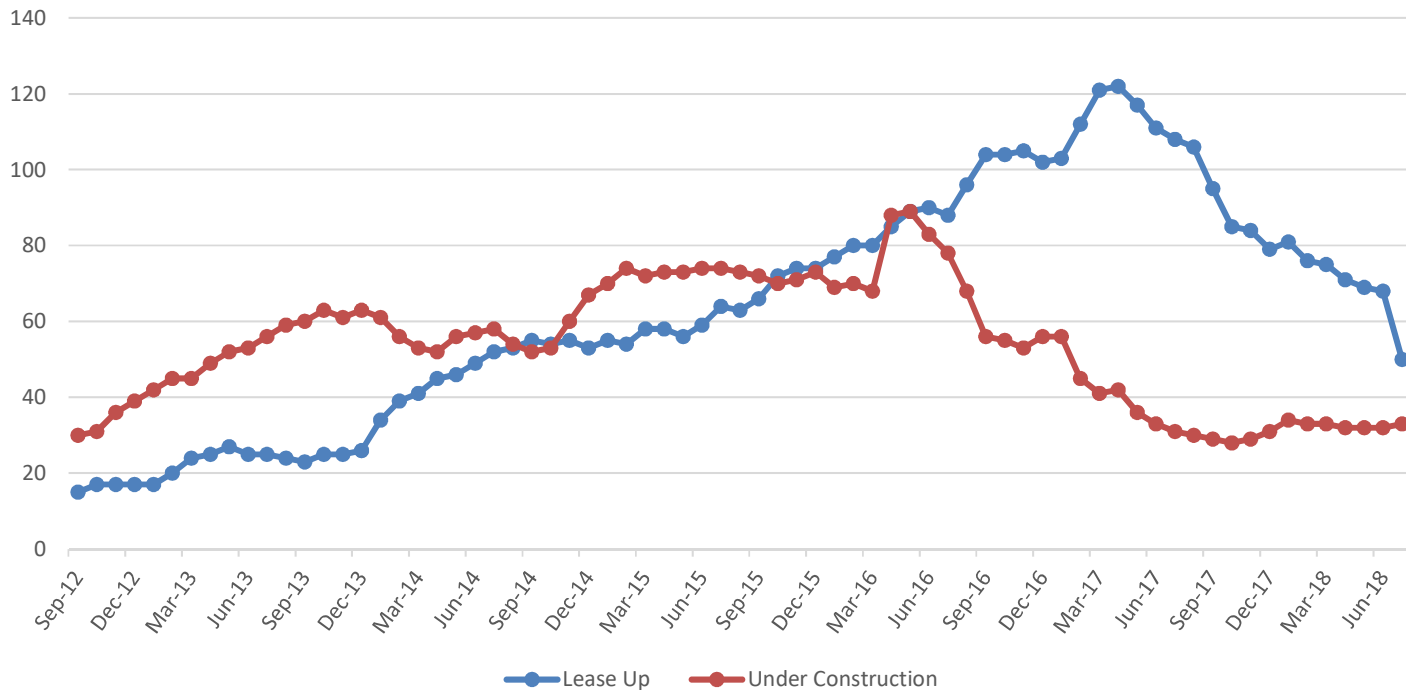


Source: Axiometrics

Supply Demand Occupancy

LOWEST # OF PROPERTIES UNDER CONSTRUCTION SINCE 2012

Houston Oversupplied - Think Again.....



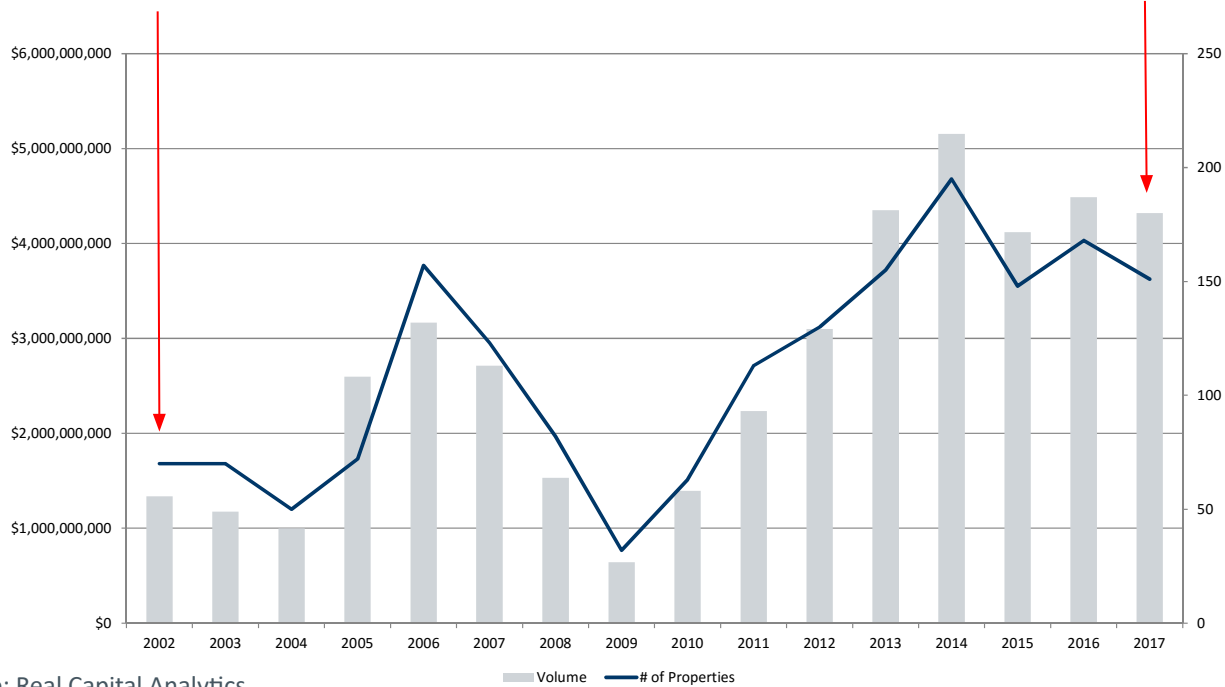
Source: Axiometrics

APARTMENT SALES

Property or Portfolio Sales \$10 Million or Greater

70 Properties
\$1.33 Billion Total Volume
\$19.1 Million Average Deal Size

151 Properties
\$4.3 Billion Total Volume
\$28.5 Million Average Deal Size



Source: Real Capital Analytics



2017 TOP HOUSTON AREA CAPITAL INVESTMENT PROJECTS

2017 - Texas received its sixth consecutive Governor's Cup from Site Selection Magazine which recognizes capital investment with the state. 2015, 2016, 2017 Texas ranked #1 for the highest total # projects with 594 in 2017.

| Company | City | Product | \$US Millions |
|--------------------------------|----------------|------------------------|---------------|
| ExxonMobil Corp | Beaumont | Petroleum Refineries | 1200 |
| Meglogbal Americas | Freeport | Chemicals | 1000 |
| Lyondellbasell Industries N.V. | La Porte | Chemicals | 700 |
| Ineos Americas | Alvin | Nitrogenous Fertilizer | 550 |
| Raven Petroleum | Freer | Petroleum Refineries | 500 |
| Gunvor USA | Houston | Petroleum Refineries | 500 |
| Howard Midstream Energy | Robstown | Industrial Supplies | 500 |
| Chemours Co. | Ingleside | Chemicals | 230 |
| Air Liquide | La Porte | Engineering Services | 230 |
| Targa Terminals | Channelview | Consulting Services | 140 |
| Rangeland Energy II | Corpus Christi | Petroleum Refineries | 100 |

Source: Conway Projects Database

GROWTH INDUSTRIES IN HOUSTON

MEDICAL

Medical industry drives employment - Currently over \$5 billion in new development for medical facilities



\$1.5 Billion

New 30-acre campus



\$650 Million

MH Expansion in TMC



\$540 Million

New Tower in TMC



\$506 Million

Expansion in TMC

PORT OF HOUSTON

Port of Houston Upgrades and Infrastructure improvements

Traffic at Houston Port expected to grow with expansion of Panama Canal

Houston has the Largest export market in the U.S.

1st

In Import Tonnage

2nd

In Total Tonnage

Largest

Gulf Coast Container Port

PETROCHEMICAL DEVELOPMENT PROJECTS

\$32.7 B New East Houston Plants

\$6.7 B For Natural Gas Liquefaction Plants For Exports

\$4.7 B New Refinery Projects

\$3.7 B New Natural Gas Processing Plants



Aura Memorial | Houston, TX
ON THE MARKET
288 Units For Trinsic Residential
Jeffrey Skipworth



Villa Toscana | Houston, TX
ON THE MARKET
504 Units For Passco
Jeffrey Skipworth



Indigo Pointe | Dallas, TX
ON THE MARKET
300 Units For Fairfield Residential
Thad Wetterau



Alexan Riveredge | Dallas, TX
ON THE MARKET
309 Units For Trammel Crow/Goldman Sachs
Thad Wetterau



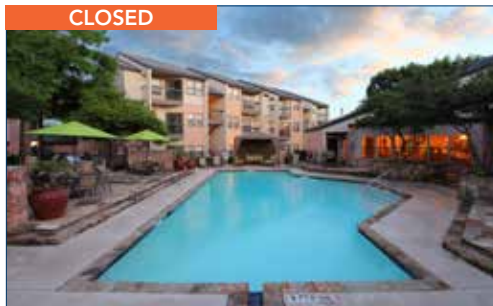
Monticello Apartments | Fort Worth, TX
ON THE MARKET
116 Units For Cypress R.E. Advisors
Greg Smith



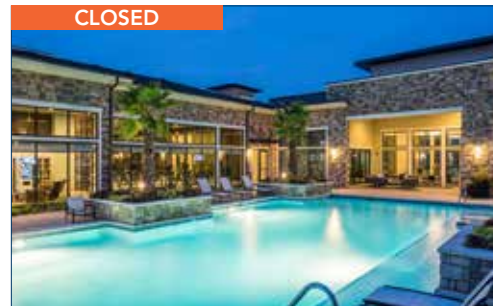
Lakeview & Lakeview Estates | Houston, TX
PENDING
566 Units For The Ergas Group
Jeffrey Skipworth



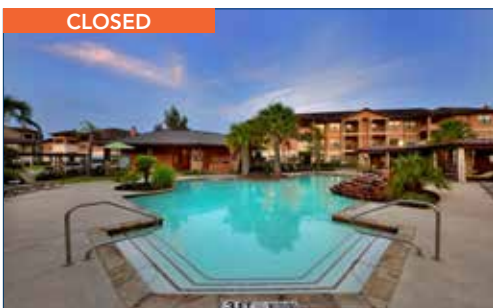
Aldeia West | Houston, TX
PENDING
305 Units For Bohannon Development
Jeffrey Skipworth



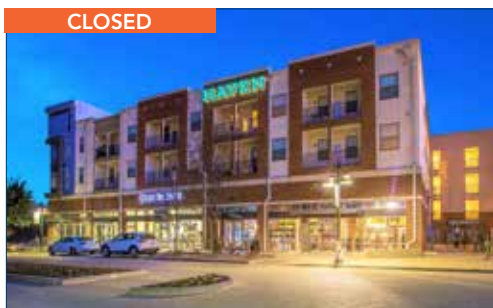
Spring Parc | Dallas, TX
CLOSED
304 Units For Parc Realty Partners
Greg Smith



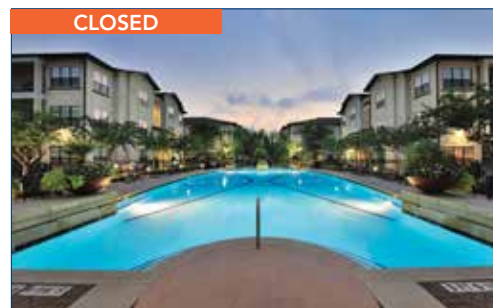
Vista Grand Crossing | Houston, TX
CLOSED
351 Units For Price Dev. Group
Jeffrey Skipworth



Hollow Tree Parc | Houston, TX
CLOSED
280 Units For Parc Realty Partners
Jeffrey Skipworth



Haven Lake Highlands | Dallas, TX
CLOSED
200 Units For Cypress R.E. Advisors
Greg Smith



Palazzo at Cypresswood | Houston, TX
CLOSED
363 Units For L & B Realty Advisors
Jeffrey Skipworth



WE ARE MORAN & COMPANY

———— With over 22 years in business, we are the team you want on your side. ————

We are

... Nationally recognized leader in providing disposition, capitalization and advisory services

... Exclusively serving the multifamily industry

... Passionate client advocates with seasoned, dedicated professionals

... Capable, offering national coverage provided by 12 highly experienced partners operating from 8 regional offices

... Regarded as a dominant intermediary for transactions in excess of \$100 Million and for executions requiring higher levels of senior experience and focused attention

Moran & Company

———— *National Leadership* ————

THOMAS F. MORAN

FOUNDER & CO-CHAIRMAN

MARY ANN KING

CO-CHAIRMAN

PETER EVANS

PRESIDENT | EASTERN REGION

Moran & Company Southwest

———— *Regional Team* ————

Paul Harris
Managing Partner Southwest

Thad Wetterau
Director - Dallas

Greg Smith
Director - Dallas

Jeffrey Skipworth
Director - Houston

Eric Calub
Director - Dallas

SOUTHWEST LEADERSHIP



Paul Harris

MANAGING PARTNER | SOUTHWEST

Since opening the Dallas office in 2003, Paul has been responsible for all marketing assignments and client relationships in the Southwest Region with particular emphasis on the major Texas markets. Paul and his team have closed over \$4.4 billion in multifamily dispositions and recapitalization since joining Moran. Prior to joining Moran, Paul was Director of Multifamily Investments for Archon Residential, a Goldman Sachs subsidiary, with responsibility for Archon's national multifamily acquisition and disposition efforts. During his eight years with Archon, Paul completed the sale of 255 multifamily properties comprising over 56,000 units in 32 states with \$3 billion in value. Paul has focused exclusively on multifamily transactions since 1995 and he is active in the National Multi Housing Council (NMHC).

Education

- TEXAS TECH UNIVERSITY, B.A. (1977)

Work Experience

- MORAN & COMPANY (2003-PRESENT)
- ARCHON GROUP (1994-2003)
- NORTHCORP REALTY ADVISORS (1989-1994)

Professional Affiliations

- NATIONAL MULTIFAMILY HOUSING COUNCIL
- DALLAS REAL ESTATE COUNCIL



Jeffrey Skipworth

DIRECTOR | SOUTHWEST

Jeffrey Skipworth is the Director for Moran & Company in Houston, an office he opened with Paul Harris in 2011. Jeffrey started his career with Moran & Company in 2006, and has worked on \$1 billion of real estate during his tenure at the firm. Jeffrey has extensive experience at all levels of the marketing process including underwriting, marketing presentation, research and investor solicitation. Prior to joining Moran & Company, Jeffrey was a senior analyst and relationship manager for Fidelity Investments, where he represented a number of billion dollar companies in large investment transactions in addition to conducting tax analysis for large multinational firms. He is a licensed real estate broker for the state of Texas.

Education

- SOUTHERN METHODIST UNIVERSITY, M.B.A. (2005)
- AUSTIN COLLEGE, B.A. (1999)

Work Experience

- MORAN & COMPANY - BROKERAGE (2006-PRESENT)
- FIDELITY INVESTMENTS - FINANCIAL & TAX ANALYSIS (2005-2006)
- FIDELITY INVESTMENTS - INSTITUTIONAL MANAGEMENT (1999-2005)

Greg Smith

DIRECTOR | SOUTHWEST

Greg's responsibilities include business development, economic underwriting, marketing, and due diligence for assignments in the Southwest region. Prior to Moran & Company, he managed investment sale transactions for Goldman Sachs of all property types. Gregory is a licensed CPA and real estate broker and also has experience in commercial banking and public accounting, along with positions at two Fortune 500 companies. Greg graduated as a Neeley Scholar from the Masters of Business Administration program at Texas Christian University and cum laude with a BBA from Texas A&M University.

Education

- TEXAS CHRISTIAN UNIVERSITY, M. B.A. (1997)
- TEXAS A&M UNIVERSITY, B.B.A. (1989)

Work Experience

- MORAN & COMPANY (2005-PRESENT)
- GOLDMAN SACHS / ARCHON GROUP (1997-2005)
- TEXAS COMMERCE BANK (1995-1997)

- THE WALT DISNEY COMPANY (1992-1995)
- COOPERS & LYBRAND CPA'S (1989-1992)

Professional Affiliations

- NATIONAL MULTIFAMILY HOUSING COUNCIL
- URBAN LAND INSTITUTE
- DALLAS REAL ESTATE MINISTRIES (DREM)



SOUTHWEST LEADERSHIP



Thad Wetterau

DIRECTOR | SOUTHWEST

Since joining Moran & Company in 1999, he has completed over \$3 billion in multifamily transactions, primarily in Texas, but also in major markets across the southeastern U.S. He brings to bear his background in institutional real estate research, development consulting, appraisal, and transactions on every investment assignment. His current responsibilities cover the entire multifamily investment sales process, including client service, relationship management, deal management, property valuation, economic analysis, marketing and due diligence.

Education

- BAYLOR UNIVERSITY, M.B.A. (1988)
- BAYLOR UNIVERSITY, B.A. (1986)

Work Experience

- MORAN & COMPANY (1999-PRESENT)
- LEND LEASE (1998-1999)
- L&B GROUP (1997-1998)
- AMRESKO (1996-1997)
- M/PF RESEARCH (1994-1996)
- COMMERCIAL REAL ESTATE APPRAISAL (1989-1994)



Eric Calub

DIRECTOR | SOUTHWEST

Eric has spent most of his career in the multi-family sector on the principal side as both an Acquisitions and Dispositions officer in addition to asset managing a portfolio of properties. Eric has worked for both large public entities (Berkshire Realty and Walden Residential - REITS) and smaller private companies (The Kislak Organization and Passco Companies – TIC/DST sponsor). Eric has over two decades of experience include executing transactions involving single asset entities and portfolios of core, core-plus, and value-add properties, as well as performing and non-performing loans. Throughout his career Eric has successfully closed acquisitions and dispositions in excess of \$2 billion.

Education

- UNIVERSITY OF MICHIGAN-ANN ARBOR, B.B.A.

Work Experience

- MORAN & COMPANY
- PASSCO COMPANIES, INC
- THE KISLAK ORGANIZATION

- BERKSHIRE REALTY
- WALDEN RESIDENTIAL
- THE PRIME GROUP

Professional Affiliations

- NATIONAL MULTI HOUSING COUNCIL
- THE REAL ESTATE COUNCIL - DALLAS



Joe Milo

ASSOCIATE

Joe Milo has valued over \$18 billion in multifamily/mixed-use property with Moran. His responsibilities include economic underwriting, financial analysis, property valuations, and due diligence for assignments in the Southwest region. He assists with the overall production of writing materials as well as with other aspects of the marketing process. Prior to joining Moran & Company, Joe was a Senior Analyst for the Pricing & Cash Management Services group at Fidelity Investments, where he delivered daily valuations of Fidelity's retail mutual funds.

Education

- ELON UNIVERSITY, B.S. FINANCE (2009)

Work Experience

- MORAN & COMPANY - BROKERAGE (2012-PRESENT)
- FIDELITY INVESTMENTS - PRICING & CASH MGMT. SERVICES (2010-2012)

SOUTHWEST LEADERSHIP



Jose Blanc ASSOCIATE

Jose Blanc joined Moran & Company in 2016 as a Financial Analyst. Jose is responsible for property valuations, economic underwriting, financial analysis, and writing offering memorandums for the Southwest region. He also assists with daily market research and economic analysis data.

Education

- UNIVERSITY OF CALIFORNIA, SANTA BARBARA, B.A. (2012)

Work Experience

- MORAN & COMPANY - BROKERAGE (2016-PRESENT)
- FIDELITY INVESTMENTS - PRICING & VALUATION (2013-2016)



Sherry Shults SENIOR ASSOCIATE

Sherry Shults is a Senior Associate for the Southwest region. She is responsible for writing and editing offering memoranda; the design and creation of all electronic marketing materials; market research; due diligence coordination; client events; and public relations initiatives.

Education

- MTSU, B.B.A. (1999)

Work Experience

- MORAN & COMPANY - BROKERAGE (2007-PRESENT)
- PROFESSIONAL MORTGAGE CORPORATION - LOAN MARKETING (1992-1993)

- NORTHCORP REALTY ADVISERS - LOAN MARKETING (1992)
- AMWEST SAVINGS ASSOCIATION - ACCOUNTING (1990-1992)
- FEDERAL ASSET DISPOSITION ASSOCIATION - ASSET MANAGEMENT (1986-1989)



Janet Valladares OFFICE MANAGER

Janet is responsible for all aspects of operation including accounts payable/receivables, and state licensing. She supports event coordination activities and administrative duties. Prior to joining Moran & Company, Janet was the Project Administrator for Goldman Sachs and was responsible for all aspects of construction project administration from the bidding process to project close-outs, and all job cost tracking and accounting reporting.



MORAN & COMPANY

Successful. Together.



★ Moran & Company Offices

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