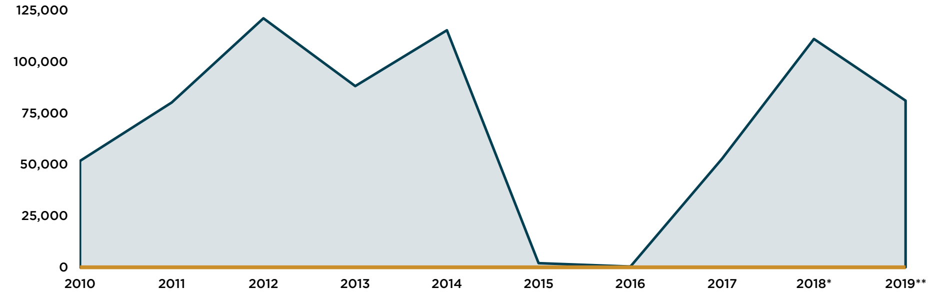
HOUSTON

BERKADIA®

2018 REVIEW

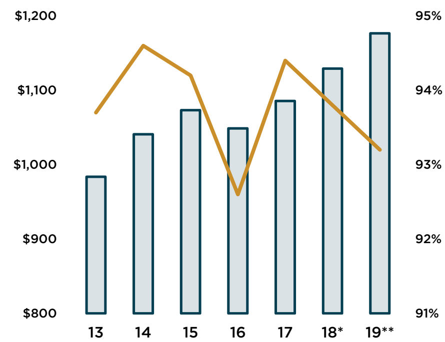
The Houston apartment market began to stabilize coming out of Hurricane Harvey. At 93.8% in the fourth quarter of 2018, average apartment occupancy was down 60 basis points annually. Even with the most recent decrease, occupancy was 130 basis points higher than the 10-year average. Contributing to the latest decline was more than 8,300 units coming online in 2018. Apartment demand remained positive last year, though trailed the postrecession high absorption in 2017 indicating many homeowners returned to residences following the recovery from Hurricane Harvey. Even with the slowdown in leasing activity, apartment operators kept pressure on rent as the job market rebounded. At $1,129 per month in December 2018, effective rent advanced 4.0% annually. Rent growth trailed the median household income increase of 4.4%. Contributing to the rise in income was the 6.4% growth in the professional and business services sector, where salaries were nearly 60% higher than the metro average. Overall, employment expanded 3.6% in 2018.

EMPLOYMENT CHANGE



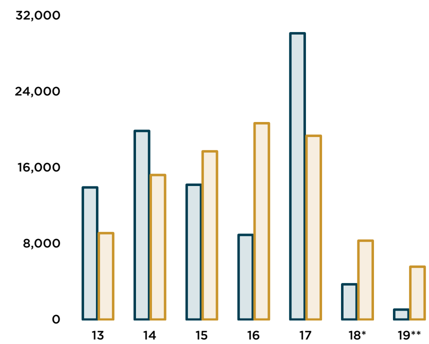
*Estimate; **Forecast | Source: Berkadia, Moody's Analytics

EFFECTIVE RENT AND OCCUPANCY



*Estimate; **Forecast | Source: Berkadia, Axiometrics, Moody's Analytics

ABSORPTION AND DELIVERIES

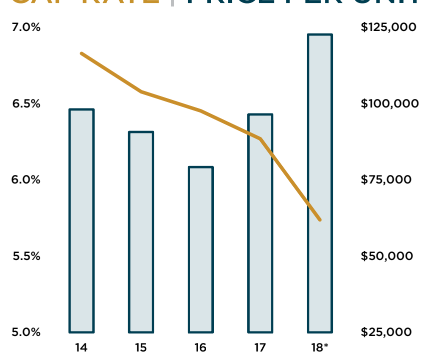


*Estimate; **Forecast | Source: Berkadia, Axiometrics, Moody's Analytics

2018 PERFORMANCE HIGHLIGHTS

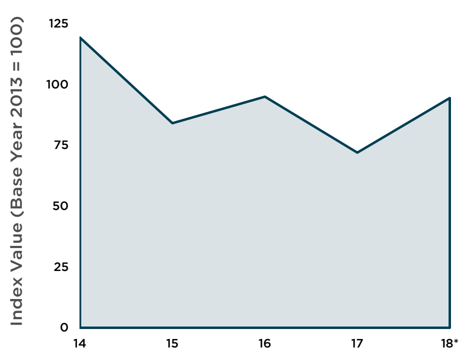
EMPLOYMENT CHANGE	UNEMPLOYMENT RATE	OCCUPANCY
111,100	4.1%	93.8%
▲3.6% YOY	▼40 BPS YOY	▼60 BPS YOY
EFFECTIVE RENT	**ABSORPTION**	**CONSTRUCTION**
$1,129	3,719 Units	8,313 Units
▲4.0% YOY		▼57.1% YOY

CAP RATE | PRICE PER UNIT



*Estimate | Source: Berkadia, Real Capital Analytics

SALES ACTIVITY INDEX



*Estimate | Source: Berkadia, Real Capital Analytics

MARKET FACTS

POPULATION	HOUSEHOLDS	MEDIAN HOUSEHOLD INCOME	RENT SHARE OF WALLET
7,083,000	2,506,800	$66,392	20.4%
YE 2018 ▲1.9% YOY	YE 2018 ▲2.2% YOY	YE 2018 ▲4.4% YOY	YE 2018 ▼10 BPS YOY

2019 PREVIEW

Multifamily builders will continue to scale back deliveries this year to move supply and demand closer to equilibrium. Construction is scheduled to complete on 5,560 units by year-end, down a third from deliveries in 2018. Deliveries may remain subdued in the near-term as multifamily permits were filed for 12,300 units in 2018, down more than 20% from the preceding five-year average issuance. Apartment additions will remain concentrated in the Inner Loop with nearly half of all deliveries this year, where single-family housing starts and apartment deliveries continue to lag new household formation. Driving demand will be employment growth. Total nonfarm employment is forecast to expand 2.6%, or by 81,100 jobs, this year. Leasing activity is expected to remain positive in the area and across the metro as single-family home prices are forecast to rise 1.5% while existing single-family home sales dip 0.6%. Even with sustained rental demand, supply-side pressure is forecast to cause a 60-basis-point reduction in average apartment occupancy to 93.2% by year-end. Even with the decline in occupancy, effective rent is expected to rise 4.2% year over year. At $1,177 per month in December, average effective rent is forecast to be more than $300 less than the typical mortgage payment.

Data and images pertaining to employment, income, permits, population, rents, single-family housing, and occupancy are year-end figures. Absorption, construction, and apartment sales figures are full-year totals. Numbers for 2018 are estimated values, while 2019 figures are forecast projections. Apartment market data criteria and methodologies vary by market.