INVESTMENT FORECAST

IPA | INSTITUTIONAL PROPERTY ADVISORS

Multifamily

Houston

2020

Building of Vertical Concepts Continues; Value-Add Strategies Maintain Momentum

Houston transitioning to higher-density development as urban core strengthens. Creating a more dense and vertical urban core remains top of mind for developers as apartment construction will stay concentrated in central Houston and surrounding neighborhoods. The inflow of millennials and empty nesters to the core seeking walkable communities will support the addition of 5,000 new units to the metro's urban submarkets in 2020, highlighted by four 20-plus story complexes. Development will also be strong west of the core in Katy where 2,700 garden units will be delivered as builders attempt to keep stride with robust household formation. Katy sports one of the tightest vacancy rates in the metro at 5 percent, trailing several northern suburbs such as Cypress, Conroe and The Woodlands. Vacancy in these suburban cities will also likely remain compressed this year as construction in these areas remains limited.

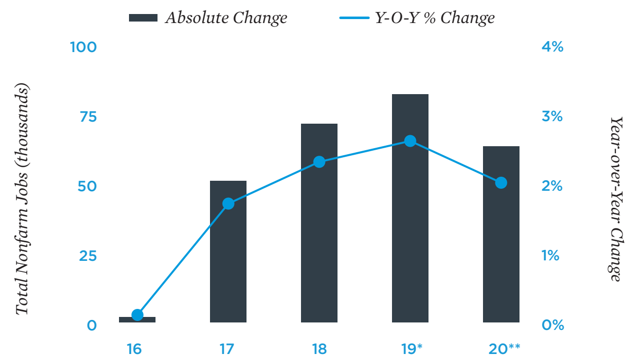
Off-the-charts demographic growth keeping investors' attention. Phenomenal population and household growth rates due to strong in-migration will keep Houston as one of the fastest expanding metros in the nation. These drivers combined with solid employment growth forecasts will maintain elevated long-term multifamily demand prospects for the region and keep investors focused on Houston as a top acquisition market for the coming year. Aiding in filling the transaction pipeline is a deep pool of properties built in the 1980s and 1990s that offer private capital numerous value-add opportunities. Institutional buyers will direct their attention to newly completed projects. However, unlike other markets in which mid- and high-rise assets dominate new deliveries, Houston has seen garden developments accounting for almost half of all new projects and most closings for newer properties. Look for this trend to continue as institutional capital looks to take advantage of the higher cap rates for these new garden properties and lower per unit pricing. The downside risk to the transaction market in the coming year appears to be a widening bid/ask spread as a number of owners are holding out for peak valuations despite rising uncertainty over insurance costs and changes to tax assessments that new owners will face.

21.4% *2019 share of local population between 20 and 34 years old*

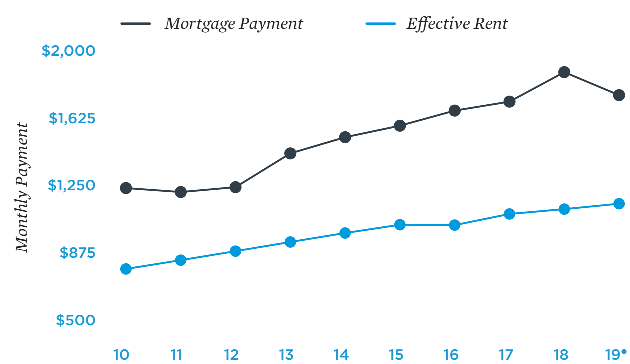
31.3% *of local population hold bachelor's degree or higher✣*

$242,936 *2019 median home price*

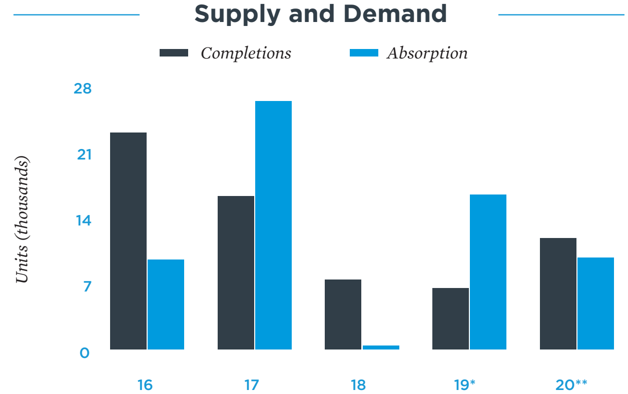
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast • Through 3Q
✣ 2019: 25+ years old
Sources: Marcus & Millichap Research Services; RealPage, Inc.

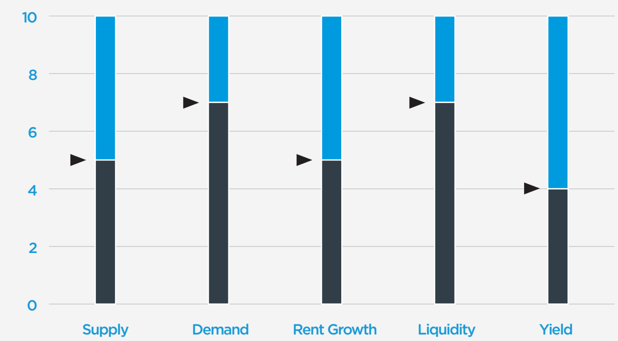
2020 Investment Outlook

A three-point decline in the supply index points to a more normalized development pipeline returning to the Houston market. However, demand sits at a 7, which points to fundamentals being well balanced, which helped maintain rent growth at a solid 5.

The second half of they year saw no changes in the transaction side of the Key Performance Index. Both liquidity and yield sit at levels highlighting the market's capital inflows and competitive yield environment.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.

Key Performance Index



2020 Market Forecast

Employment
63,200 jobs
Metro **2.0%**
U.S. **1.0%**

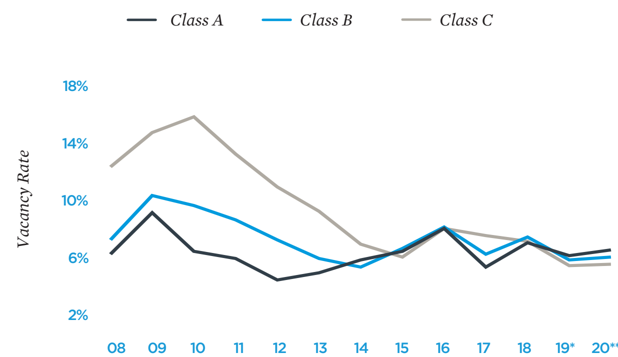
Construction
as % of inventory❖
Metro **1.7%**
U.S. **1.7%**

Class A Vacancy
Up 40 bps
Metro **6.4%**
U.S. **5.3%**

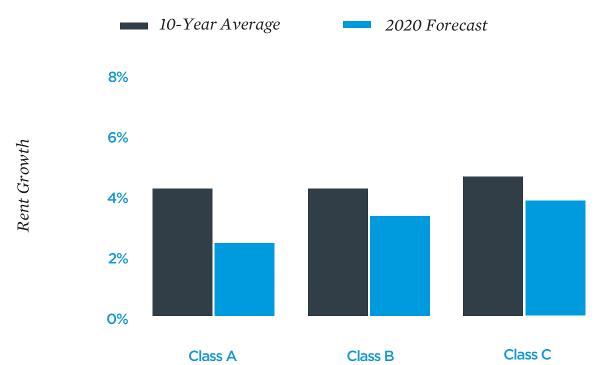
Class A Rent
$1,624 per month
Metro **2.4%**
U.S. **3.3%**

Investment
3-yr. avg. activity
$20+ million
Deals: **108**
Volume: **$4.1 billion**

Vacancy By Class



Rent Growth By Class



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** Estimate ** Forecast*
❖ Arrow reflects completions trend compared with 2019
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics