

Powerpoint by Bruce McClenny (Apartment Data Services)

See below for event recap from all seven panelists.

Apartment Trends 2017

ApartmentData.com



## Classification Analysis

### Greater Houston as of December 31, 2016

As of December 31, 2016	Supply	Occupancy	Effective Rent				Absorption (units)	
			¢ per sq ft	\$ / mo	12 Mo Trend	3 Mo Trend	12 Months	3 Months
2016 Construction	20,702	25.8%	159.9	\$1,505	-	-	5,429	2,229
2015 Construction	20,148	75.6%	149.4	\$1,428	-	-	9,390	1,227
2014 Construction	17,697	90.4%	153.9	\$1,462	-4.9%	0.3%	1,182	-91
Class A w/o 14+ Const	85,506	91.3%	145.3	\$1,389	-5.3%	-8.3%	-1,403	-806
Class B w/o 14+ Const	246,630	91.5%	107.2	\$934	-1.5%	-8.6%	-5,233	-2,717
Class C	189,214	91.2%	89.2	\$755	0.9%	-4.5%	-4,409	-2,439
Class D	46,130	89.1%	71.6	\$611	0.3%	-4.5%	-761	-363
Overall	626,027	88.5%	109.6	\$966	0.0%	-6.6%	4,195	-2,960



## Greater Houston – Class A

(as of 12-31-2016)

### 12 Year



### 2 Year



Rent Growth	36.0%
Annualized Rent Growth	3.0%
Units Change/Total Supply	104,038 / 626,027
Top of Market Occupancy	Jun '12 / 92.5%
Top of Market Price/Current	Jun '15 / \$1,524 / \$1,420
Top of Market Rate/Current	Jun '15 / \$1.60 / \$1.49

2015 Rent Growth	-1.1%
2016 Rent Growth	-4.2%
Units Lease Up / Occupancy	23,764 / 28.4%
12 Month Absorption / Units	14,435
Occupancy / Stabilized	79.6% / 89.9%
Units Under Construction	15,000



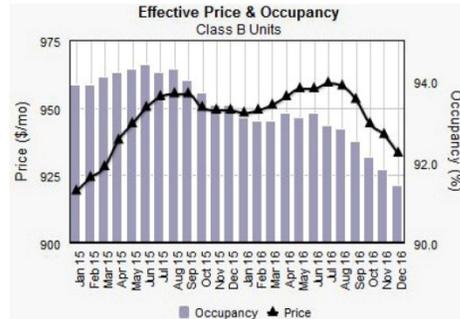
## Greater Houston – Class B

(as of 12-31-2016)

12 Year



2 Year



Rent Growth	38.0%
Annualized Rent Growth	3.2%
Class Size/ % of Total	248,153 / 40.0%
Top of Market Occupancy	Jun '15 / 94.4%
Top of Market Price/ Rate	Jun '16 / \$957/ \$1.10

2015 Rent Growth	3.5%
2016 Rent Growth	-1.7%
2 Year Absorption / Units	-5,969
Current Occupancy	91.4%
Current Price / Rate	\$933 / \$1.07



## Greater Houston – Class C (as of 12-31-2016)

12 Year



2 Year



Rent Growth	36.3%
Annualized Rent Growth	3.0%
Class Size/ % of Total	189,214 / 30.2%
Top of Market Occupancy	Mar '15 / 93.8%
Top of Market Price/ Rate	Jul '16 / \$765/ \$0.90

2015 Rent Growth	6.1%
2016 Rent Growth	0.9%
2 Year Absorption / Units	-5,192
Current Occupancy	91.2%
Current Price / Rate	\$755 / \$0.89



## Greater Houston – Class D

(as of 12-31-2016)

12 Year

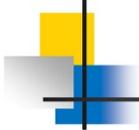


2 Year



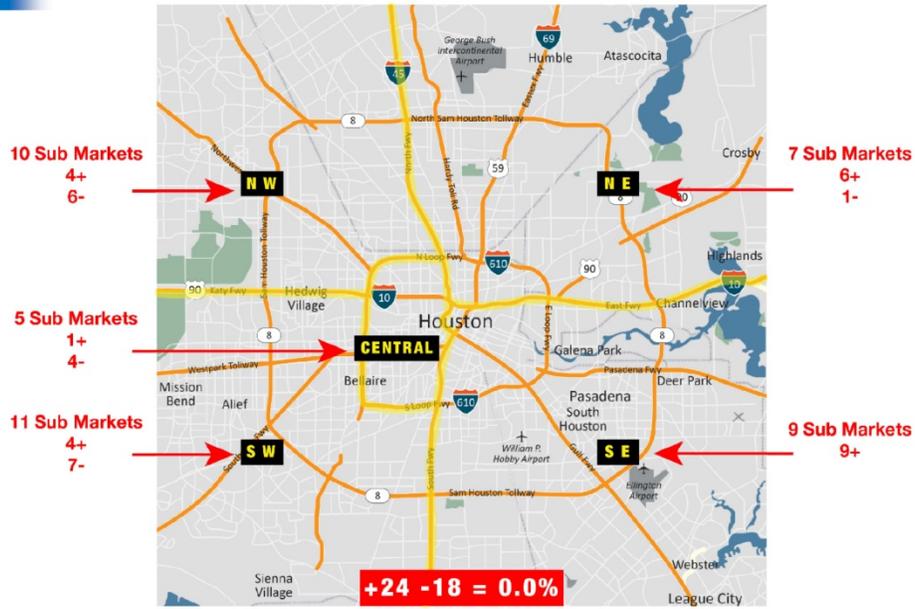
Rent Growth	23.7%
Annualized Rent Growth	2.0%
Class Size/ % of Total	46,130 / 7.4%
Top of Market Occupancy	Mar '16 / 90.9%
Top of Market Price/ Rate	Sep '16 / \$618/ \$0.73

2015 Rent Growth	6.8%
2016 Rent Growth	0.3%
2 Year Absorption / Units	1,491
Current Occupancy	89.1%
Current Price / Rate	\$611 / \$0.72



# Greater Houston – 42 Sub Markets

(as of 12-31-2016)





## Most Concerned Greater Houston – Sub Markets

(as of 12-31-2016)

Sub Mkt	Occup % / Stabilized	2016 Rent Growth	Units Lease Up / Occup %	Units Under Const	2016 Absorption
Montrose	80.1% / 89.5%	-3.4%	1,416 / 10.8%	1,784	-95
Galleria	87.2% / 91.0%	-5.9%	1,091 / 8.9%	986	-8
Med Center	88.9% / 92.0%	-6.6%	1,094 / 33.5%	2,117	396
Downtown	60.3% / 88.3%	1.6%	2,081 / 23.4%	1,122	689
Tomball/ Spring	76.0% / 90.0%	1.6%	2,604 / 28.5%	1,348	1,431



## Working Through Greater Houston – Sub Markets

(as of 12-31-2016)

Sub Mkt	Occup % / Stabilized	2016 Rent Growth	Units Lease Up / Occup %	Units Under Const	2016 Absorption
Katy	85.9% / 90.6%	-4.0%	2,370 / 43.5%	925	2,490
Energy Corridor	86.0% / 90.5%	-2.6%	2,389 / 30.0%	1,126	1,865
Woodlands	85.2% / 91.5%	-4.8%	2,182 / 37.1%	0	1,081
Heights	81.0% / 90.1%	-2.5%	1,798 / 34.3%	435	839
Highland Village	85.2% / 90.3%	-4.3%	988 / 7.8%	500	854



## Doing Okay

### Greater Houston – Sub Markets

(as of 12-31-2016)

Sub Mkt	Occup % / Stabilized	2016 Rent Growth	Units Lease Up / Occup %	Units Under Const	2016 Absorption
Pearland West	84.2% / 88.4%	1.6%	550 / 10.0%	240	198
Baytown	86.0% / 93.3%	5.4%	281 / 25.0%	384	36
Galveston	92.3%	4.3%	0	230	-86
Pasadena	94.0% / 95.1%	4.3%	456 / 40.0%	294	8
I-10 E	89.3%	4.3%	0	246	-306



Looking Ahead  
**Houston Apartment Market**  
January 2017

---

- **2017 – Too Much Supply For Demand**
  - Demand: Job Growth: 29,700 (GHP)
  - New Supply: 12,000 Units
  - Lease-Ups: 24,000 Units; 30% Occupied
- **Market Defies Macro Analysis**
  - Performance Varies by Class / Sub Market / Property
- **Class Outlook**
  - A: -4.0%
  - B: -2.0%
  - C: Flat to Mildly Negative
  - D: Flat to Mildly Positive
- **2017 Rent Growth: -2.0% to -2.5%**
- **2017 Absorption: 7,000 Units**
- **2017 Ending Occupancy: 88.0%**

Seven panelists discussed the Houston Apartment market, while comparing it to markets around the country and an in-depth conversation on what may happen if U.S. immigration policies change.

Panelists: Jesse Thompson (Federal Reserve Bank, Dallas and Houston), Ian Douglas (Allied Orion), Steve Lamberti (Milestone Management), Stacy Hunt (Greystar), Swapnil Agarwal (Karya Management/Nitya Capital), Cyrus Bahrami (Alliance Residential), Bruce McClenny (Apartment Data Services)

### **Hunt (moderator):**

- 55% construction ; Equity more expensive than debt so banks slowing things down nationally
- More student and affordable housing
- Construction businesses “could be in for a good year”

### **McClenny (statistics):**

- 81,000 units were produced in the 1980s with half the supply. Today: 56,000 units ; impact of “all that development is not as strong” comparatively to the past
- Not as many people look for apartments because the economy

### **Cyrus (developer):**

- “I think Houston is pretty resilient.”
- “I can start to hear the light at the end of the tunnel.”
- “It’s hard to do equity in Houston.”
- Supply going away, while demand is at a stand point.”That’s going to pick up & looks better in 2018.”
- Houston on the uptake
- Technology taking over. Look at what is in student housing, and that is the future for apartments
- Class A buyers coming back into Huston. Businesses holding onto deals until 2019

### **Jesse Thompson (economist):**

- Oil prices above \$50 is good/okay. Waiting on if the numbers will change, so “give or take \$20 or \$30,” jokes Thompson
- 2% GDP growth in 2017, maybe 2.4% or 2.5%
- Headwinds:

- (1) Restaurants/bars pay below average wages, but job losses are in job sectors that pay well.  
Disposable income decreases, so retail sales decrease
- (2) Commercial construction is “falling off” and “winding down”  
-Petrochemical construction activity peaking and probably won’t slow until 2018 because completion rate/time
- (3) Hospital industry has policy uncertainty due to the unknown future of the Affordable Care Act  
Ex: hospitals are slowing down hiring  
Health market seeing growth though, and is strong, stable employment, and employees are paid well. Will be good edition to Houston economy, but will slow

-Overall: “modest growth or better this year”

### **Ian Douglas:**

-“We need about 10,000 units absorbed and then you’ll see the up part of fishhook” – referencing McClenny’s slides

-Could see ~\$70 oil prices in 2017 ; oil “rate counts creeping up... and really on their way up”

-Headwind: labor and “finding good people... the right people is your most important asset” – referring to skilled workers, which he believes is in short supply

-Nationwide: class A “will be tough nationally and in Houston” because lack of high-paying jobs

### **Agarwal (investor):**

-“Dollar in, dollar out is the same to me.”

-Real estate good asset to invest in

-Houston has highest population growth nationally

-Supply short-term: demand too low

-Supply long-term: the worst is behind us

-Be opportunistic and aggressive when going forward

### **Lamberti:**

-Multi-family = positive industry and “attractive place to invest money”

-Sees most dollar growth from lease renewals

-Good things about Houston: ports, medical, super bowl, diversification/more capital in markets

-Real estate industry strong, good employee rate, diversified

## Questions after:

(1) Mexico opened up oil/gas industry internationally, so are TX/Houston's opportunities at risk due to potential policy changes?

Thompson:

Too early to say it's at risk, but Mexico is the biggest trader in our port and Houston is building more pipelines to do more business with Mexico

(2) What makes tenants move out?

Agarwal:

#1 is customer service, and #4 is can't afford rent. Agarwal tries to give his complexes a community-feel. Ex: provides after-school program for tenants' children

(3) Thoughts on Trump's immigration policy of deportation?

Thompson:

Free flow of trade/skills (ranging from craft labor to PhD researchers) is a supported principal in economics. Houston capital dependent on immigration.

(4) Thoughts on rent control and lack of regulation?

Douglas:

"It's a great thing." Douglas notes that more regulation in Philadelphia hinders apartment sector, and that in Seattle you can't charge pet rent fees so money goes/comes from somewhere else

(5) Overall thoughts on apartment sector?

Lamberti:

Apartment sector is "safe... everyone needs a place to live."

Safe + secure + capitalism = "It drives people in."

"We are now our brother's keepers." Ex: landlords must solve personal problems of tenants fighting

Hunt:

"Sustainability is a big deal in Germany and Netherlands" because of how physically close everyone is to one another

More technology on sites to help residents and operations. Ex: maintenance guy has an iPad

Cyrus:

Expect to see Google's home device or Alexa integrated into units and as the "backbone of projects"

Agarwal:

Customer reviews online greatly affect apartment reputation and thus sales

Douglas:

Millennials are "tech.-dependent." Says they do not know "how technology works, but they know they need it."

Response time to leads is important. Waiting 24 hours results in losing the deal. Waiting even 15 hours could result in losing a deal.

Keep up with how millennials communicate. Ex: if they text you, then you text them