

MCALISTER INVESTMENT REAL ESTATE

NEWSFLASH REPORT – APRIL 2014

Dear Partners:

Attached is the MetroStudy Houston Executive Summary for Fourth Quarter 2013. This Executive Summary is full of good news.

Highlights include:

- A. The Houston area continues to outperform the nation and the state in job growth with 86,200 new jobs in 2013
- B. There are 41 office buildings totaling 41.2 Million sq.f.t under construction with 67% pre-leased
- C. Rental rates for apartments have continued to rise and are up 8.26% from December 2012 to December 2013 (this is great news as the rental rates increase the value of the apartment/ multi-family land)
- D. In 2013, Houston completed 15,000 apartment units and absorbed over 16,000 units
- E. Houston's resale market is strong with over 72,000 single family sales transactions closing in 2013
- F. The median price of single family homes sold rose to \$191,000, which is 8% higher than 2012
- G. Area builders started construction on 6141 new homes in the fourth quarter, a year over year gain of 10% from 2012
- H. The supply of new homes continues to drop and declined to 3.1 thousand units, which is only 631% of the number available in the 2nd quarter of 2007. The short supply continues to drive up home prices (as home prices increase, the value of the lots and land for development will increase.)
- I. Tight housing supply and strong job growth leads to home appreciation
- J. Home prices are rising in both new and resale homes

Please feel free to give me a call if you have any questions.

Have a great day!

Jim

LOCAL ECONOMIC OVERVIEW

The Houston-Sugar Land-Baytown MSA continues to outperform the state and the nation in job growth, with November figures reflecting a 3.1 percent gain from a year ago which represents an addition of nearly 86,200 jobs. This brings the total employment in the metro area to 2,829,400 on a non-seasonally adjusted basis. Although the pace of job growth has slowed from earlier this year, it is still comfortably ahead of the 10-year average growth rate of 2.0 percent for the MSA and well above the national pace of 1.7 percent. Monthly year-over-year gains in 2013 have ranged from the nearly 81,000 jobs in August to over 119,000 in February of this year, which was the largest single year-over-year monthly gain so far this millennium. The University of Houston's Institute for Regional Forecasting projects job growth will range from 65,000 to 75,000 over the next two years.

Houston's rapid economic growth has spurred the hiring of engineers, accountants, lawyers, and other white-collar jobs within the *Professional and Business Services* sector, which was the third largest sector in terms of job creation between November 2012 and November 2013. Growth in Houston's substantial healthcare industry pushed *Health Care and Social Assistance* to third-fastest growing sector. The *Retail Trade* sector also posted strong job growth. Accompanying this hiring is an aggressive expansion in office space. There are some 41 office buildings totaling 14.2 million square feet under construction in and around Houston with 67% released, according to real estate services firm CBRE Group. Average rental rates for Class A office space has risen to \$35.52.

The Port Of Houston is seeing increased activity, reporting in July that total tonnage is up 4% from a year ago. With the Panama Canal expansion expected to be completed by 2015, local government is planning additional infrastructure improvements to help accommodate greater volume and larger sized vessels which should help drive the Houston economy going forward.

HOUSING MARKET TRENDS

Houston Apartment Market

Rental rates in the Houston metro have continued to increase, up 8.28% in December from a year ago, while Occupancy Rates are up to just over 90%, the highest levels in more than a decade. New Unit Completions hit 15,214 by the end of 2013, while absorptions outpaced completions with 16,516 units.

Figure 1. US, TX, Houston Annual Job Growth, % Change

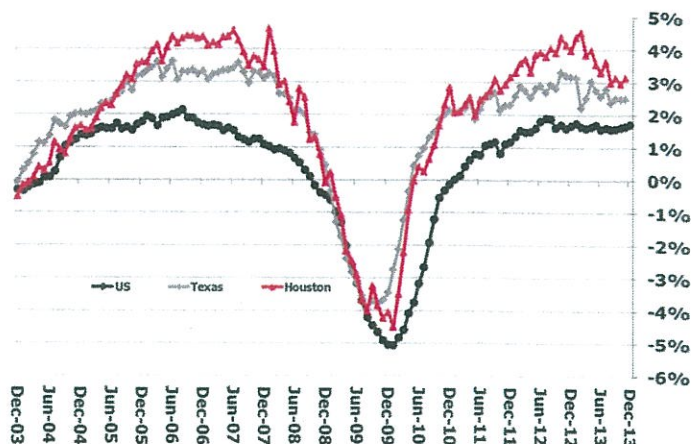
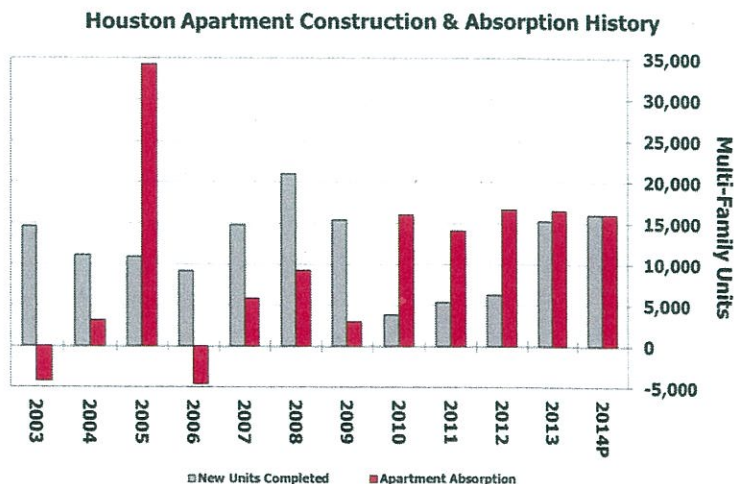


Figure 2. Houston Job Growth by Sector, Nov 2012 – Nov 2013

Sector	Change
Professional and Business Services	21,000
Retail Trade	14,300
Health Care and Social Assistance	10,200
Accommodation and Food Services	8,300
Wholesale Trade	8,000
Government	7,600
Manufacturing	4,900
Transportation, Warehousing, and Utilities	4,700
Construction	4,300
Mining and Logging	3,900
Educational Services	1,700
Information	1,100
Real Estate and Rental and Leasing	1,100
Arts, Entertainment, and Recreation	-100
Finance and Insurance	-1,500
Other Services	-3,300

Figure 3. Houston Apartment Annual Delivery and Absorption



Houston Existing Home Market

Houston's resale market closed 72,821 single-family homes during the past four quarters, its highest annual sales count ever. The market closed 21,245 homes during the fourth quarter of 2013, similar to last quarter's equally brisk pace of 21,262.

Sale listings were lower in the last quarter of the year at 16,714, and well below the year-ago level of 19,715. The fast pace of sales has diminished the supply of homes for sale on the market. The resulting 2.8 months of supply is significantly below the six month mark, which is typically considered a healthy equilibrium level. A number of potential listings may be locked into rental agreements and their entrance into the home buying pool could provide a boost for the market, but with ever higher rental rates there is no economic pressure for these homes to come to the market.

Recorded deed transactions of resale homes reflect a median price of \$191,400 in the fourth quarter, over 8% higher than a year ago, and over 37% above the market trough at the beginning of 2009. With tight supplies goosing prices upward, there is some risk of short-term over-inflation which will ultimately need to sort itself out once more inventory eventually becomes available.

Houston New Home Activity

The Houston new home market continued to surge in the fourth quarter, with builders starting construction on 6,141 new homes, the fastest fourth quarter pace in more than six years. Representing a year-over-year gain of 10%, Houston hasn't seen this many annual new homes starts since 2007. On an annualized basis, starts stand at 28,233, 19.5% above 4Q12. The growth in the pace of starts continues to follow a measured linear trajectory as lot supply constraints and shortages in labor and materials have prevented Houston builders from ramping up construction more quickly.

While annual starts have outpaced annual closings since 2012, closings have increased steadily over the last nine quarters. In the fourth quarter, area builders closed 6,500 new homes, bringing the annualized total to 25,627. This level of activity represents a 13% gain from a year ago. During the expansion phase of a housing recovery we expect to continue to see closings lag starts activity given the timeline of home construction and sales. The current annualized rate of new home closings is the largest since the third quarter of 2008 when builders were still liquidating their inventory as quickly as possible. Needless to say, the sales occurring today are of a much healthier nature.

Figure 4. Houston MLS Active Listings and Annual Closings



Figure 5. Houston MLS – Months of Supply

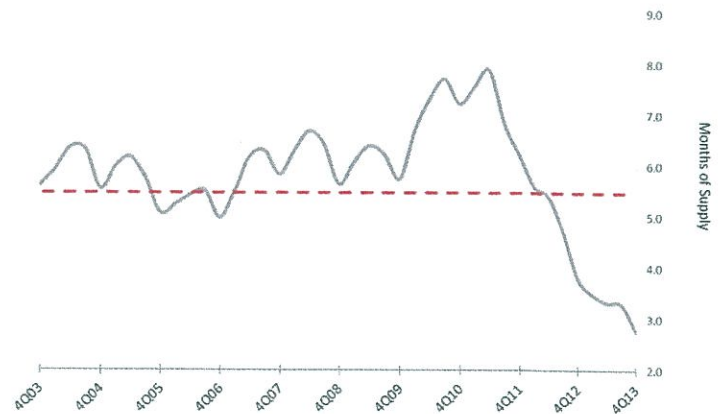
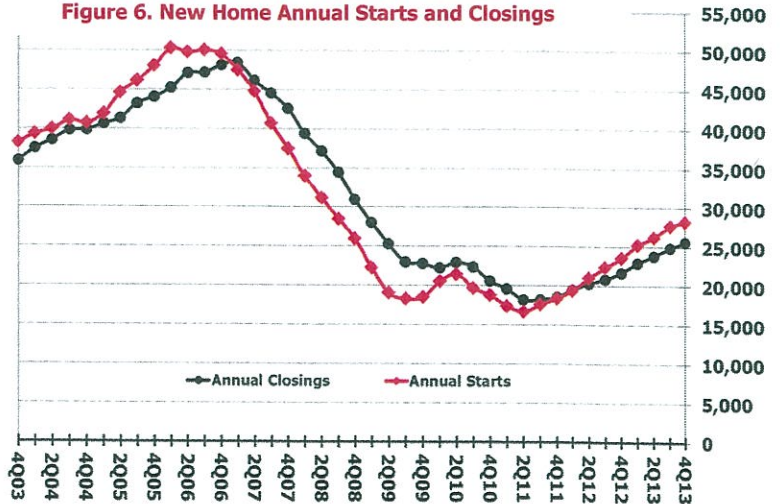


Figure 6. New Home Annual Starts and Closings



New Home Inventory Trends

Metrostudy's fourth quarter survey reflects 10,481 homes currently under construction; a slight decrease from last quarter, and which equates to 4.9 months of supply. The supply of homes sitting finished and vacant has declined to 3,121 units, down from last quarter. Interestingly this is a mere 31% of the number of finished vacant units available in the second quarter of 2007, the height of speculative building. As projects are quickly selling out, the number of model homes is declining as well, edging down to 774 from 789 last quarter. The total inventory of new homes in the market at the end of the fourth quarter declined from the third quarter to 14,376 homes.

The number of finished vacant homes in the market remains at historic lows as builders see their speculative homes purchased before reaching completion. The relative supply of finished vacant homes in the market is a mere 1.5 months, well below the 10 year average of 2.5 months. While Finished Vacant and Model inventory continue to shrink, the ramp up in Under Construction inventory was sufficient to push total housing supply to 6.7 months from 7.1 in the fourth quarter.

Annual starts per model has continued to increase over the past year, sitting at 36 compared to 27 a year ago.

Vacant Developed Lot Inventory

Deliveries of Vacant Developed Lots are starting to catch up to the pace of absorption. While last quarter the deficit was 602 lots, in the fourth quarter lot deliveries exceed lot absorption by 596. During the period, 6,737 new lots were delivered to the market while 6,141 new homes were started. On an annualized basis, 24,603 new lots have been delivered during the last four quarters, while builders have started construction on 28,233 new homes during the same time frame. That deficit is the smallest since the end of 2011, suggesting that the pace of lot development is finally gaining momentum. Houston's relative supply of VDL sits at 16.4 months, well below the 10 year average of 25 months.

Moving forward, lot availability will continue to be a key factor for the growth of the Houston housing market. Due to builder demand for more lots, most, if not all, lots being brought to market have a buyer before they're completed. Therefore, a number of publicly-traded builders and large, privately-owned builders have begun aggressively accumulating land and developing lots for their own use as a defensive posture.

Figure 7. Total New Home Inventory

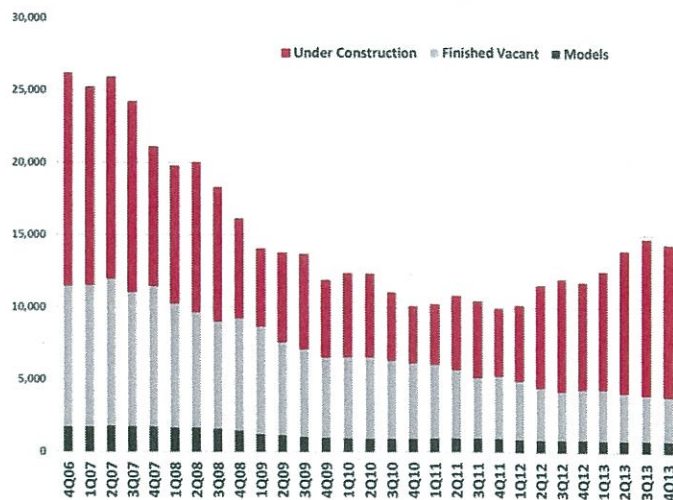
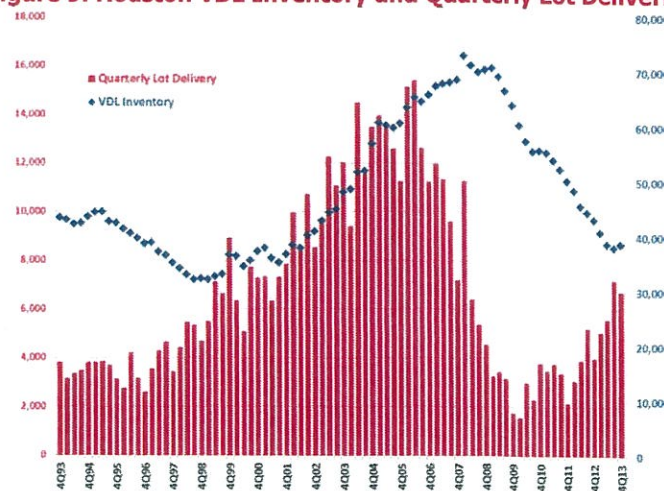


Figure 8. Annual Lot Delivery and Absorption



Figure 9. Houston VDL Inventory and Quarterly Lot Deliveries



CONCLUSIONS & POINTS OF INTEREST

Throughout 2013, several significant trends continue to stand out in significance for the Houston housing market. These include robust job growth thanks to strong economic fundamentals, low resale inventory partially driven by investor activity, high rental rates, and high affordability resulting from continued low mortgage rates. All of these factors have been pushing home buyers toward new housing, invigorating demand and pushing prices upward. Also contributing to higher prices on the supply side are the increase in input costs such as land, labor, and materials. Recently, builders have been able to pass along these increases to homebuyers as persistently low interest rates for 30-year mortgages have contributed to high levels of affordability. While mortgage rates have relaxed after threatening to increase earlier in the year as a result of Federal Reserve talk of mortgage bond purchase tapering, the reality is that it's not a matter of whether interest rates will rise but rather when. A general rule of thumb to remember is that for every one percent that interest rates rise, the size of a loan available to home buyers decreases by around ten percent. At some point, even a robust housing market like Houston will have to deal with the eventuality of interest rate pressure.

Job growth is one of the single most important drivers of home demand, and Houston's pace of job growth is one of the highest in the nation. The general consensus seems to be that job growth in the Houston MSA will continue at a healthy pace throughout 2014, and a slightly more brisk pace in 2015.

Another important driver for new home demand is the extremely tight inventory of resale homes available on the market. Historically low resale inventory levels seem to be pushing would-be resale buyers into the new home market. Buyer traffic and net sales reported in Metrostudy's monthly survey have generally been above 2012 levels all year.

Tight supplies of available housing historically leads to home price appreciation, and prices in housing are rising quickly in both new and resale homes. On top of this, builders are coping with an overall increase in the real cost of building a new home in the market. Builders currently face fierce competition for a limited number of available lots to build on in suitable locations. In addition, builders are paying higher costs for materials and facing shortages in labor. These factors have contributed to a bottleneck which has limited growth in starts and has extended delivery times. Increased land and input costs are subsequently being passed down to consumers, as tight inventories have increased builders' bargaining power and allowed them to raise prices. Consumers have little choice but to pay these higher prices or continue to rent at ever increasing rates, as inventories in both the new home and resale markets are quite thin. The result of all these factors is strong appreciation in home values, which Houston has already been observing as median closing prices for resales in Houston are up over 12% since last year and new sales are up an even more aggressive 15%. Other factors contributing to the increase in median home prices are fewer distressed sales and higher volumes of sales in the move-up market.

Figure 10. Historical Net Sales from Monthly Sales & Traffic Survey

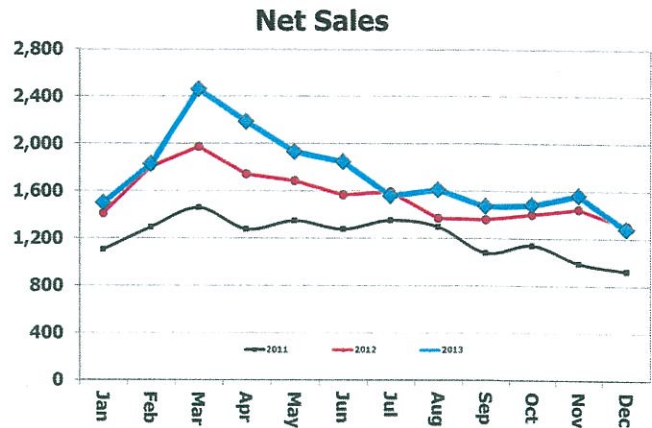
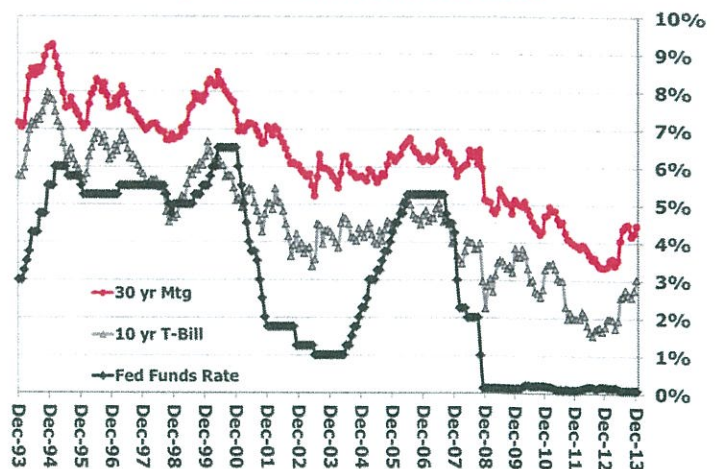


Figure 11. Historic Interest Rates



Metrostudy is the leading provider of primary and secondary market information to the housing and related industries nationwide. In addition to providing information, the company is recognized for its consulting expertise on development, marketing and economic issues, and is a key source of research studies evaluating the feasibility of residential and commercial real estate projects. Services are offered through an extensive network of offices strategically located in major metropolitan areas throughout the country.

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