VIEWPOINT

2023 HOUSTON, TX MULTIFAMILY ANNUAL REPORT

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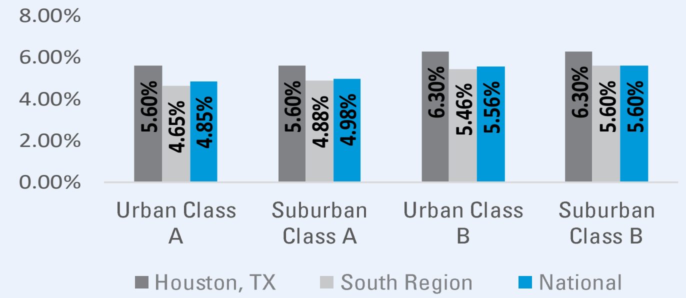
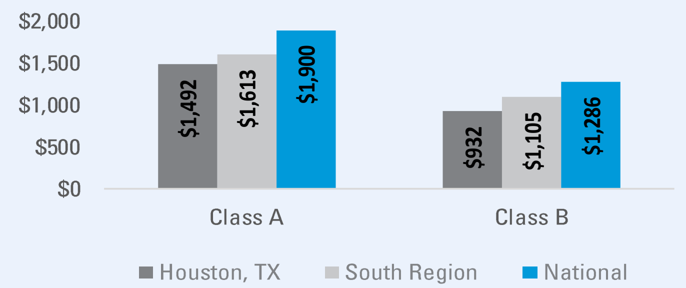
Market Rate Indicators (Y/Y)

Categories	Class A	Class B
Going In Cap Rate (%)	▲	▼
Asking Rent ($/Unit)	▲	▲
Vacancy Rate (%)	▼	▲

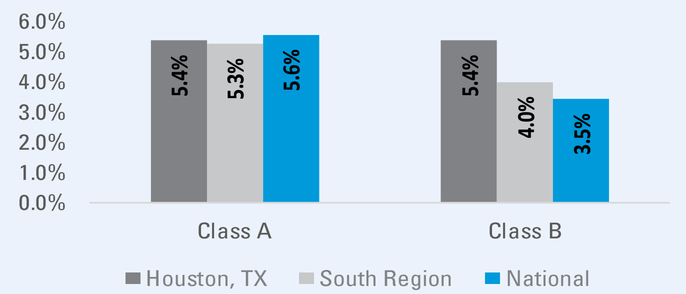
Going In Cap Rate Comparisons (%)



Asking Rents ($/Unit)



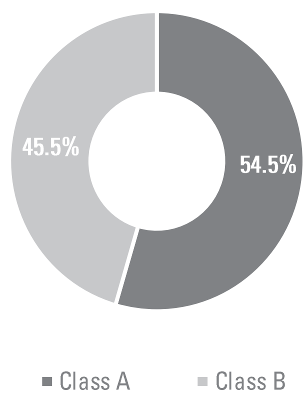
Vacancy Rates (%)



Houston, TX Multifamily Market Overview

The Houston MSA has ranked among the top MSAs in the country for population growth over the last 10 years, a trend that is anticipated to continue. The population growth has created strong demand for additional multi-family units. Following the pandemic, absorption substantially outpaced new construction over 2021 bringing the market occupancy from over 10% down to 7.5%. As a result of the strong absorption, rental rates increased at close to 7.0% over 2021 and the momentum carried over into early 2022. Over 2022, the market began trending in a different direction with new construction outpacing demand. According to the Mortgage Bankers Association (MBA), loan originations for U.S. multi-family properties hit an all-time record in 2021 and that carried over into the first quarter of 2022 with loan originations up 57% over the first quarter of 2021. And now the market is reacting to the extensive new development as the overall market vacancy is back to 8.5% heading into 2023. With new construction outpacing demand, we anticipate very little to no change in market rental rates over 2023. Over the short-term interest rates will substantially reduce the construction pipeline, which will allow the multi-family market to stabilize before market vacancy returns to 10% or higher. It is important to point out that investors have aggressively pursued multi-family properties over 2021 and 2022. Over the first half of 2022, cap rates remained very aggressive despite the rise in interest rates. This trend was highly influenced by aggressive input assumptions relative to future rent growth based on the recent market performance. In other words, going in equity returns were in some cases reaching negative territory at sale as buyers anticipated future rent growth and appreciation in value to provide ample equity return within a 1-to-3-year period after purchase. With rent growth expected to be low to flat in 2023, investors that entered the market late will realize short term losses at least on paper. As a result, we certainly anticipate a market value correction over 2023 in the multi-family sector.

Distribution of Total Inventory



650,389 Units
Multifamily Inventory

0.80% - 12 Mo. Proj.
Construction/Inventory

Integra Realty Resources - Houston

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Change In Value Next 12 Months

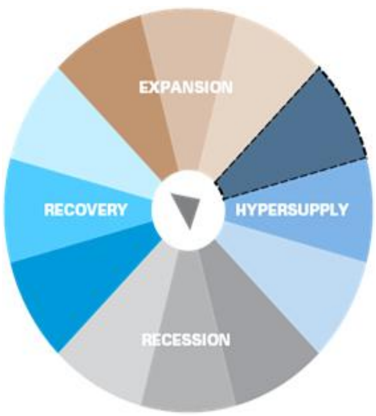
▼2%-2.9%
Urban Class A

▼2%-2.9%
Suburban Class A

▼2%-2.9%
Urban Class B

▼2%-2.9%
Suburban Class B

Market Cycle: Hypersupply Stage 1



- Med/Low Rental Rate Growth
- Moderate/High New Construction
- Increasing Vacancy Rates
- Low/Negative Absorption
- Moderate/Low Employment Growth

Forecasts

Houston, TX 12-Month Multifamily Forecasts

Categories	Urban Class A	Urban Class B	Suburban Class A	Suburban Class B
Going-In Cap Rates	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps
Discount Rate	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps
Reversion Rate	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps
Construction (Units)	5,182			
Market Rent Change	+1.00%	+1.00%	+1.00%	+1.00%
Expense Rate Change	+3.00%	+3.00%	+3.00%	+3.00%
Years to Balance	In Balance			

Houston, TX 36-Month Multifamily Forecasts

Categories	Urban Class A	Urban Class B	Suburban Class A	Suburban Class B
Market Rent Change	+13.41%			
Change in Value	Decrease 3%-3.9%	Decrease 3%-3.9%	Decrease 3%-3.9%	Decrease 3%-3.9%

Integra Realty Resources (IRR) is the largest independent commercial real estate valuation and consulting firm in North America, with over 165 MAI-designated members of the Appraisal Institute among 600+ professionals based in our 50+ offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments.

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