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AFTER THE OIL CRUNCH AND HARVEY, WHAT'S NEXT FOR HOUSTON?

SOUTHWEST MORTGAGEE ADVISORY COUNCIL

MAY 10, 2018

PRESENTED BY ROBERT KRAMP

On Today's Lunch **Menu**

1. Houston's Economy
2. Houston's Multifamily Snapshot
3. Houston Economy & Multifamily Outlook

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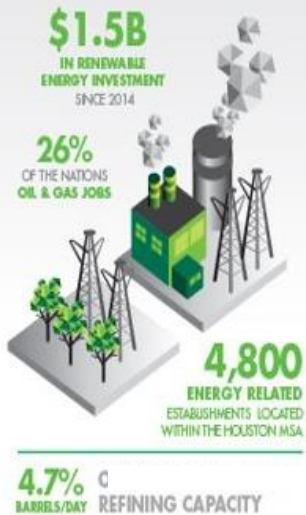# Houston's Economy:
There's More to Space City than Oil & Gas

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HOUSTON'S ECONOMIC DRIVERS
ENERGY IS IMPORTANT, BUT IT ISN'T THE WHOLE STORY

ENERGY SECTOR	PORT OF HOUSTON	TEXAS MEDICAL CENTER	HOUSTON AIRPORT SYSTEM	AEROSPACE/AVIATION

ENERGY SECTOR

$1.5B
IN RENEWABLE ENERGY INVESTMENT SINCE 2014

26% OF THE NATIONS OIL & GAS JOBS

4,800 ENERGY RELATED ESTABLISHMENTS LOCATED WITHIN THE HOUSTON MSA

4.7% BARRELS/DAY REFINING CAPACITY

Source: Greater Houston Partnership, December 2017.

PORT OF HOUSTON

RANKED 1ST IN FOREIGN TONNAGE, IMPORTS, EXPORT TONNAGE, & BREAKBULK AMONG US PORTS

FOUR HOUSTON REGION SEAPORTS HOUSTON, TEXAS CITY, FREEPORT, GALVESTON
194.3 MILLION METRIC TONS IN TRADE

LARGEST TEXAS PORT

LARGEST GULF COAST CONTAINER PORT
NDLING CONTAINER TRAFFIC

Source: Greater Houston Partnership, July 2017.

TEXAS MEDICAL CENTER

THE LARGEST MEDICAL CENTER IN THE WORLD

8TH LARGEST BUSINESS DISTRICT IN THE US

10M PATIENT VISITS PER YEAR

$3B IN CONSTRUCTION PROJECTS UNDERWAY

106,000+ EMPLOYEES

Source: The Texas Medical Center, July 2017.

HOUSTON AIRPORT SYSTEM

54.2M PASSENGERS IN 2017

293 TOTAL NON-STOP DESTINATIONS

6 DOMESTIC & 20 INTERNATIONAL CARRIERS GEORGE BUSH INTERCONTINENTAL (IAH) AIRPORT

5 DOMESTIC & 1 INTERNATIONAL CARRIERS WILLIAM P. HOBBY AIRPORT

Source: Greater Houston Partnership, HAS, June 2017.

AEROSPACE/AVIATION

$4.5B LOCAL ECONOMIC IMPACT

ONE OF THE NATION'S LICENSED COMMERCIAL SPACEPORTS

100+ COMPANIES
INCLUDE: BOEING, LOCKHEED MARTIN, BROWN & ROOT AND JOHNSON ENGINEERING

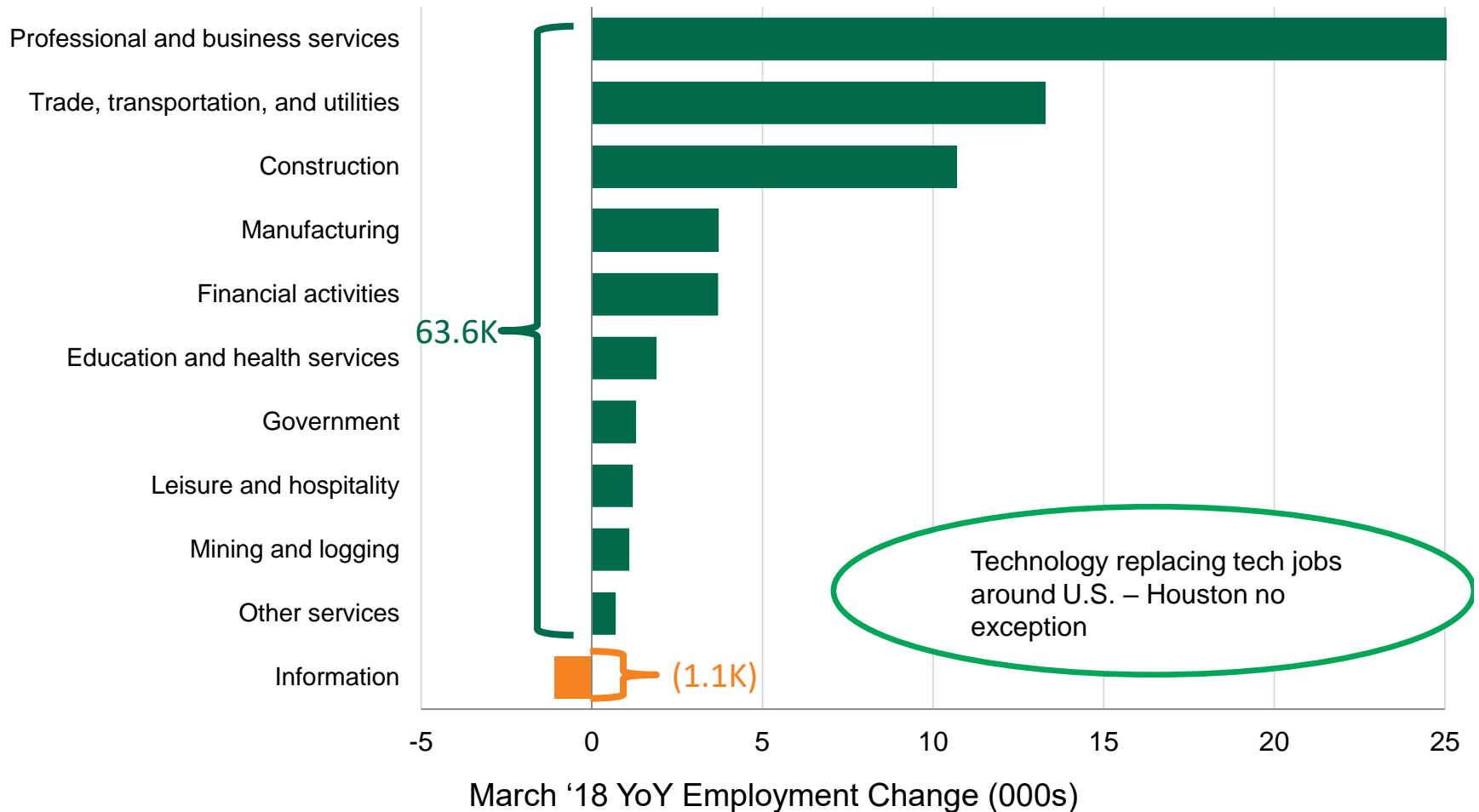Source: Greater Houston Partnership, July 2017.

HOME SALES STABLE THROUGH ENERGY DOWNTURN
2017 STRONGEST YEAR FOR HOME BUYING

Number of Homes
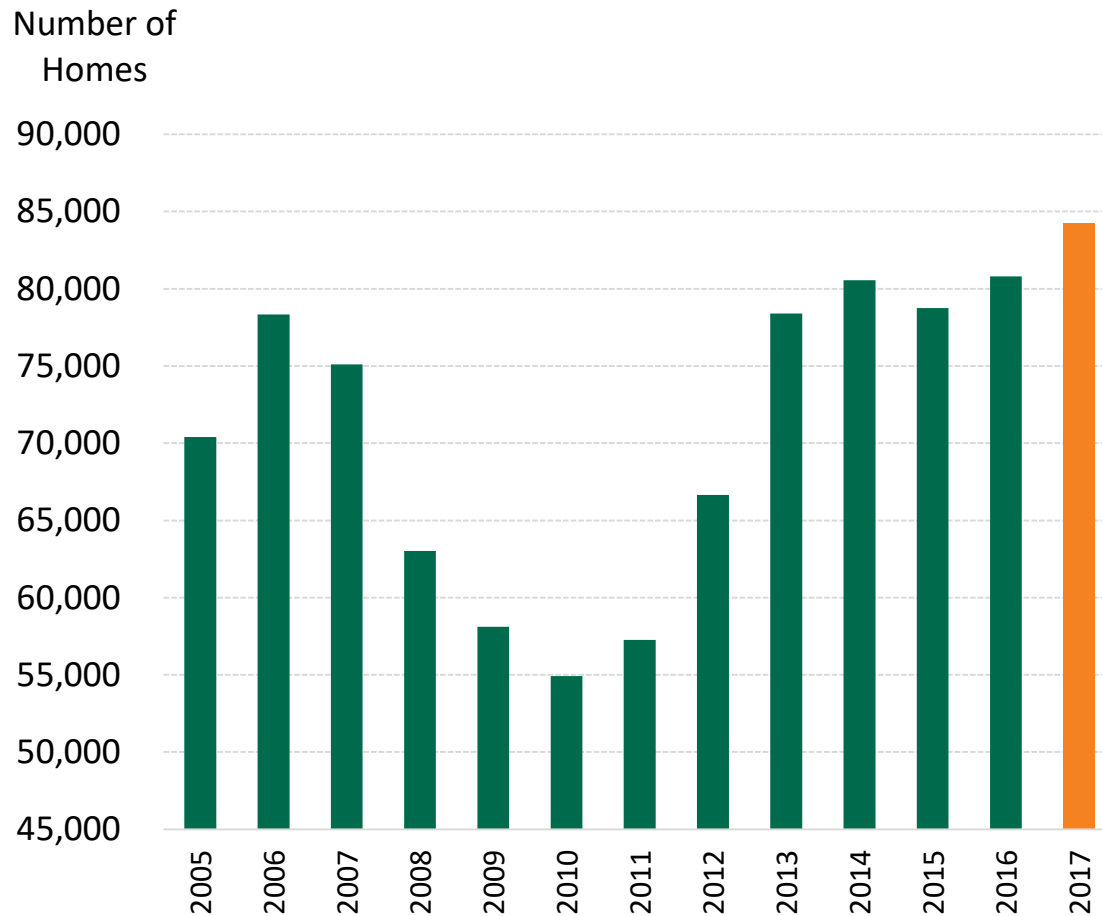
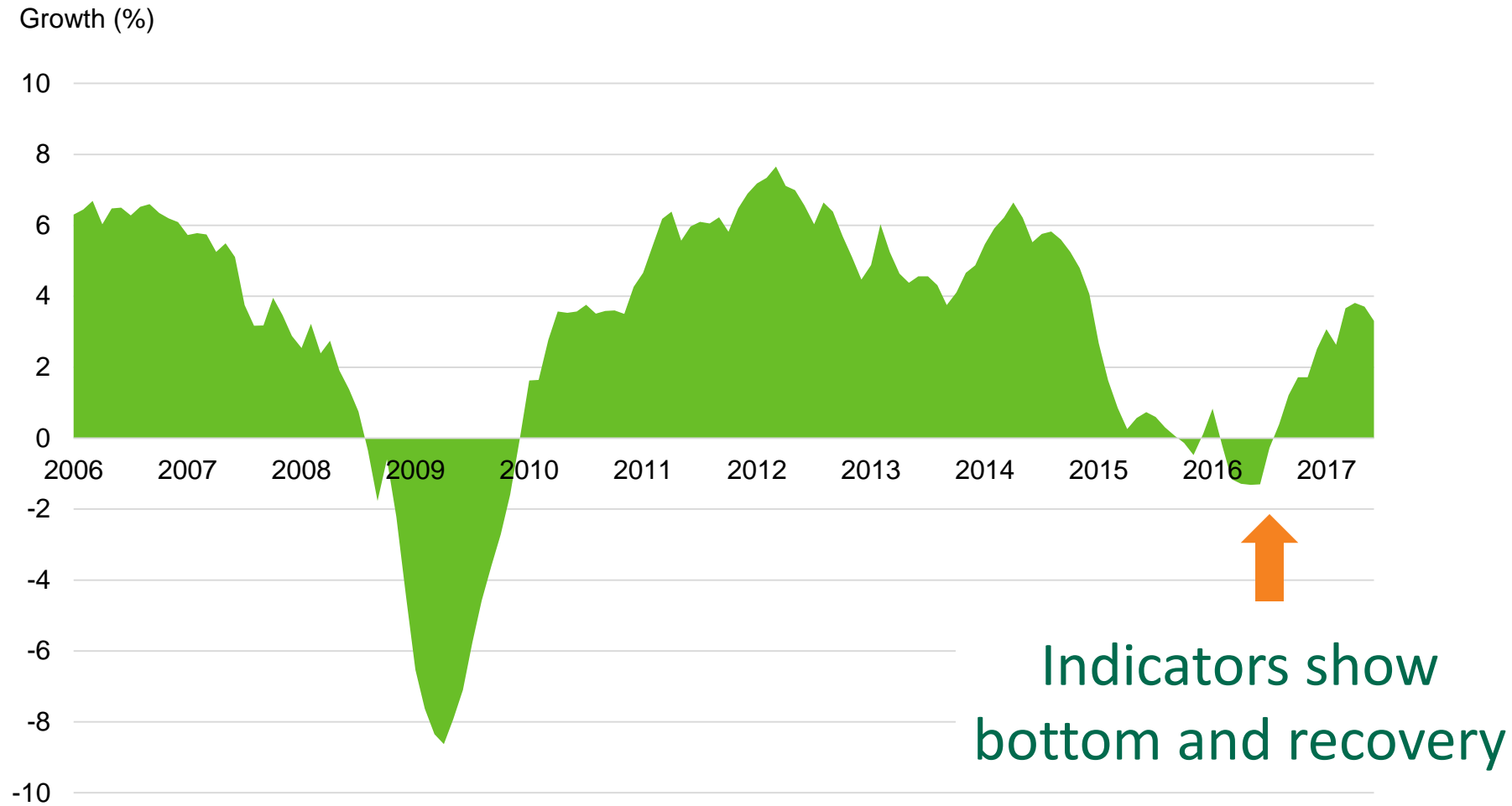Sources: Texas A&M Real Estate Center, US Census Bureau Q1 2018

PAYROLLS: 62,500 ADDED MARCH 2017 TO MARCH 2018

March '18 YoY Employment Change (000s)

Technology replacing tech jobs around U.S. – Houston no exception

63.6K

(1.1K)

ECONOMIC CONDITIONS INDEX: WORST IS BEHIND US
COMPOSITE OF 12 INDICATORS INDICATES MOMENTUM

Growth (%)

Indicators show bottom and recovery

CONTRACTION IN THE REAR VIEW MIRROR
FORECASTS SHOW REBOUND IN 2018

Jobs (000's)

Forecast Average

57K 68K 57K 60K

'15 '16 '17 4 Year Forecast 242K

Revised -2.5k -2.2k 63K

Legend: Great Recession   Moody's   IRF
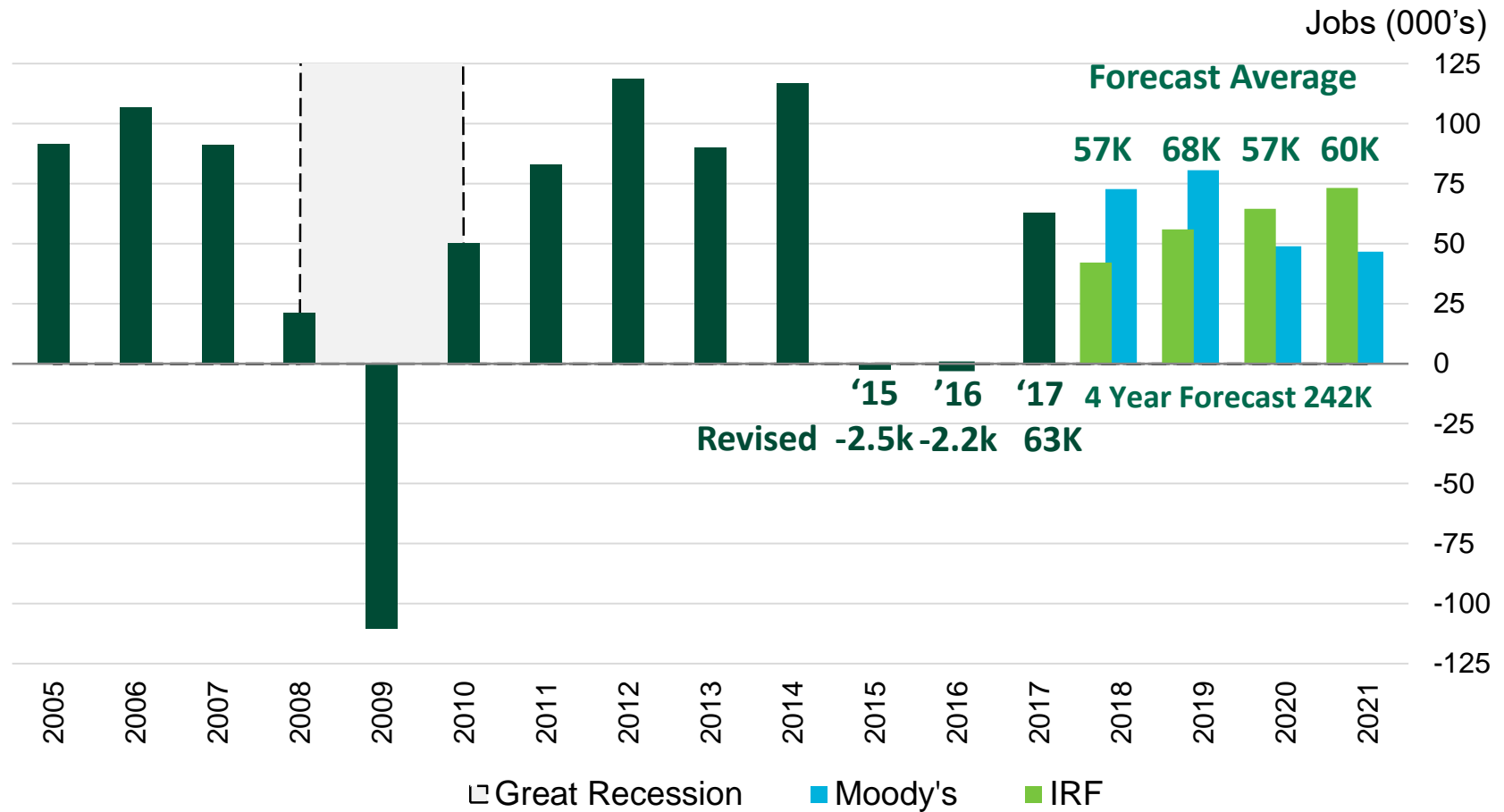
NET MIGRATIONS IN LINE WITH EMPLOYMENT FORECASTS
AVERAGE ABOUT 69,400 PER YEAR

Population (Millions)

Population

FORECAST
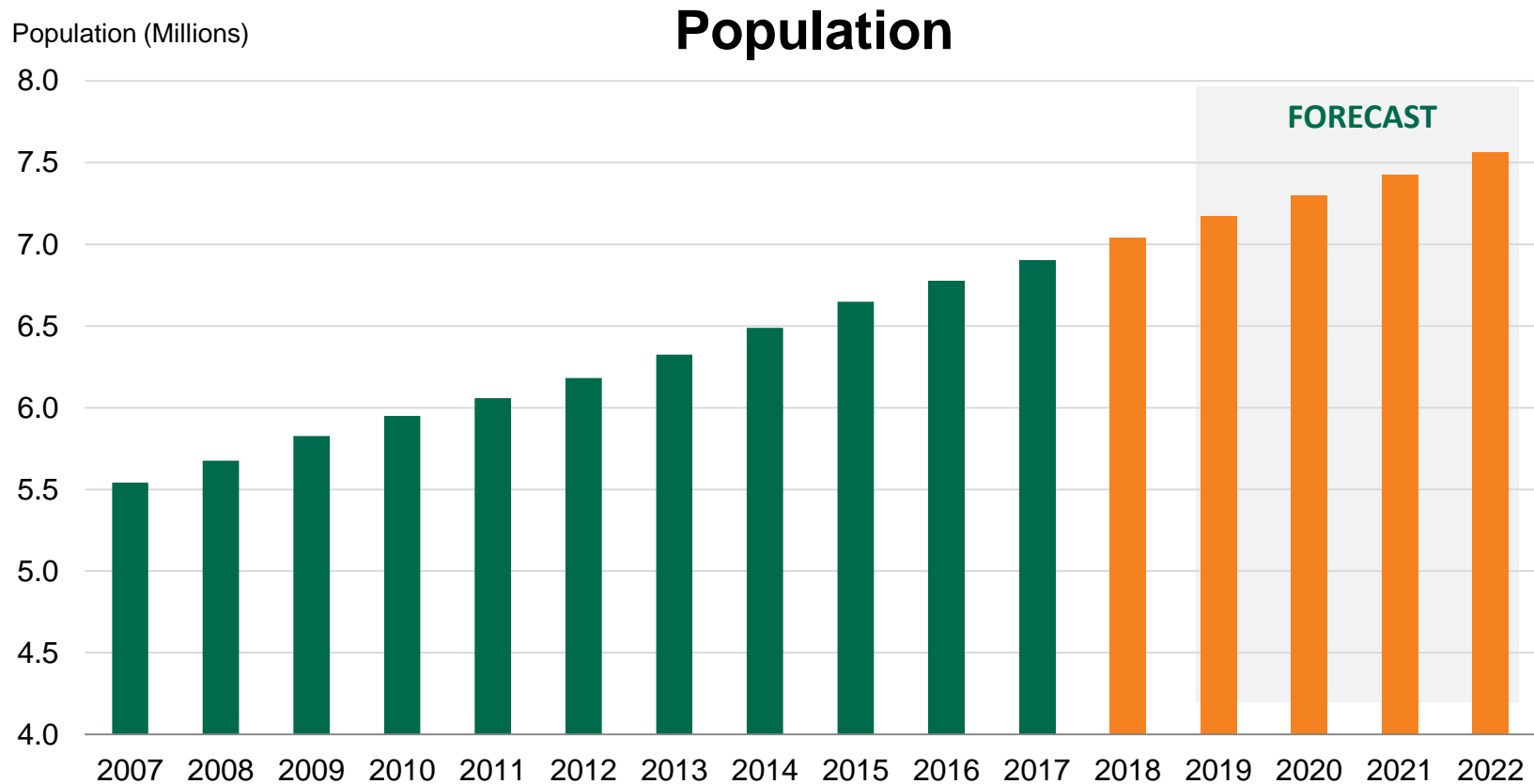
Sources: IRF, Moody's Analytics Q1 2018

HOUSTON ECONOMY STILL EXPANDING PMI
POSITIVE GROWTH IN 5 OF LAST 12 MONTHS
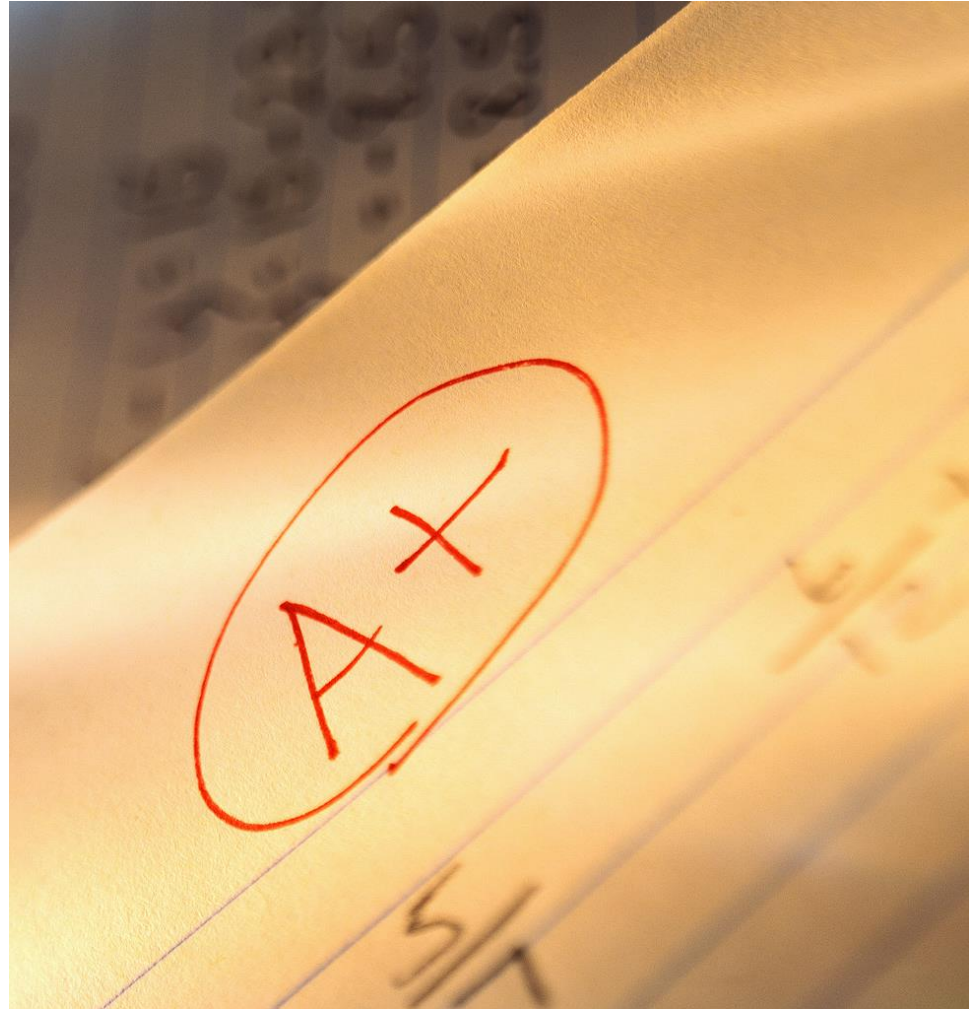

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Houston PMI   Baseline
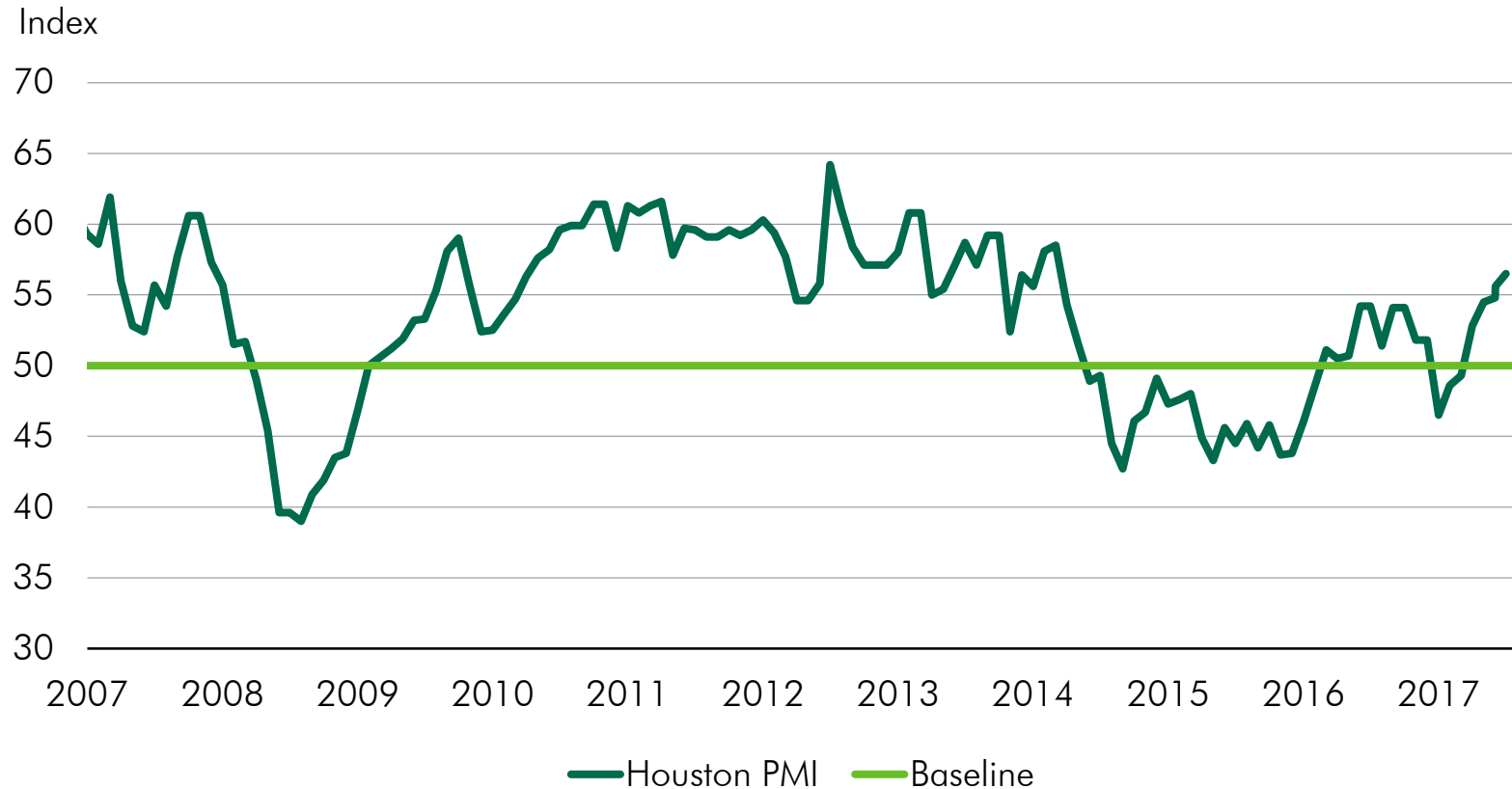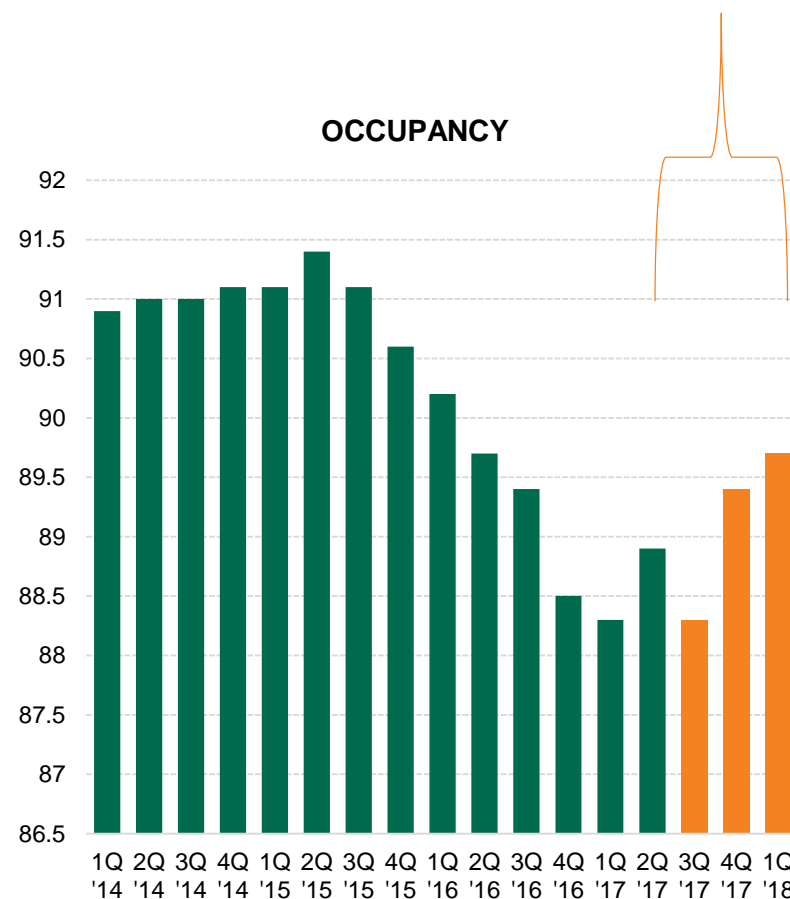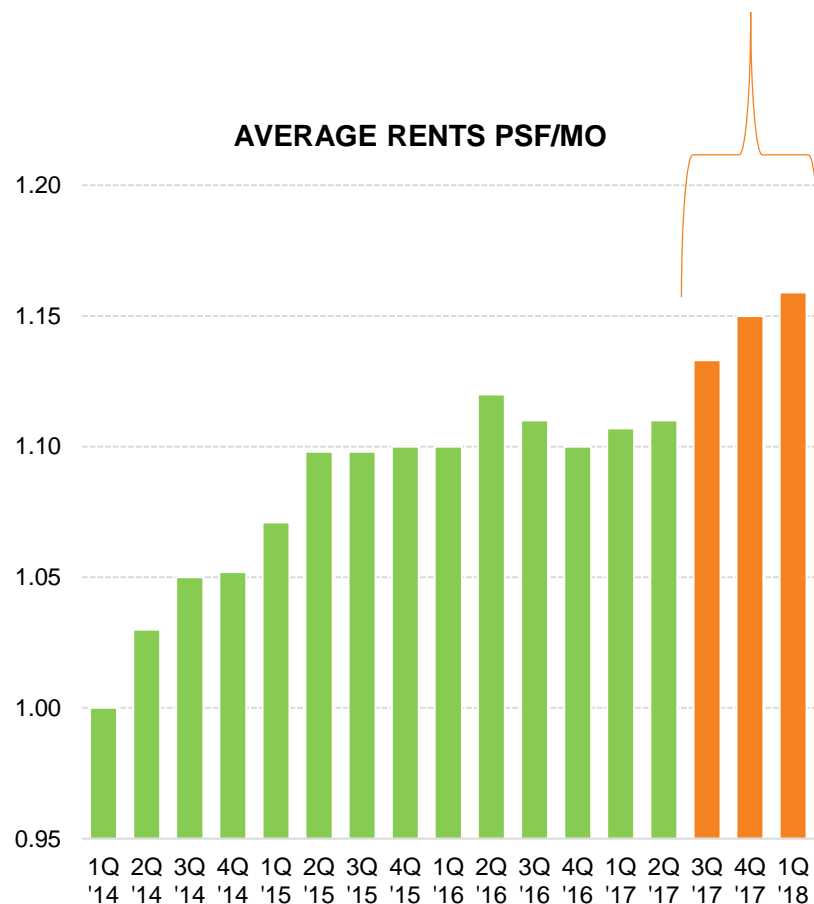
HOUSTON'S MULTIFAMILY SECTOR

Q1 2018: HOUSTON'S MULTIFAMILY METRICS UP

- ▲ **89.7% OCCUPANCY**

- ▲ **$1.16 PER SQUARE FOOT AVERAGE RENTAL RATE**

- ▲ **2,956 NET ABSORPTION**

- ▲ **10,958 UNITS UNDER CONSTRUCTION**

Q1 2018: MULTIFAMILY MARKET TIGHTENED
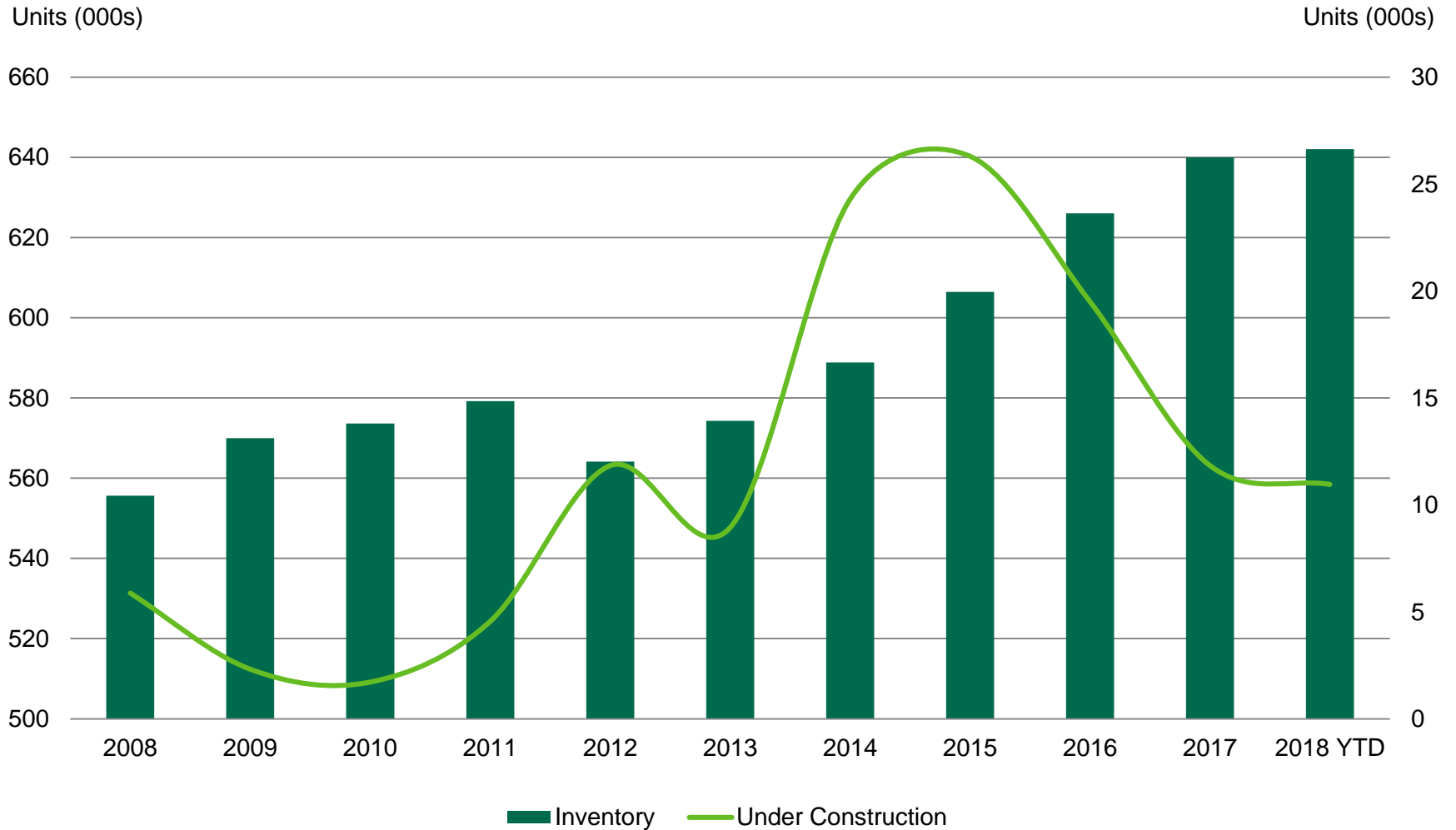## Harvey Caused Owners to Become Renters . . . Temporarily

AVERAGE RENTS PSF/MO

OCCUPANCY

Sources: Apartment Data Services, CBRE Research, Q1 2018

HOUSTON ECONOMY AND MULTIFAMILY OUTLOOK

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JOB GROWTH, HARVEY LOSSES RECOVERED . . .
MORE GAINS IN '18

▶ **Employment forecasts show growing momentum; 63K jobs gained in '17, higher forecasted for '18, according to Moody's**

▶ **Houston homebuilders added 28,300 single family homes in 2017, up 5.6% from 2016**

▶ **New home construction predicted to fall to 3-4% during 2018**

▶ **7,000 multifamily units to be delivered this year, down nearly 54% from last year's 15,000 total; Q1 2018 absorbed 2,956 units, while effective rents grew annually by 4.5%**

EMPLOYMENT-BASED MULTIFAMILY DEMAND FORECAST
1:6 BENCHMARK

Absorption (Units 000s)

Job Growth (000s)

43,894 units

Legend: Absorption, Job Growth
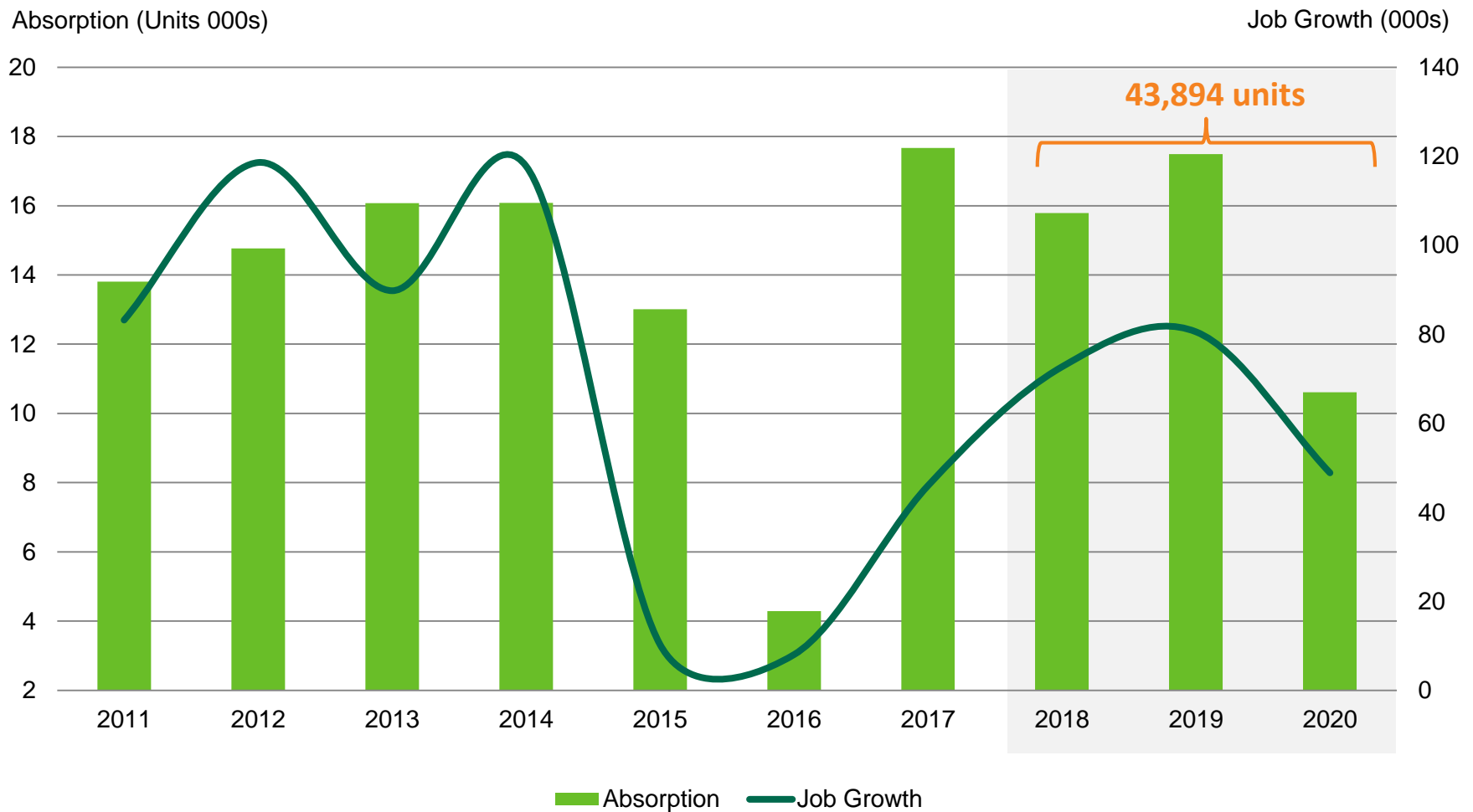
Source: CBRE Research, Moody's Analytics, Q1 2018.

POPULATION GROWTH OUTLOOK

▶ **Houston was the fastest growing metro in the last six years, adding approximately 2,600 people per week.**

▶ **Net migrations have been affected by slowing job growth, but are expected to fully rebound by 2019.**

"THE BEST SET OF STATS IS AROUND THE LABOR MARKET"

. . . And we are creating all kinds of jobs.

- Labor Market Will Get Tighter
- Synchronized Global Growth
- Juice From Fiscal Policy

LOOKING AHEAD

▶ **A rising population, paired with accelerated hiring, will continue to bode well for the multifamily sector.**

▶ **Expect supply and demand fundamentals to pivot towards equilibrium, as the supply delivered to the market in prior years is absorbed.**

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