

Houston Executive Market Briefing June 2014

David Jarvis

Executive Vice President

2211 Norfolk St., Suite 803

Houston, TX 77098

(713) 535-2250

www.mcalisterinv.com

I am extremely excited about joining McAlister Investment and using my background to assist in developing purchase and sales strategies. I believe my background in home building, land development and consulting will be an asset to McAlister Investment. Jim suggested I attached my bio for your review.

I will continue to update you on the Real Estate market factors and trends.

Houston Economic Overview figure 1

The Houston area continues to see above-average job growth due to strong economic fundamentals. Job growth is the single most important driver of housing demand.

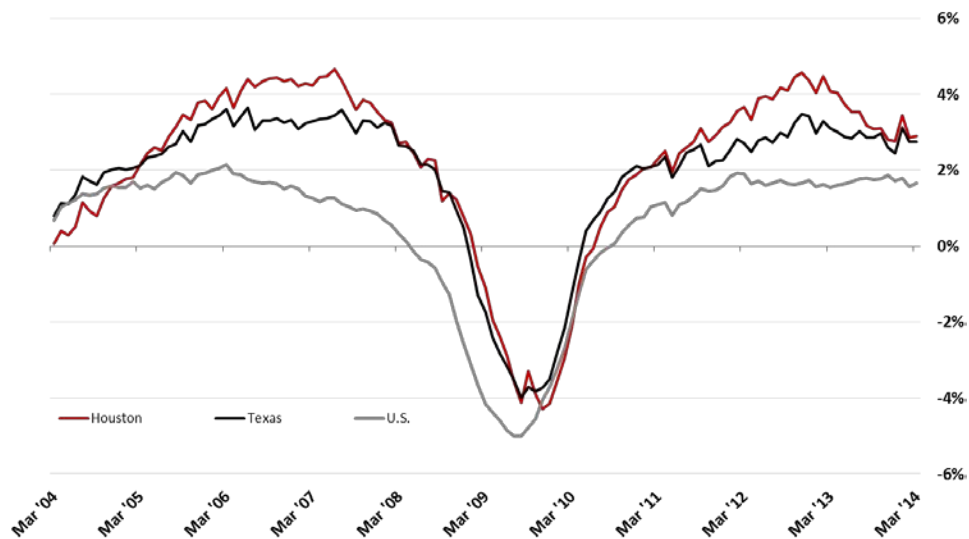
April figures reflect a **3.1 percent employment gain** (figure 1) for Houston from a year ago which represents an addition of about **85,800 jobs**. This brings the total employment in the Houston metro area to 2,862,800 (figure 2). Since the bottom of the recession, the metro area has added 358,400 new jobs.

Although the pace of job growth has slowed from the blistering pace of last 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.

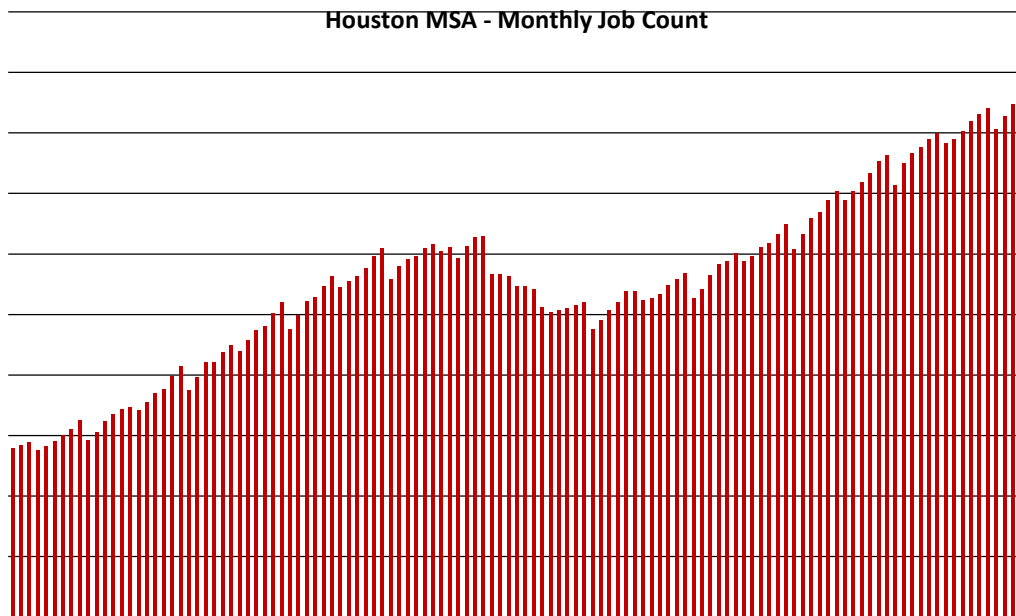
Looking ahead, Houston will likely see annual job growth in the 85,000 range in 2014 overall, down from last year but still among the best performing in the nation.

U.S. Employment – Year over Year Change figure 1

Source: Bureau of Labor Statistics

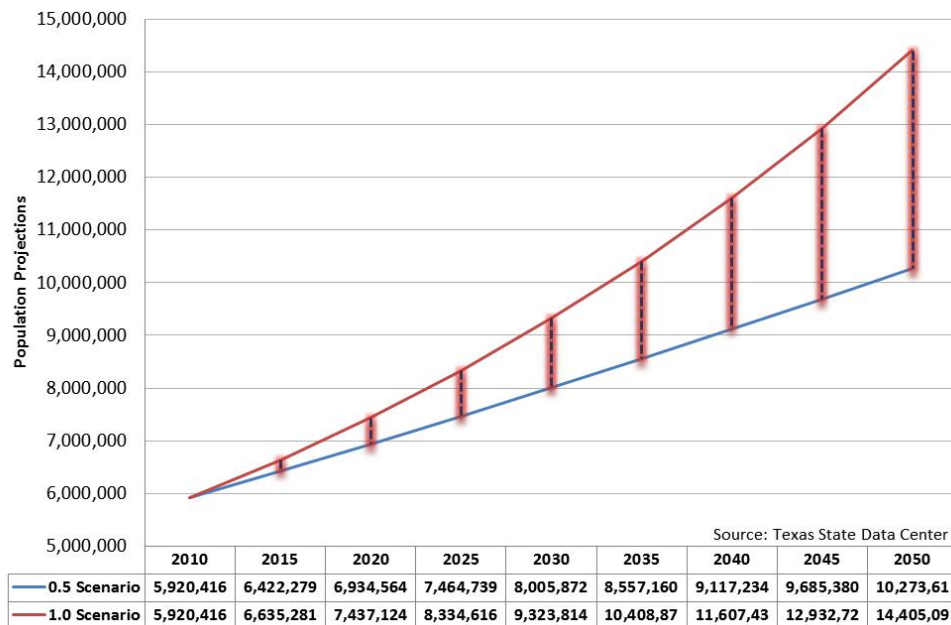


Houston Historical Employment Total/Non-Farm figure 2



Over the next 20 years Houston’s population is projected to grow to over 9,000,000 people (figure 3). Population growth coupled with strong job growth bodes well for continued strong housing demand in the Houston area.

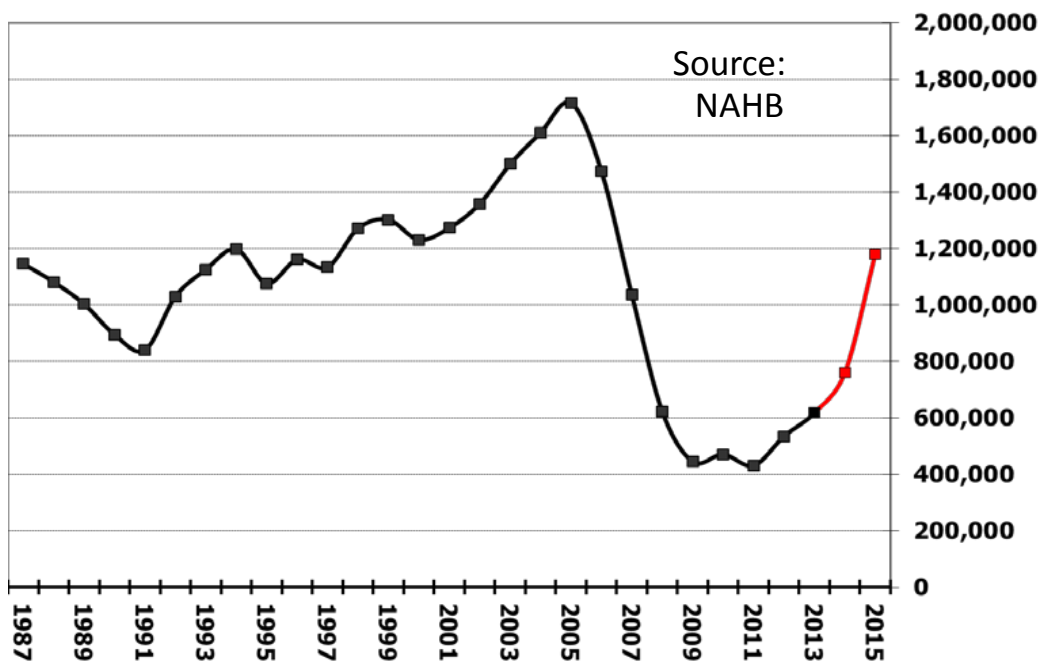
Houston MSA Population Projections figure 3



As the U.S. economy recovers, so does the housing market. Single-family housing starts have recovered to 70 percent of the previous high.

The demographic demand (household growth) estimates some 1.2m to 1.4m starts per year are necessary to house the nations increasing population. Because the market under supplied homes and lots during the recession, housing starts will exceed the demographic demand for a time while supply catches up with the pent up demand.

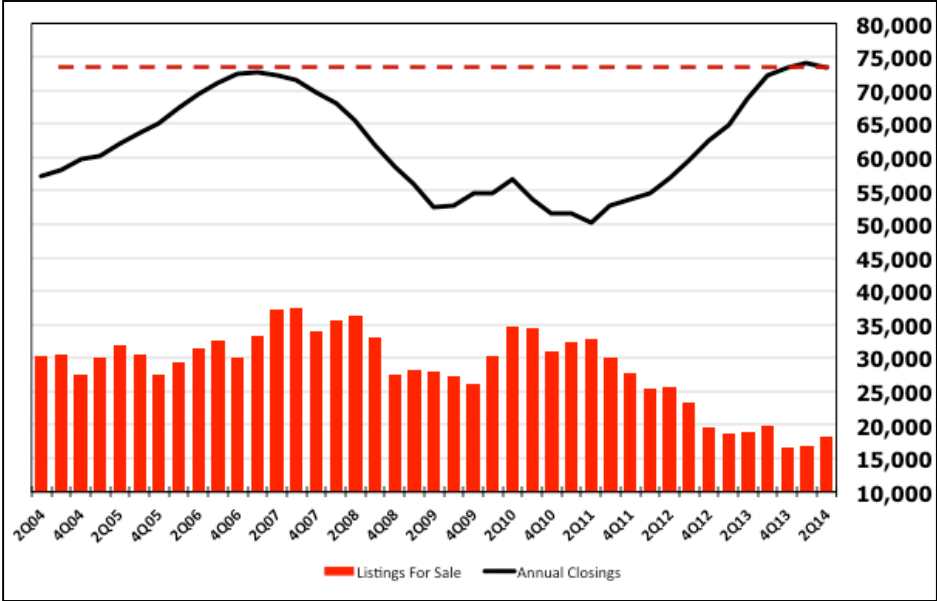
Single Family Starts – National Association of Home Builders Projections figure 4



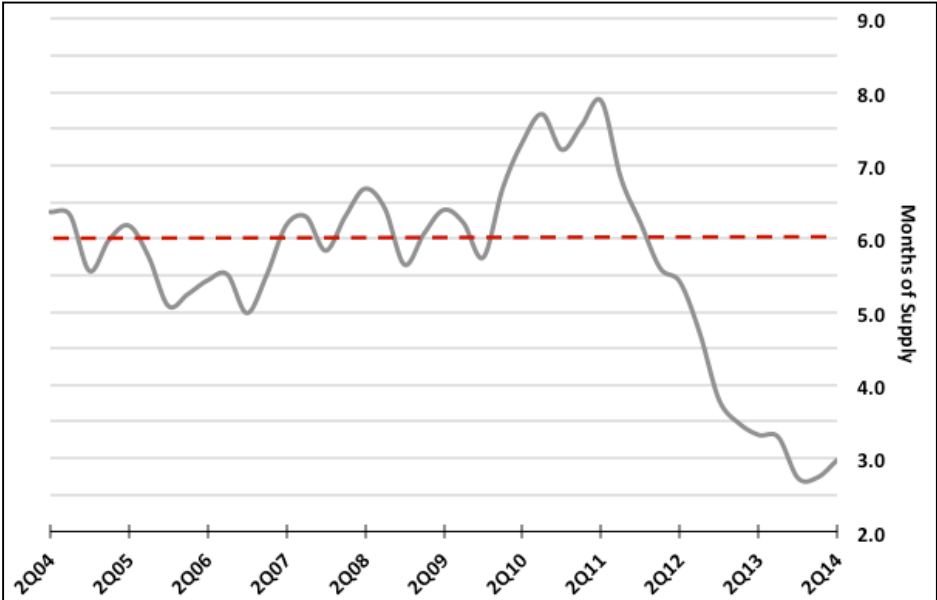
Houston MLS reports single-family home closings now exceed the historic high of the market in 2007 (figure 5). **The relative supply of homes for sale is less than a 3-month supply** (figure 6).

After observing the resale market for several decades, we see that the resale market is in equilibrium at about a 6-months supply of listings. As listings increase and exceed 6-months supply, home buyers gain the negotiating advantage. Likewise, as supply contracts **sellers gain the negotiating advantage** when the relative supply rests below 6-months.

Houston Single Family Home Closings figure 5



Houston Single Family Home Closings figure 6



“On an annualized basis, **starts stand at 28,930**, 14% above 1Q13, and the strongest rolling four quarters since 3Q08. The growth in the pace of starts continues to follow a measured linear trajectory as **lot supply constraints** have prevented Houston builders from ramping up construction more quickly.” (Metrostudy press release)

“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 of the lots being brought to market have a buyer before they’re completed.**

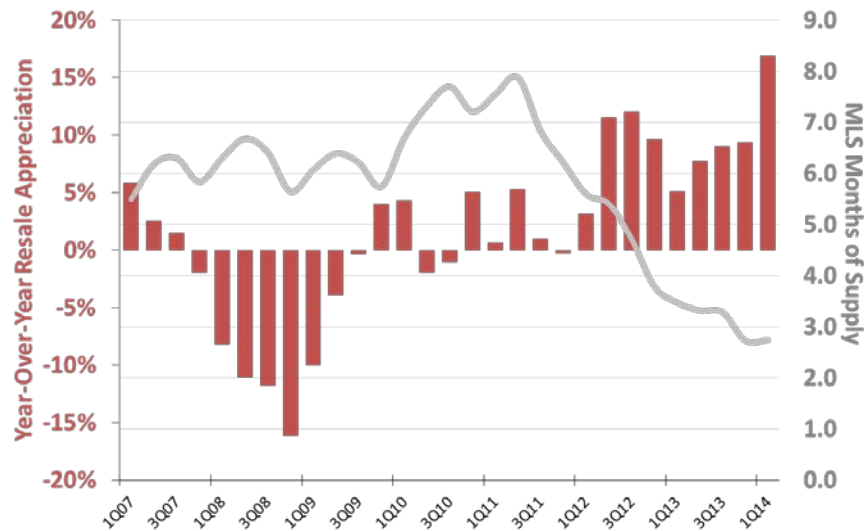
Therefore, a number of publicly-traded builders and large, privately-owned builders have **begun aggressively accumulating land and developing lots for their own use as a defensive posture.”** (Metrostudy press release)

Tight supplies of apartments, re-sales and new home inventory is leading to **better than average price appreciation.**

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 of these factors is strong appreciation in home values, which Houston has already been observing as **median closing prices for re-sales in Houston are up over 17% since last year and new sales are up 13%.** Other factors contributing to the increase in median home prices are fewer distressed sales and higher volumes of sales in the move-up market.

Annual Home Price Appreciation Houston figure 7



The data is clear, we expect Houston will continue to see **better than average** rising home prices and land prices through **for the foreseeable future.**

David Jarvis
Executive Vice President



A graduate of DePaul University with a BA in Marketing, David joined McAlister Investment Real Estate in May 2014 in conjunction with the launch of the McAlister Opportunity Fund 2014 and is responsible for managing real estate acquisitions, deal structuring and market economic research.

Prior to joining McAlister Investment Real Estate, David served as the Houston Director for MetroStudy for seventeen (17) years and brings with him over thirty-five (35) years' experience in residential development sales, market economic research and the development of residential real estate.

David's many certifications and professional affiliations include CCIM Designation, MIRM (NAHB), Texas Real Estate Brokers License, State of Texas Licensed Property Tax Consultant and Past Board Member of the Greater Houston Builders Association and Council of Dallas Home and Apartment Builders Association.