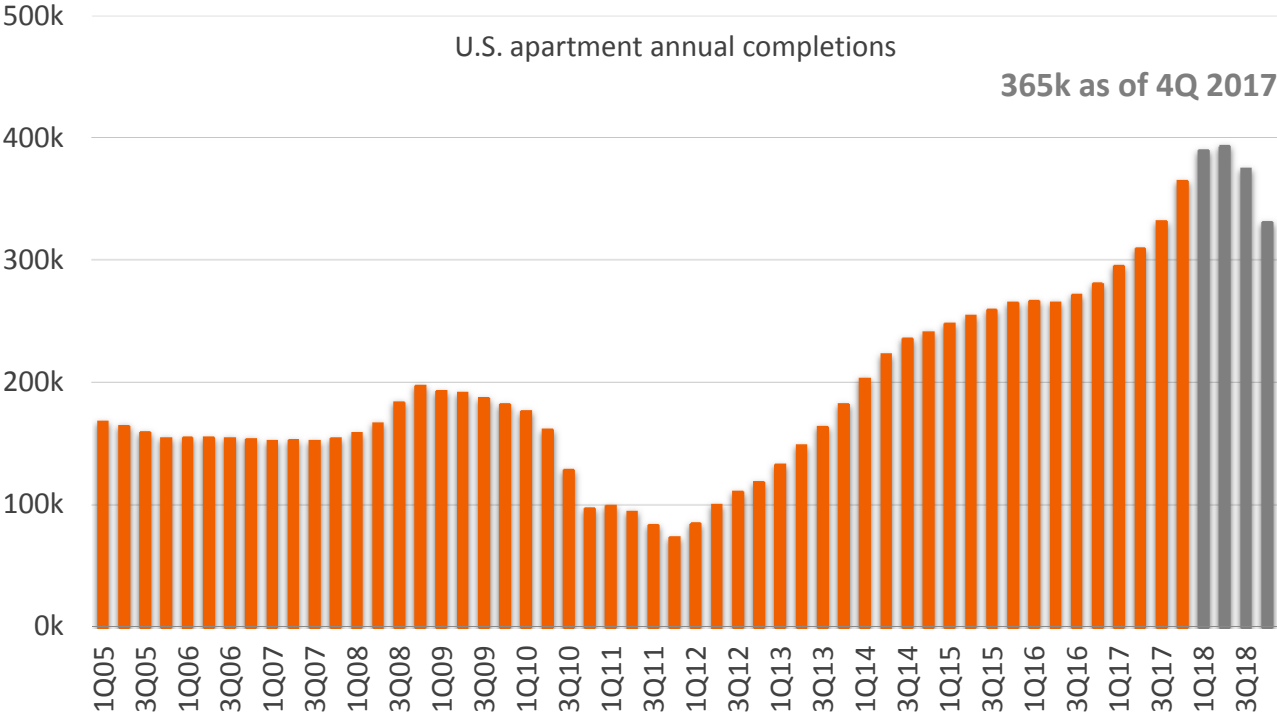


Finding Shelter: Affordability Squeeze in a Tight Texas Housing Market

Greg Willett
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Unlike in the for-sale sector, there's a rental housing building boom nationally and across some – but not all – key markets in Texas.

Nationally, apartment deliveries hit a three-decade high in 2017, and completions will remain elevated in 2018



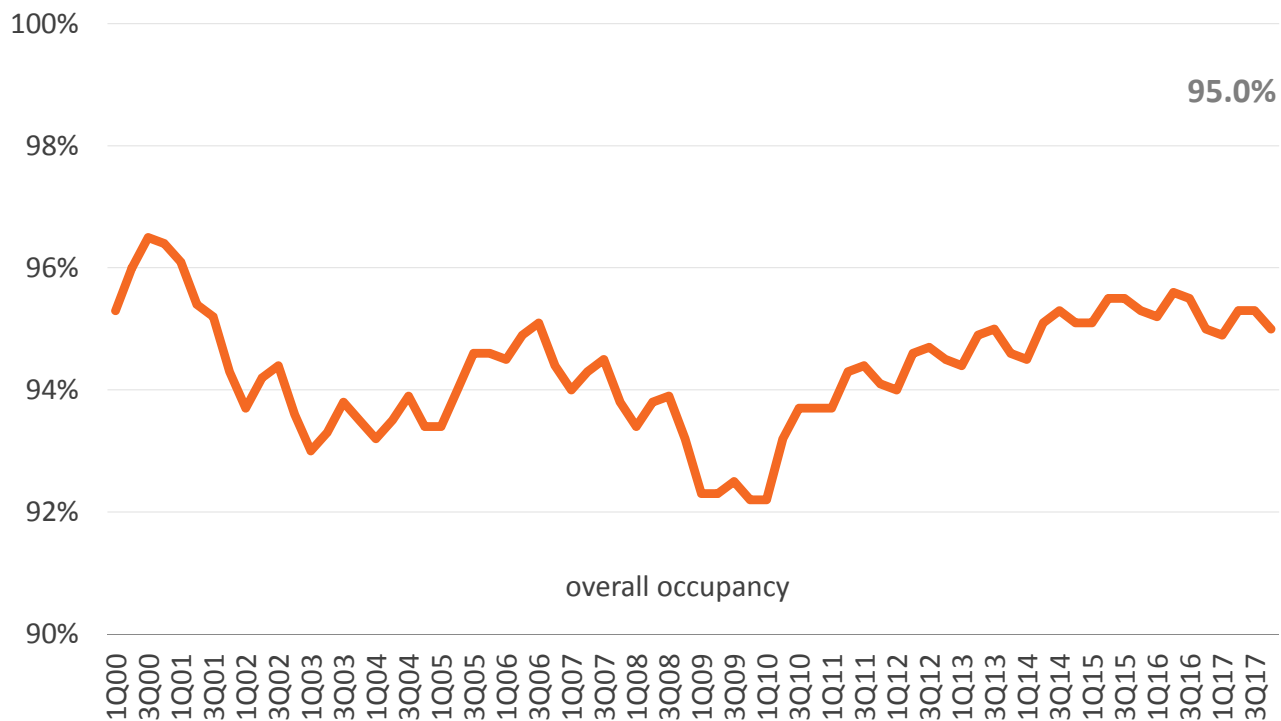
U.S. data is based on the 150 metros that form the core of RealPage's coverage

Texas plays a big role in the U.S. apartment market

- Eleven Texas metros are among the nation's 150 biggest markets (by apartment inventory). These areas account for 12% of the top 150 stock.
- The key Texas markets have contributed 18% of the top 150 deliveries in this economic cycle, and they contain 15% of the product under construction.
- Houston and DFW each have added more product during this cycle than exists in total for all but 50 or so U.S. metros.

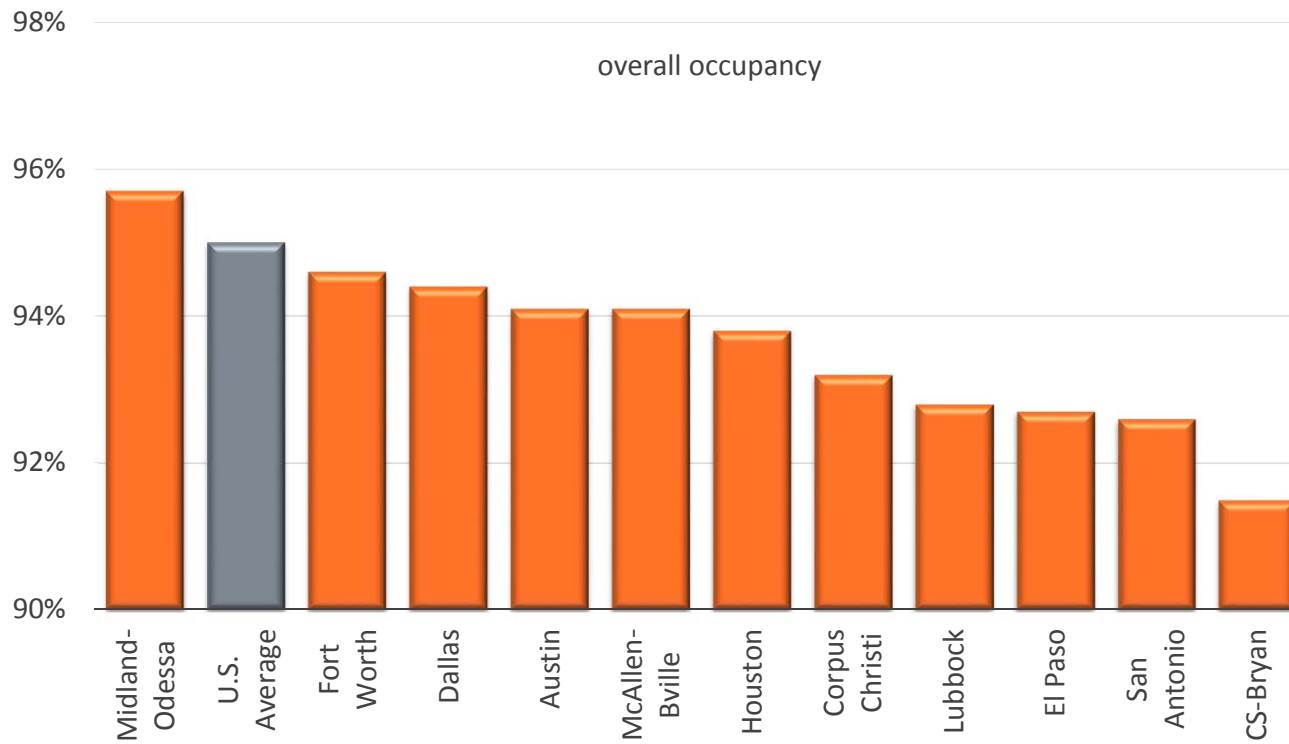
Metro	2010+ Completions	Inventory Growth
Houston	94,872	16.4%
Dallas	92,871	19.2%
Austin	48,434	26.3%
San Antonio	38,141	23.9%
Fort Worth	16,245	9.1%
El Paso	6,209	12.7%
Midland-Odessa	4,675	25.3%
Corpus Christi	4,187	13.7%
Lubbock	3,001	15.2%
College Station-Bryan	2,657	13.1%
McAllen-Brownsville	2,082	6.3%
Major Texas Markets	313,374	17.9%

U.S. overall occupancy remains healthy, even with lots of new product moving through initial lease-up



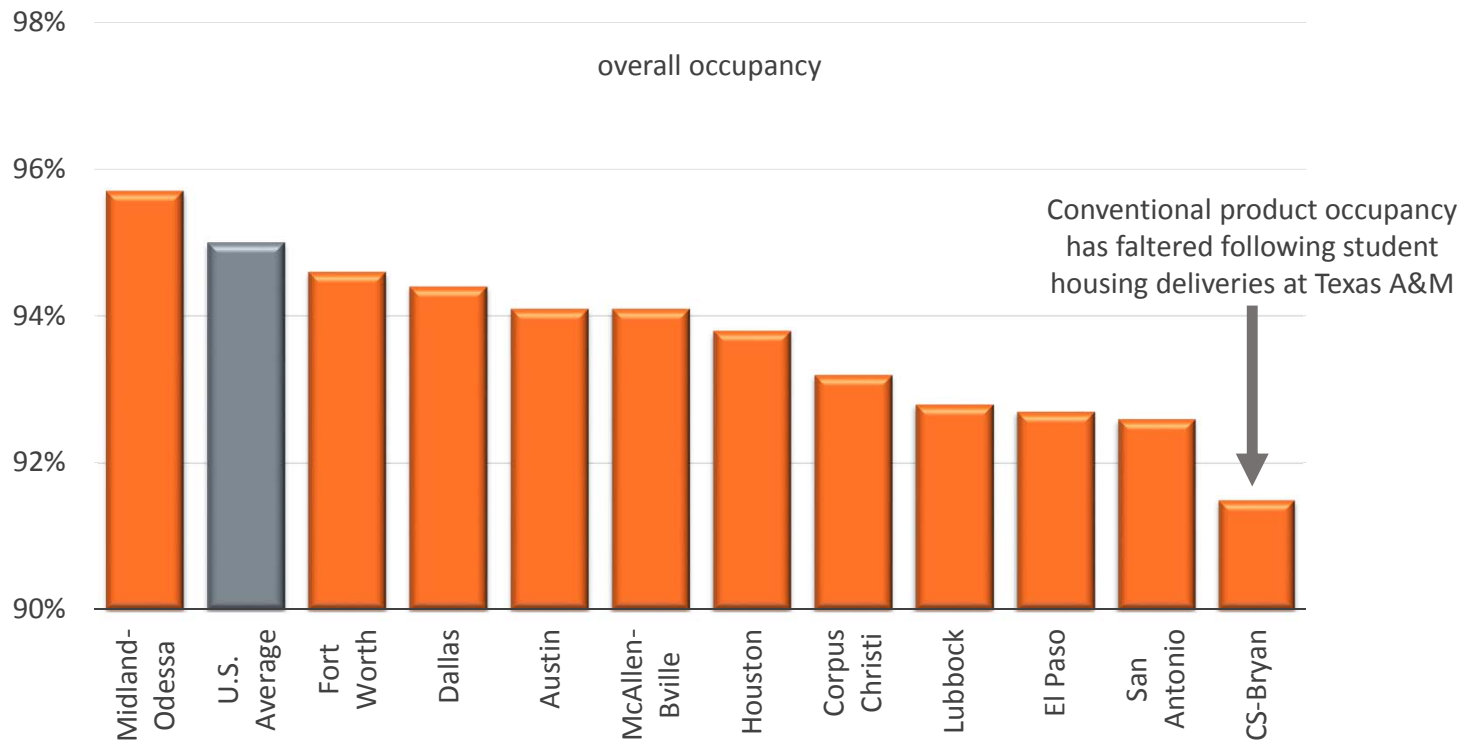
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Apartment occupancy in Texas tends to run a little below the national norm



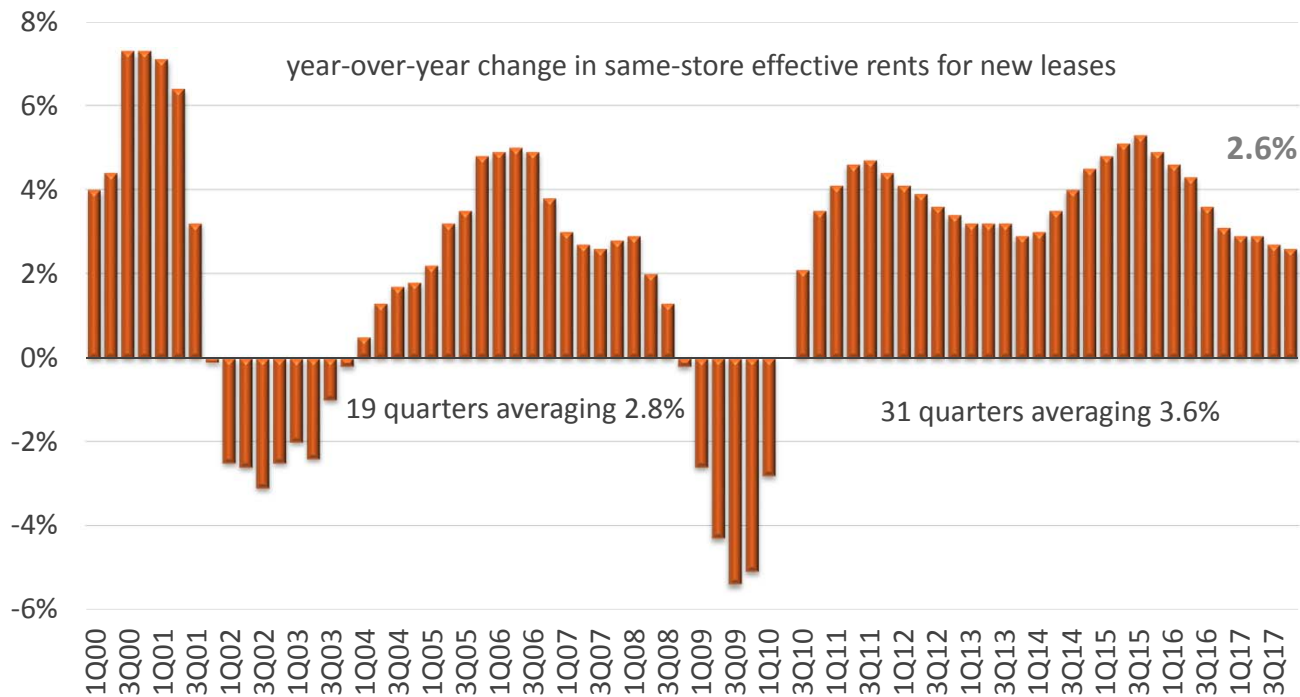
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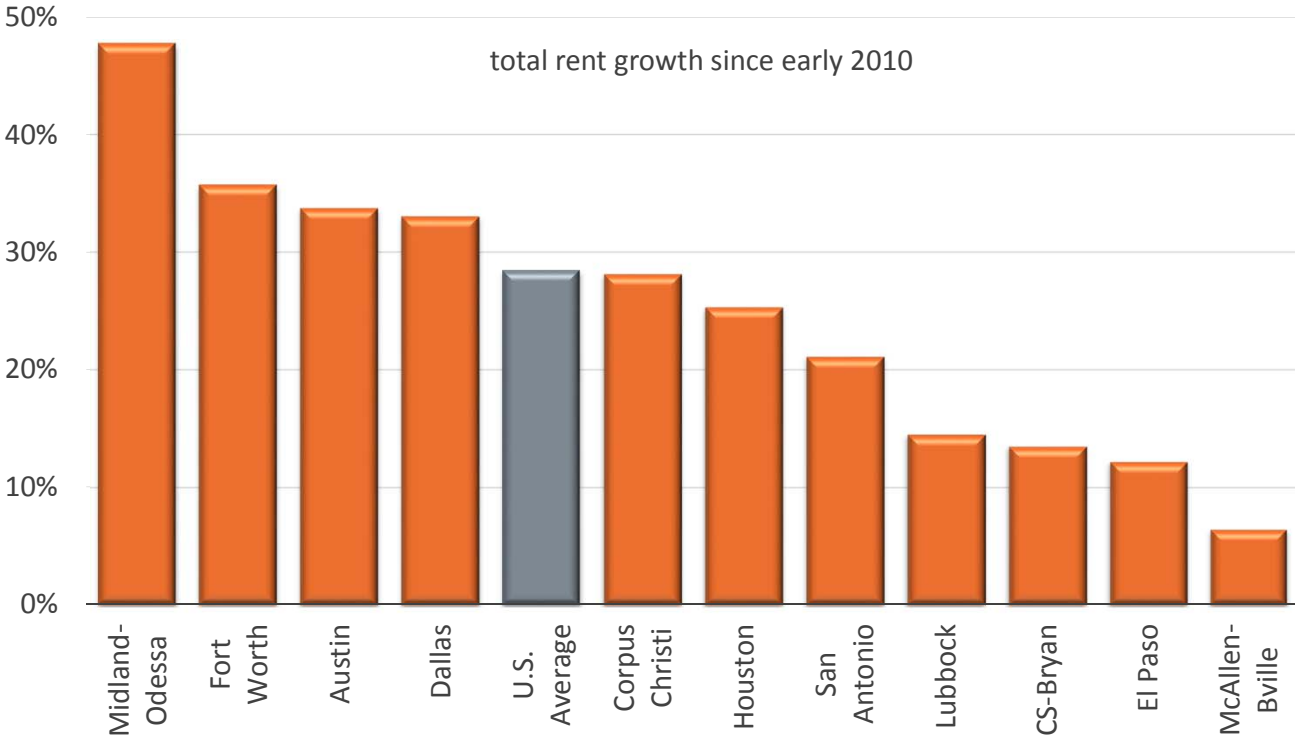
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We're experiencing an unprecedented run-up in national apartment rents



U.S. data is based on the 150 metros that form the core of RealPage's coverage

Most Texas markets also have experienced sizable apartment rent bumps this cycle



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Apartment market rent growth has cooled from the previously aggressive levels in much of Texas

- Previously hot DFW and Austin have dropped from the national leaderboard for rent growth. Austin prices actually are declining a bit. Some of the smaller metros also register very modest pricing power right now.
- Rent growth is beginning to trail wage growth in quite a few locations.
- The energy-influenced markets are regaining rent growth momentum, after significant cuts occurred in 2016 and the first half of 2017.
- Even the most expensive Texas apartment markets register rents below the national average.

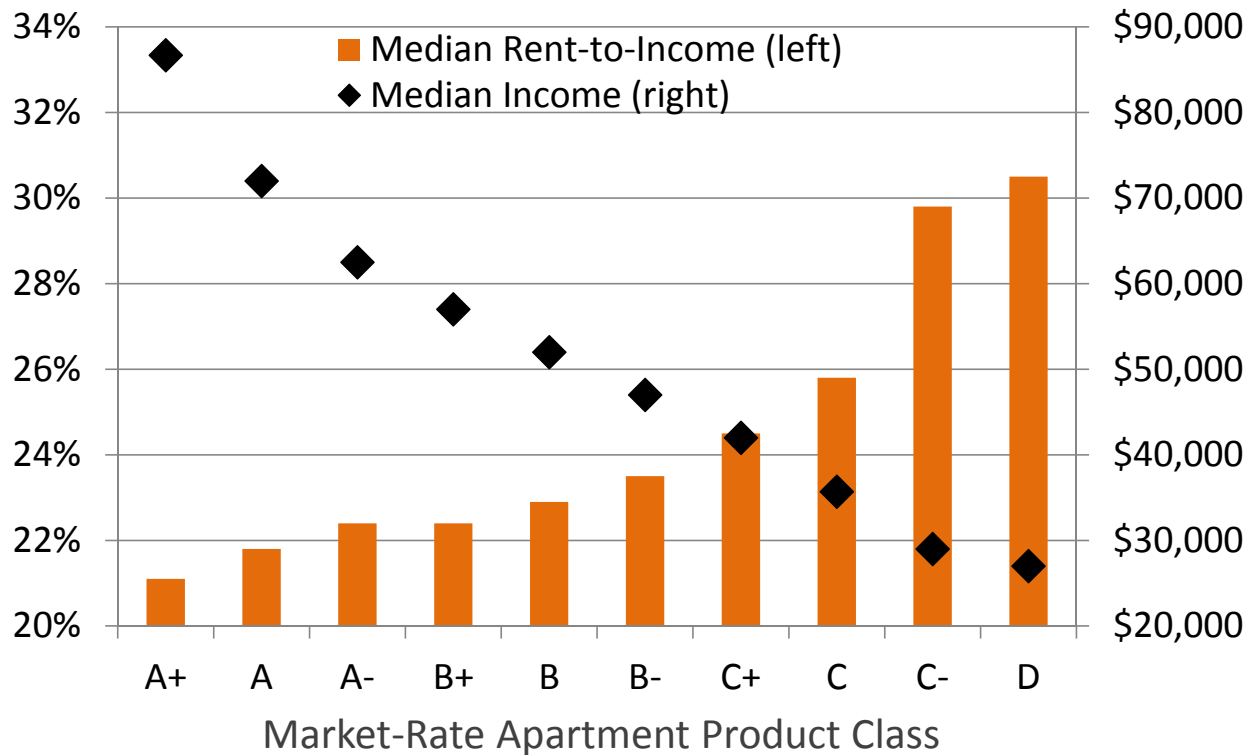
Metro	Monthly Rent	Current Annual Growth
Midland-Odessa	\$1,262	41.6%
Austin	\$1,200	-0.7%
Dallas	\$1,124	2.1%
Houston	\$1,080	3.5%
Fort Worth	\$995	3.8%
Corpus Christi	\$945	1.6%
San Antonio	\$934	1.0%
College Station-Bryan	\$835	-1.3%
El Paso	\$754	1.0%
McAllen-Brownsville	\$737	-0.8%
Lubbock	\$726	-1.4%
U.S. Average	\$1,306	2.6%

Most of this cycle's completions are luxury communities

- Today's typical suburban project is a mid-rise building with garage parking, rather than a low-rise development with surface parking. The higher-density communities are simply more expensive.
- Urban core projects account for a bigger share of total building than in the past. Urban land costs drive up the rents, and high-rise construction pushes the numbers even higher.
- The rent premium for Class A development over Class B product is up drastically in this cycle.

Metro	Class A Monthly Rent	Class B Monthly Rent	Class A Rent Premium
Austin	\$1,708	\$1,116	53%
Houston	\$1,486	\$1,024	45%
Fort Worth	\$1,272	\$948	34%
Dallas	\$1,417	\$1,094	30%
San Antonio	\$1,152	\$900	28%
U.S. Average	\$1,734	\$1,254	38%

U.S. rent-to-income ratios are inversely correlated to apartment product class



Source: RealPage analysis of nearly 5 million individual leases

Those who opt for Class A apartments rarely face affordability constraints. But, with other housing options available to them, there's always the possibility that they will choose some alternative.

Affordability gets somewhat more challenging moving to lower-end product segments.

As building cools top-end product rent growth, workforce housing neighborhoods are rent growth leaders in Texas and elsewhere

Neighborhood Type	Metro Dallas Neighborhood	Current Monthly Rent	Current Annual Rent Growth
Urban Core	Intown Dallas	\$1,678	-0.1%
	Oak Lawn	\$1,528	-1.6%
Upscale Suburb	Frisco	\$1,275	+0.9%
	Las Colinas	\$1,270	+1.6%
	Richardson	\$1,256	-1.8%
	Allen/McKinney	\$1,171	-0.2%
Workforce/ Blue-Collar Area	Mesquite	\$940	+2.7%
	Northeast Dallas	\$924	+5.8%
	South Irving	\$921	+4.5%
	Northwest Dallas	\$885	+4.5%

Neighborhood Type	Metro Atlanta Neighborhood	Current Monthly Rent	Current Annual Rent Growth
Urban Core	Midtown	\$1,746	+1.2%
	Buckhead	\$1,587	-2.1%
Upscale Suburb	Dunwoody	\$1,393	+1.7%
	Vinings	\$1,313	+6.8%
	Alpharetta	\$1,309	-0.4%
	Sandy Springs	\$1,251	-3.8%
Workforce/ Blue-Collar Area	Doraville	\$975	+4.5%
	Douglasville	\$941	+4.9%
	West Marietta	\$908	+2.9%
	Stone Mountain	\$846	+4.2%

Key Takeaways

- We're building apartments at an aggressive pace in most Texas markets.
- Rent growth exceeded the historical norm during the early years of this building boom. But, of late, rent inflation has slowed to levels more typical of past periods of substantial construction.
- New product is expensive. That's always been true, but the concentration on luxury-priced development is exaggerated by where we're building (increased emphasis on the urban core) and what we're building (higher-density properties).
- Luxury-product renters generally don't struggle to afford those rents. However, residents of middle-market communities and especially lower-end properties have a harder time budgeting rents.
- Current rent growth is now more pronounced toward the bottom end of the apartment product spectrum.



THANKS!

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