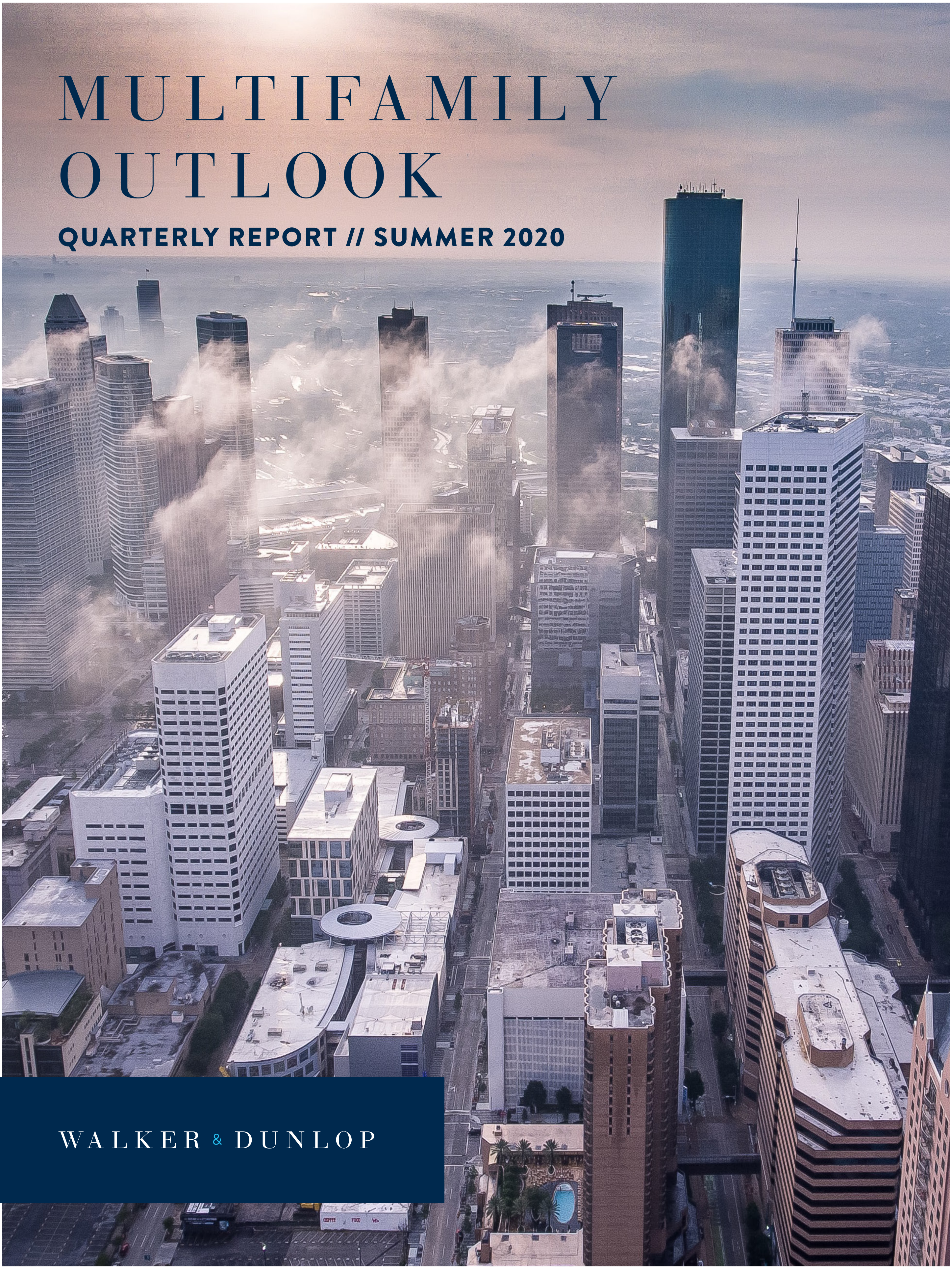
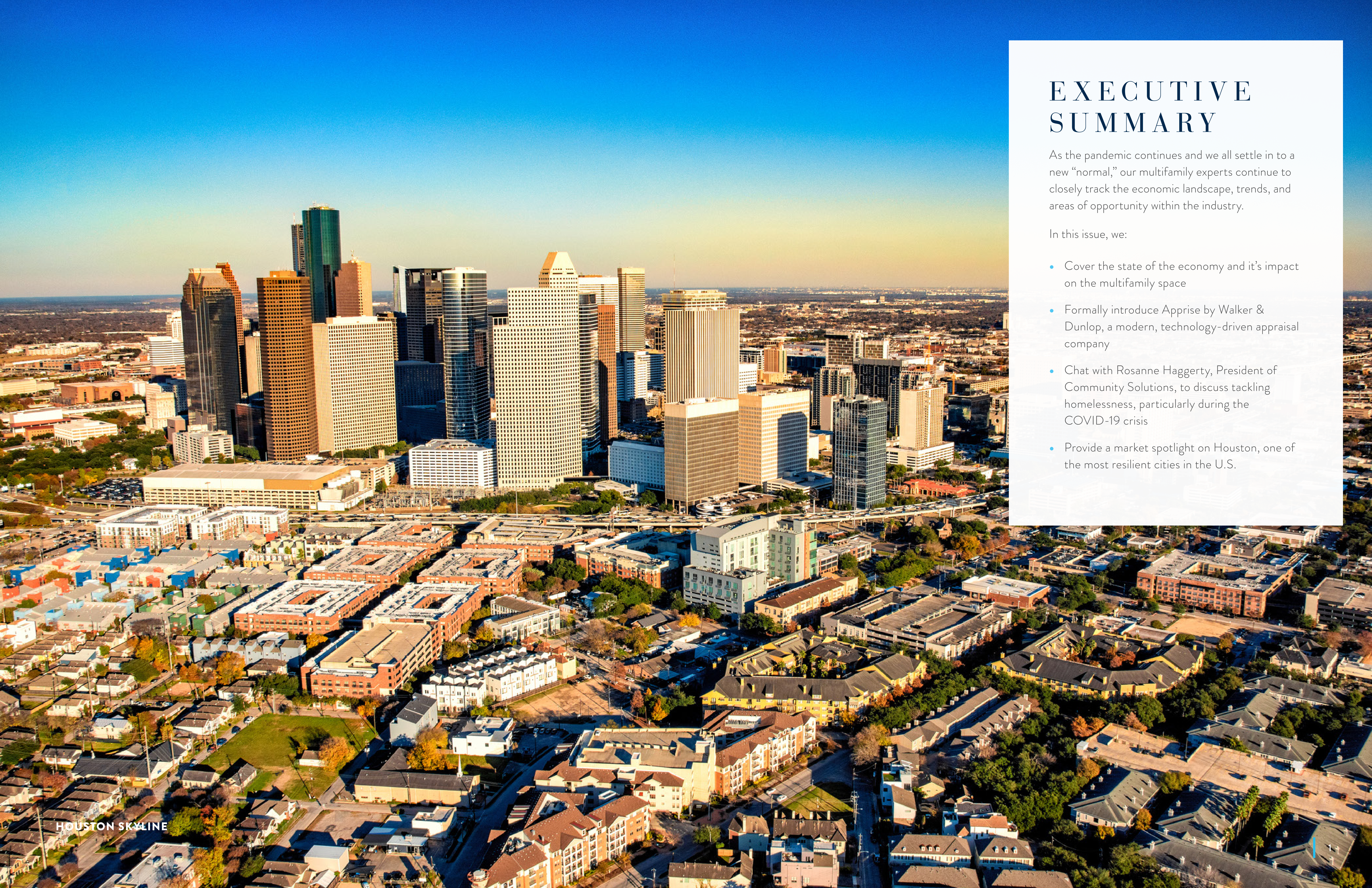
MULTIFAMILY OUTLOOK

QUARTERLY REPORT // SUMMER 2020



WALKER & DUNLOP



HOUSTON SKYLINE

EXECUTIVE SUMMARY

As the pandemic continues and we all settle in to a new "normal," our multifamily experts continue to closely track the economic landscape, trends, and areas of opportunity within the industry.

In this issue, we:

- Cover the state of the economy and it's impact on the multifamily space
- Formally introduce Apprise by Walker & Dunlop, a modern, technology-driven appraisal company
- Chat with Rosanne Haggerty, President of Community Solutions, to discuss tackling homelessness, particularly during the COVID-19 crisis
- Provide a market spotlight on Houston, one of the most resilient cities in the U.S.

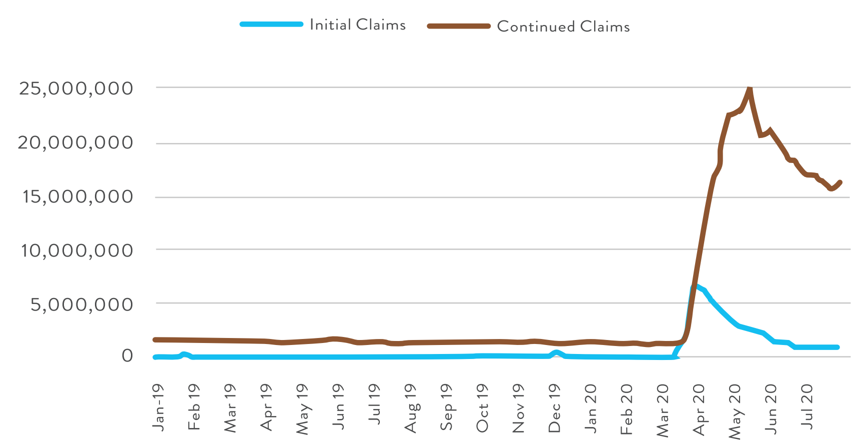
ECONOMIC OUTLOOK

Chevron Building

THE ROLLER COASTER RIDE OF 2020

While summer fairs and carnivals are mostly on hold, 2020 has taken us on a wild ride as the Covid-19 pandemic whipsawed the global economy in the first half of the year. The U.S. economy crashed downward in March as shelter in place rules drove unemployment to record levels, surpassing peak levels of the 2008 Great Financial Crisis (GFC) in just one month. U.S. unemployment reached 14.7% in April, well above the 10.9% peak of the GFC. Including part-time workers who wish to work full-time (the U-6 rate), unemployment reached a staggering 22.8% in April. Real GDP fell by

OUT OF WORK: UNEMPLOYMENT SKYROCKETS DURING THE PANDEMIC



Source: U.S. Employment and Training Administration

5.0% in the first quarter of the year and by 32.9% in the second quarter of the year, the worst decline on record. Politicians scrambled to put a social net under the economy, again quickly breaching levels of the GFC. The Fed balance sheet swelled by $3 trillion from March to May, more than double the amount during the GFC. Interest rates first spiked as lenders underwrote unforeseen risk, then crashed globally as countries began to backstop their economies. U.S. ten-year treasury yields have remained under 1% since early March, the lowest rates on record.

But the U.S. economy has tools in place now that it did not have in the past. First, an e-commerce distribution network was already growing and was able to continue some level of retail service despite shelter in place rules. Consumers, however, changed their purchasing patterns, dramatically switching from restaurant purchases to groceries[1], dropping clothing and department stores, and increasing purchases at hardware, building supply and garden stores. Overall, retail sales at general apparel, furniture, and other retail stores (GAFO) fell by 29% from February to April, while electronic shopping rose by 19%[2].

Second, technology allowed many office workers to continue working from home rather than in the office. Even schools scrambled and finished the year with at least some level of education online. While only 24% of university presidents intend to have students fully return to campus in the fall[3], office building owners are prioritizing the implementation of new healthy building initiatives to welcome tenants back to the office. Fortunately, a multitude of technology firms have developed systems that can significantly improve the health and wellness of workplaces – beginning with pre-entry wellness checks, touchless entry, social distancing sensors, low-touch and voice-enabled kitchens, autonomous cleaning and improved air filtering, among other systems. Additionally, new cybersecurity, at-home network security, on-the-go human resources and remote collaboration tools are improving remote-work productivity[4].

[1] In February 2020, restaurant sales ($54.1 mil) were nearly equal to grocery sales ($54.8 mil). Restaurant sales fell to $27.8 mil in April 2020 while grocery sales increased to $63.2 mil.

[2] U.S. Census Bureau, Estimated Monthly Sales for Retail and Food Services, by Kind of Business

[3] https://collegecrisis.shinyapps.io/dashboard/ as of 7/24/20

[4] CB-Insights, "Reopening: The Tech-Enabled Office in a Post-Covid World," 2020.

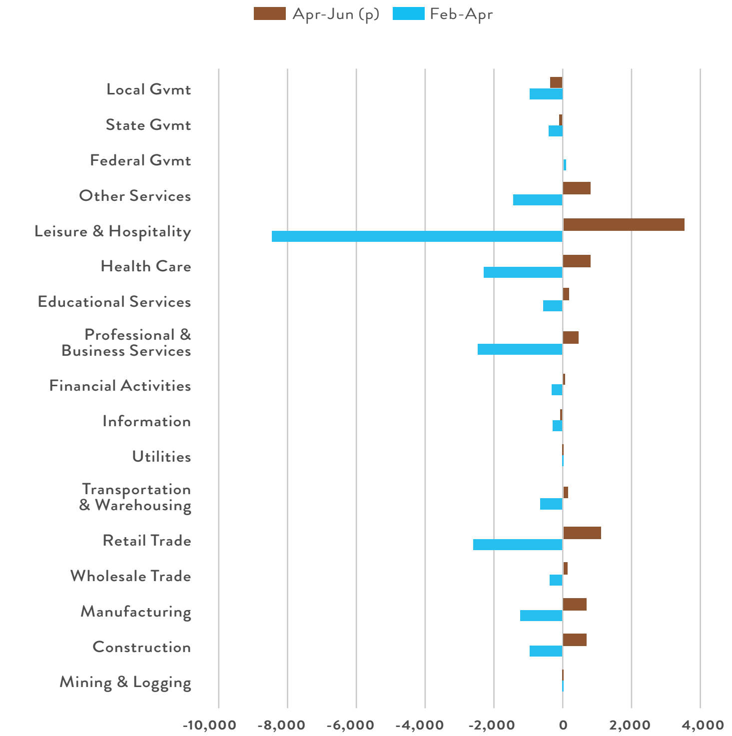
Just as quickly as the economy careened downwards in March, we saw a steep, but partial, recovery in May and June. The unemployment rate fell to 11.1% in June as 7.5 million jobs returned. Biggest employment improvements occurred in many of the hardest hit industries in the March to April downturn, including vehicle sales, apparel, furniture, and sporting goods retailing, dentists, and hospitality. Transportation and oil remain the hardest hit industries. Retail sales followed a similar trend as total retail and food service sales increased by 27% from April to June.

Unlike previous recessions, the housing market has stayed relatively stable thus far. In fact, residential investment growth in the first half of the year, declining by only 1.8% in Q2 as compared to a 23% decline in consumption of services and a 9.4% decline in exports[5]. While single family sales volumes declined in March to May, housing values continued to rise, mortgage rates declined, and delinquency rates remained low. New single-family home sales returned to the January level by June[6].

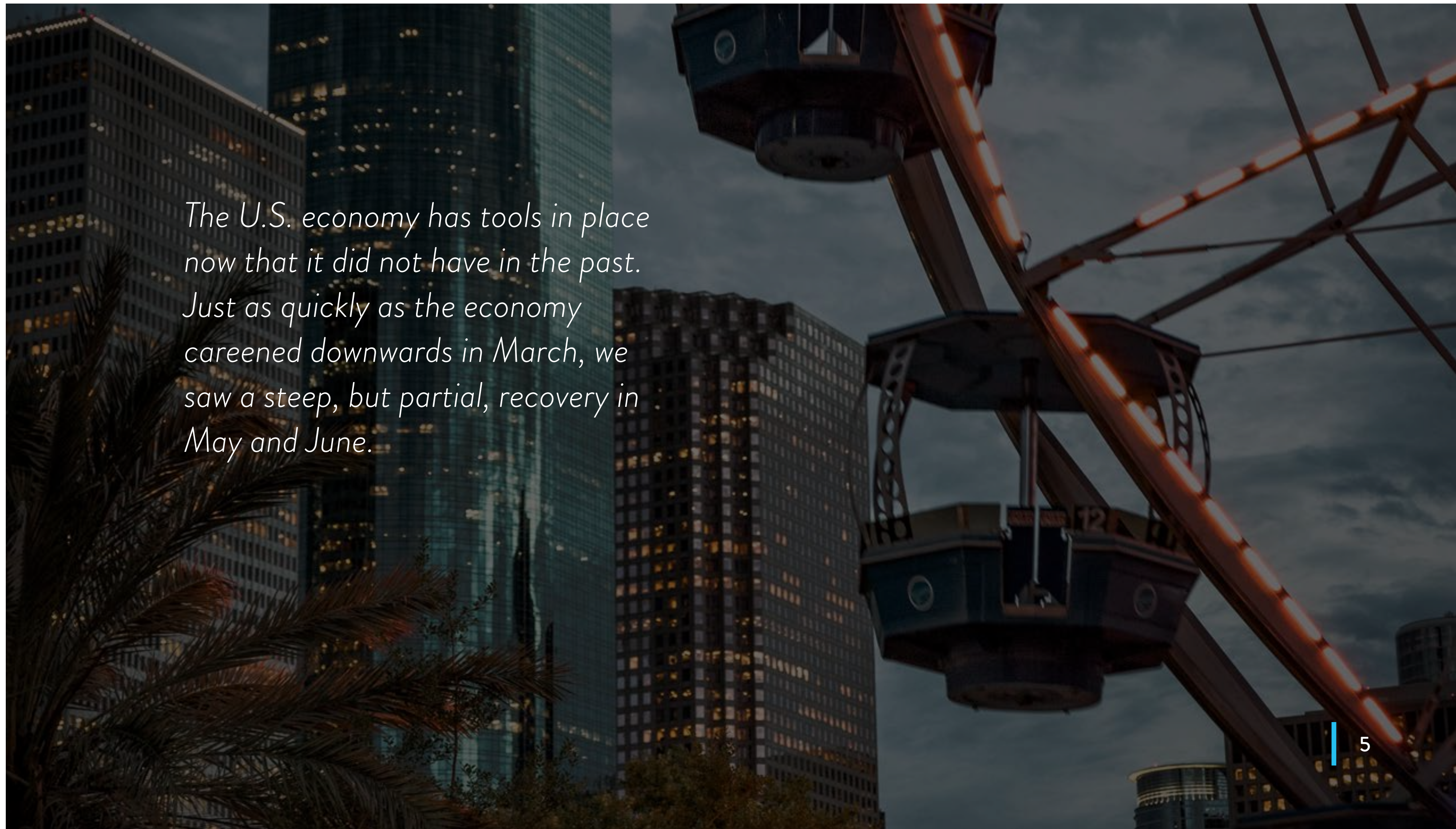
[5] Bureau of Economic Analysis

[6] U.S. Census Bureau and U.S. Department of Housing and Urban Development, New One Family Houses Sold: United States [HSN1F], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/HSN1F, July 30, 20203 https://collegecrisis.shinyapps.io/dashboard/ as of 7/24/20

SURVIVING THE PANDEMIC: INDUSTRIES LOOK TO BOUNCE BACK



Source: U.S. Bureau of Labor Statistics



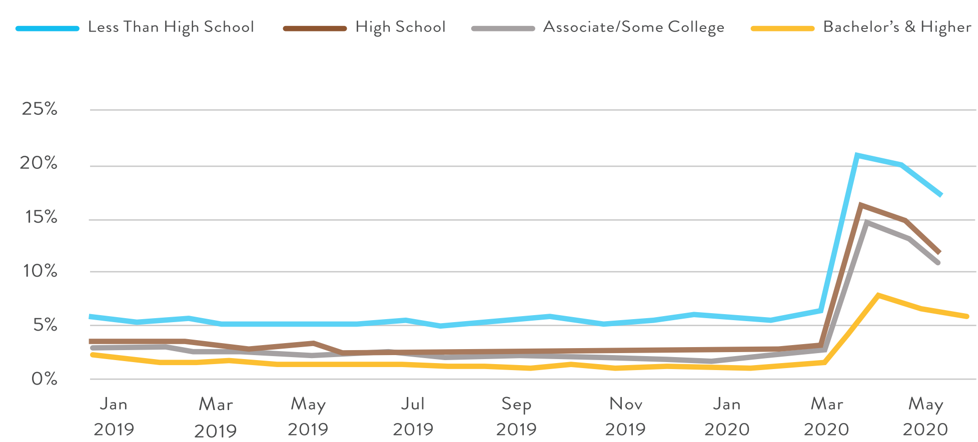
In the multifamily market, occupancy rates remained high at 92% for Class A[7] and 94% for Class B. Class A occupancy declined by 50 pbs in 2020 Q2, a function of two factors. First, new construction increased total stock by 2.5% in the first half of the year as nearly 200,000 new units were delivered, a peak rate for the market. Second, net absorption, while positive, was only 42% of the pace of the past three years. Comparatively, occupancy held stable in the Class B sector in the second quarter, declining by only 10 pbs. Class A effective rents decreased by 0.8% in the second quarter, underperforming Class B which increased by 1.9%. The mortgage market also remains healthy as 98.1% of apartment loans were current as of June 20th[8].

Going forward, the market will continue to face risks. Demand is likely to hold up better in the Class A sector as unemployment rates are highly correlated to educational attainment. In June, the unemployment rate was 16.6% for those without a high school degree, falling to 6.9% for those with a college education[9]. Thus, tenants of the lower-cost, Class B and C properties may have a harder time paying rent going forward, particularly with uncertainty regarding federal policies to continue extended unemployment benefits. However, the Class A sector will continue to face risk of excessive new supply at least through the end of the year. While the construction pipeline is likely to slow dramatically until the economy improves, another 100,000 units are expected to be completed by year-end. Construction jobs continued to rise for both residential and nonresidential sectors through June. Markets in which multifamily inventory is expected to increase by 7% or more include Miami, Nashville, Boston, Charleston, Orlando, and Charlotte[10].

Similar to the single-family market, sales of multifamily properties dropped dramatically through May, although pricing remained steady. Apartment sales volume declined by 81% from the previous year in May. However, apartment sales volume of $3.1 billion was the highest of all property types, equivalent to nearly 32% of all property sales. Cap rates fell by 10 pbs year-to-date[11] in the first half of the year, driving property prices up by 7.1% yoy in June, but down slightly by 0.3% from April to June[12]. REIT prices increased by 5.4% in the second quarter but remain 28% below the October 2019 peak. Dividend yields at 4.0% in June declined by 21 pbs over the quarter but are well above the 2.8% level of October[13].

The path forward is not yet clear. While we hope to continue to ride the roller coaster up, several factors point to a slower recovery. First, the Covid pandemic is not yet over. Recovery risk is further amplified by federal policy uncertainty and the ability of the pharmaceutical industry to create a vaccine and/or cure. Transportation, nursing home and oil jobs are still in decline. High unemployment rates will continue to put downward pressure on consumption of both goods and services which will create contagion in other lagging industries

HIGHER EDUCTION MEANS LOWER UNEMPLOYMENT



Source: U.S. Bureau of Labor Statistics

[7] Class A defined as properties with a 4 to 5 star CoStar rating. Class B defined as properties with 25+ units and a 1 to 3 star CoStar rating. Source: CoStar.

[8] Mortgage Bankers Association

[9] U.S. Bureau of Labor Statistics

[10] CoStar U.S. Multi-Family National Report

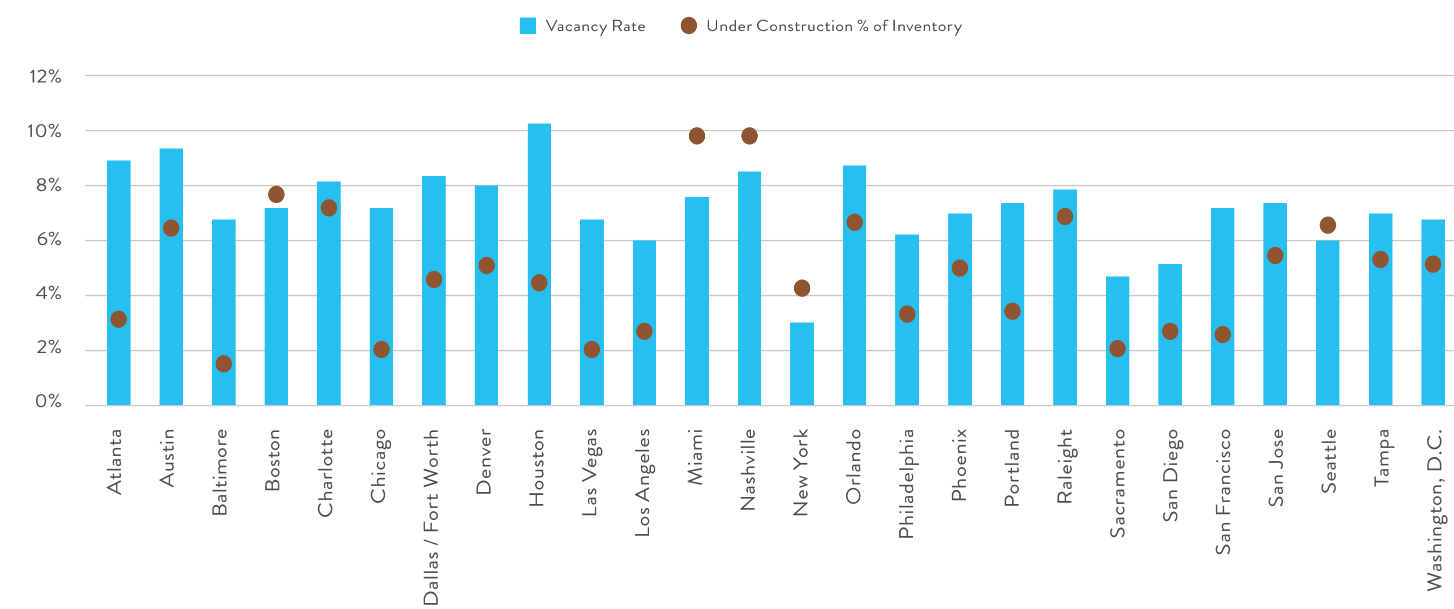
[11] CoStar

[12] Unless noted, pricing and sales data provided by Real Capital Analytics. Pricing data based on the RCA CPPI index.

[13] Source: NAREIT

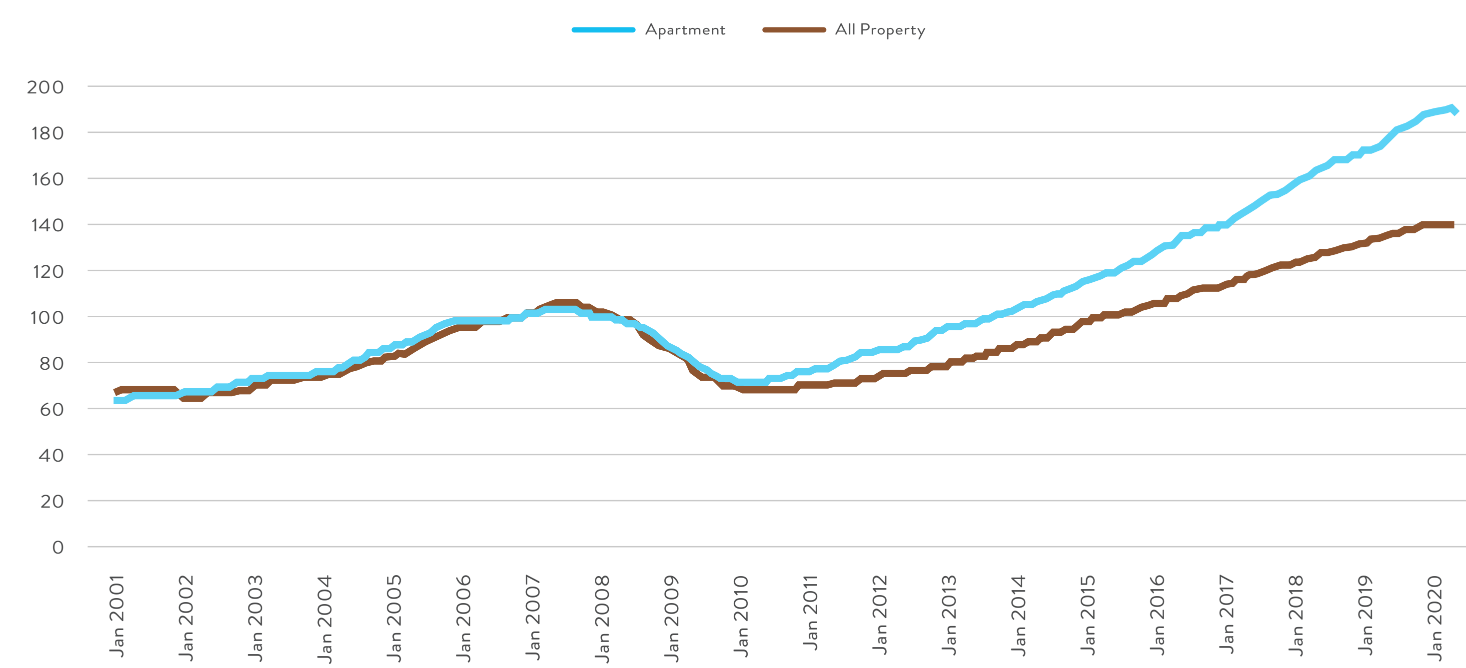
such as government and education (loss of tax revenues), and technology sectors (for those dependent to some extent on advertising revenues). In the meantime, low interest rates are likely here to stay for a while which should support real estate pricing if demand holds up. Eventually, the unprecedented support provided to the economy by the Federal Government will need to be resolved.

BUILDING UP: THE RISE OF CONSTRUCTION CREATES RISK OF EXCESSIVE NEW SUPPLY



Source: CoStar Multifamily National Report, July 2020
*Vacancy rates include lease-up of new properties

TURN UP THE VOLUME: APARTMENT SALES CONSISTENTLY OUTPERFORM ALL PROPERTY TYPES



Source: RCA CPPI

THE MODERN APPRAISAL

THE MARKET FOR MULTIFAMILY APPRAISALS IS UNDER STRESS

OVER A FOUR-YEAR PERIOD, THE VOLUME OF MULTIFAMILY TRANSACTIONS SPIKED 74 PERCENT, WHILE THE NUMBER OF APPRAISERS DECREASED BY OVER 10 PERCENT. DEMAND FOR APPRAISALS IS NOW OUTSTRIPPING SUPPLY.

As a result, appraisers are under pressure to work faster, while continuing to provide objectivity and quality. Despite a clear need for modernization, much of the work involved in creating an appraisal hasn't changed in decades. Keeping up has meant longer work hours for appraisers, including nights and weekends, and more supervision of junior analysts. But hiring even more analysts is not a viable long-term solution.

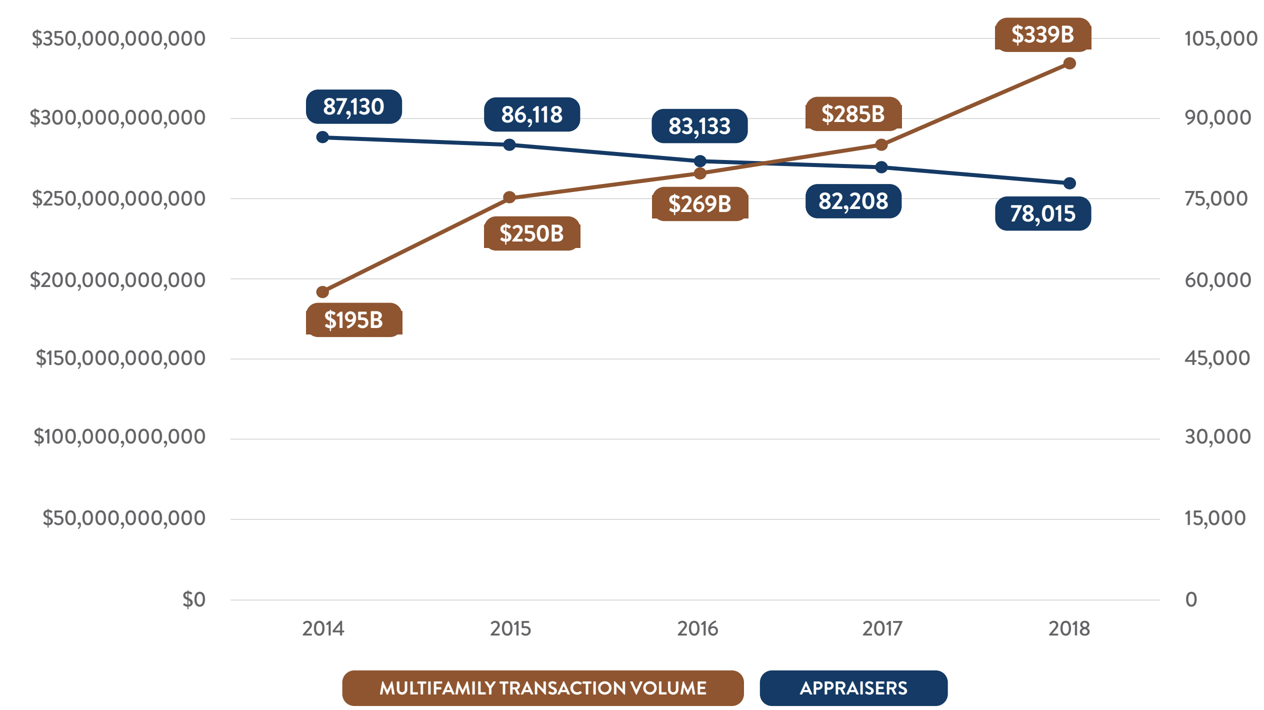
Data difficulties are at the heart of the problem. Appraisers must quickly obtain the right data, for the right properties, at the right time to arrive at an objective valuation. But identifying and analyzing comparable properties involves a consortium of disparate data sources that are often incomplete and difficult to analyze. The result is a slow and potentially subjective process.

In other industries, digital innovation has helped deliver greater insight, faster. As cloud computing and AI streamline and accelerate processes in financial industries, a new wave of property technology is also sweeping into the commercial real estate sector. What happens when appraisers are given unparalleled access to data and therefore receive unparalleled support for assumptions and market conclusions? Appraisers could provide valuations substantiated by richer data in a fraction of the time. With that extra time, appraisers are more available to consult with clients and analyze the asset's risk position in the market, while focusing less on verifying analysts' work.

If you're a property owner, operator, or investor, this means you can get more advice while also making critical decisions about buying, selling and refinancing more quickly. If you're a lender, you'll get more visibility into the market while also accelerating underwriting, terms, and the decision to lend in the first place, keeping your borrowers happy and your business moving.

Apprise, a new company by Walker & Dunlop and GeoPhy, is moving multifamily appraisals into the future. Through empowering expert appraisers with innovative technology, Apprise is able to streamline and strengthen the process, delivering more objective, consistent, transparent multifamily appraisals in as little as five days. Quicker turns used to mean a lower-quality appraisal, but with Apprise, this is no longer the case.

MULTIFAMILY TRANSACTIONS CONTINUE TO GROW AS APPRAISERS DECLINE



Source: Mortgage Bankers Association and The Appraisal Institute

A property appraisal is a requirement for any real estate deal, determining the viability of a sale, the interest of buyers, and the likelihood and terms for financing. The appraisal is the linchpin of every transaction. It has to be objective and empirically supported, the faster a quality appraisal is delivered, the faster a deal moves. And in commercial real estate, time is money.

APPRISE DELIVERS HIGHER QUALITY APPRAISAL REPORTS, IN LESS TIME

Digital innovations such as big data, AI, machine learning, and, eventually, automated valuation models – combined with improved workflow – hold the potential to make multifamily appraisals faster and better. This is the concept behind Apprise, which combines expert local appraisal professionals, Walker & Dunlop's deep knowledge of the commercial real estate space, and GeoPhy's data science and analytics technology.

Through Apprise's modernized approach, appraisers are equipped with the most comprehensive dataset in the marketplace, powerful onboard analytics, and standardized, automated reporting capabilities—all via a single log-in. Apprise significantly increases appraisers' productivity and efficiency while bolstering support for their value conclusions and risk analysis.

Here's a comparison, across steps, of Apprise to "appraisal 1.0"— the cumbersome, time-consuming process behind a traditional appraisal.

> "Within five years, experts predict that 50% of our interactions will involve AI, unlocking an entirely new workflow for the appraisal profession and a new set of capabilities that will drive the back office to the forefront of business strategy."

The Appraisal Institue // Atlanta Chapter

STEP 1 – TRADITIONAL APPRAISAL

MARKET RESEARCH INVOLVES TIME-CONSUMING DETECTIVE WORK

The appraisal process begins with the arduous and time-intensive identification of comparable valuations for the property. To understand the local market, an appraiser must sift through expense, sales, and rent data dispersed across multiple sources. Compiling and analyzing involves combing through dozens of industry standard resources, often with separate accounts and logins.

When researching expense, sales, and rent comps, appraisers tend to run into the following issues:

EXPENSE COMPS

Oftentimes, the appraiser must rely on the expense comps they already have pulled, because they simply don't have the time to search for the freshest data. Additionally, pulling tax information is a pain, requiring digging through various GIS systems.

RENT COMPS

To pull the necessary sales comps, appraisers need to file through industry resources with various logins for a lead unit mix, and then must verify the rents and occupancy with management/leasing professionals.

SALES COMPS

To collect sales comps, appraisers need to track down leads using multiple industry resources with multiple logins and maintain relationships with market participants to confirm the relevant transaction data. In the traditional process, appraisers are bogged down with report assembling/writing and analysts are tasked with comp research.

This means appraisers must train and manage someone with little experience to confirm valuable data points.

But that's not all. Beyond expense, sales, and rent figures, there are potentially millions of points of market and contextual data that can add valuable context to a multifamily valuation: local demographic figures, crime rates, "walk scores," neighborhood jobs information, and more. However, this information often comes from proprietary or unpublished sources and can be difficult to obtain and compile.

The traditional way of doing things sacrifices both time and insight. It's the primary speedbump in the appraisal process. When appraisers rely on disjointed data due to an archaic research process, owners, operators, and lenders wait weeks to receive what might end up being a partially informed view of an asset value and its risk profile. And it can take weeks for them to get an initial report.

STEP 1 – APPRISE APPRAISAL

FASTER ACCESS TO RICHER TROVES OF DATA

Only Apprise has the technology to instantly aggregate and analyze millions of units, delivering higher quality expense, sales, and rent data. By utilizing data feeds to pull information from public records, property sites, industry resources, and proprietary sources into one, central cloud-based system, Apprise has built the most comprehensive national property database in the market.

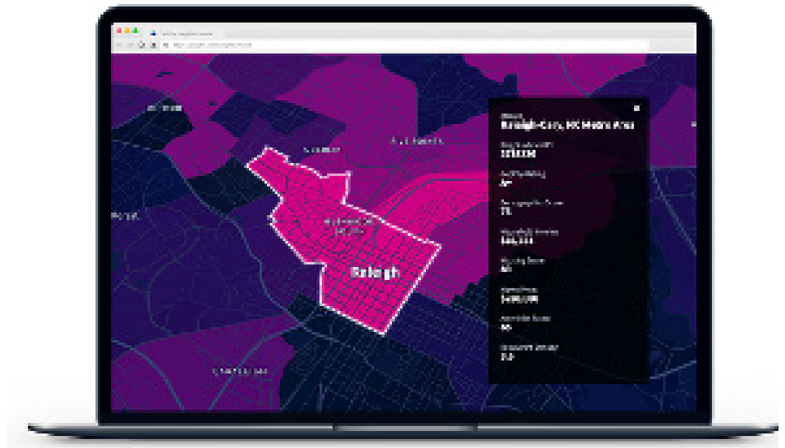
For appraisers, this system provides unprecedented access to information, transforming the arduous process of gathering market information and data for comparable properties.

Appraisers get instant access to 20 years of licensed data on more than 2.5 million properties, from proprietary databases, government-sponsored enterprises like Fannie Mae and Freddie Mac, and industry standard resources such as First American, REIS, RCA, and YARDI.

Additionally, Apprise appraisers have access to GeoPhy's Neighborhoods report, which provides more granular detail (down to the census block data) on the area immediately surrounding the property being appraised

Everything is at the appraisers fingertips with a single, standardized interface. That means no more juggling multiple logins or toggling across multiple screens and browsers.

Because the data is stored in the cloud, an appraiser doesn't have to remember where a specific figure or statistic is stored, or comb through individual documents. The appraiser needs only to conduct a simple search.



New innovations like GeoPhy's Neighborhoods report provides layers of location-based information, such as amenities (nearby public transportation, coffee shops, gyms, etc), demographics, and housing data.

Apprise's expert appraisers begin a property analysis and valuation with all available information and data points, from industry-standard resources, at their fingertips. That includes:

EXPENSE INFORMATION

The system presents expenses line-by-line for properties, with information surrounding utilities, taxes, payroll, administrative, management, advertising, replacement reserves, property insurance, tax data and more.

RENT COMPS

Our system pulls lead information from multiple sources into the database, and can compare these sources directly to map discrepancies and anomalies.

SALES DATA

The system consolidates sale leads from public records and industry standard resources for sale dates and prices. Appraisers are alerted when new sales information is made available and can then begin the validation and confirmation process for the sale comparable.

STEP 2 – TRADITIONAL APPRAISAL

INITIAL REPORTS ARE CUMBERSOME TO COMPILE AND INCONSISTENT

With the traditional appraisal process, compiling data is just the beginning. Then an appraiser must copy, cut, and paste data from one document to another to turn their findings into a report. The process involves creating, consolidating, and reconciling multiple Excel spreadsheets. It's an onerous manual labor that can take up valuable time and inadvertently introduce errors. Often this is delegated to junior analysts. Furthermore, these initial reports can be hundreds of pages in length, with little consistency across appraisers. Reports for one state may look very different from another state, even those distributed by the same company.

STEP 2 – APPRISE APPRAISAL

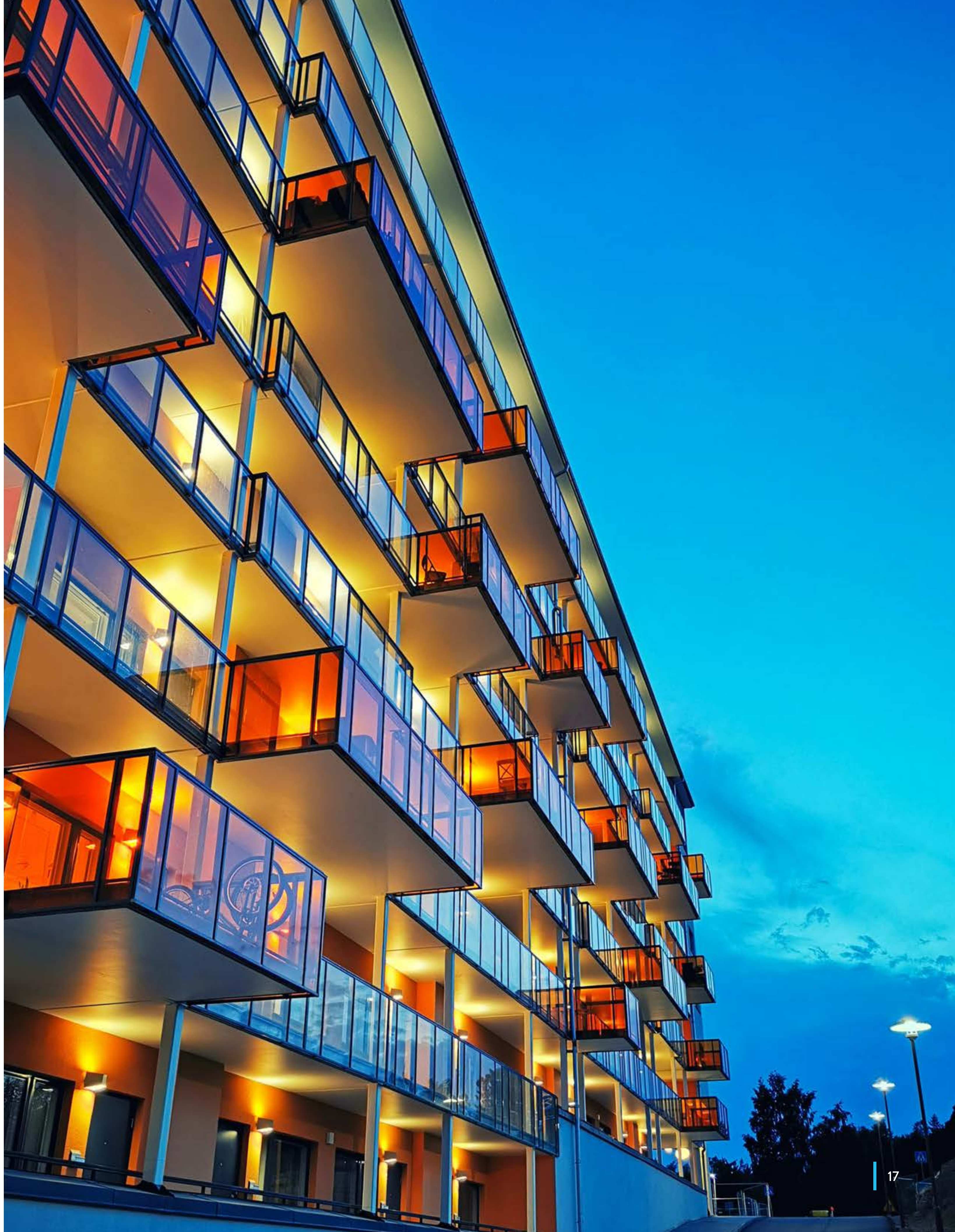
FASTER DEVELOPMENT OF A STANDARDIZED REPORT

Apprise replaces the cumbersome Word and Excel process with the ease of computer-generated, standardized report creation.

Data points, fields, and more are standardized to minimize manual data entry and arm appraisers with accurate and consistent information. Processes are optimized for speed and accuracy and controlled for consistency to reduce the risk of data inconsistencies, typos in formulas, or erratic analyses.

Built-in analytics provide even more digital assistance. AI-empowered "data tips" help appraisers identify trends and insights otherwise invisible to the human appraiser. Moreover, Apprise's technology "learns" from appraiser behaviors, becoming faster and smarter with every analysis.

As a result, Apprise's expert appraisers are able to deliver more consistent, accurate, informed appraisals in less time. Additionally, because our platform is national, Apprise provides the same standard report regardless of where the property is located. Owners, operators, investors, and lenders can then save time because reports are consistent across appraisers, geographies, deals, and properties.



STEP 3 – CONDUCTING INSPECTION

In both the traditional and Apprise appraisal process, an initial report is followed by an in-person assessment of the property and surrounding neighborhood. Apprise uses a credentialled appraiser, just like any other traditional appraisal.

But that appraiser comes in with richer data and insights of both the property and surrounding location to help inform the inspection, be it in-person or virtual.

STEP 4 – TRADITIONAL APPRAISAL

DELIVERING THE REPORT

In the final step, the report is delivered. With a traditional appraisal process, the format of these reports can vary from appraiser to appraiser, as can the content, based on the experience level of the appraiser and their access to data.

STEP 4 – APPRISE APPRAISAL

DELIVERING THE MODERNIZED REPORT

With Apprise's modern approach, reports follow a standardized format, with all decisions supported by objective, transparent data from a multitude of sources. Owners, operators, investors, and lenders can expect consistency and comprehensiveness. The data used in the process comes from a richer well of sources, as discussed in step one, and is analyzed by some of the best appraisers in the business.

EXPERTS ORCHESTRATE THE PROCESS—ALWAYS

People will always play a role in this new type of multifamily appraisal. Even the most sophisticated algorithms are only as good as the assumptions used in their programming and the data used in their training. Verification, interpretation, and certification require a human touch, even as the "science" part of Apprise—the algorithms and data science—make research and reporting easier and faster.

Algorithms only assist with the assembly of comparable properties; appraisers interpret the data and make the final selection. Technology can bring accuracy, but appraisers bring credibility, precision, and expertise. Apprise puts objective, transparent statistics at their fingertips to support their value opinions.

IN CONCLUSION

Appraisals powered by technology and orchestrated by expert appraisers maximize the power of both. They bring the best of digital transformation and professional expertise together for the benefit of all parties. In an industry where knowledge is power and time is money, the accelerated insight of an Apprise appraisal is setting a whole new benchmark within the industry.

Meet our expert appraisal team and learn more at ***Apprise.us***

The *quest* to end HOMELESSNESS

Q&A WITH ROSANNE HAGGERTY

Rosanne Haggerty is an internationally recognized leader in developing innovative strategies to end homelessness and strengthen communities. As president and CEO of Community Solutions, she helps communities throughout the world address the complex housing problems facing their most vulnerable residents. She is also founder of Common Ground Community, a pioneer in the design and development of supportive housing and research-based practices to end homelessness.

Q ***Tell us about the early days of Community Solutions.***

A We started out as a housing developer, just in the New York area, as we believed that housing was the only solution to homelessness. After a few years, we noticed that while we were building lots of housing, homelessness was still rising all around us. We came to understand that housing supply alone couldn't solve homelessness; rather we needed an entire, coordinated system to connect those experiencing homelessness to housing and to prevent vulnerable people from becoming homeless in the first place. We launched Community Solutions to work with innovative cities and counties to learn together how to create coordinated housing systems designed to eliminate homelessness, starting with chronic and veteran homelessness.

Q ***What does an "accountable" housing system mean to a multifamily developer, owner, operator, or investor?***

A You can't build your way out of homelessness. Communities first need a 360 degree view of why people are becoming and getting stuck in homelessness. Our work involves helping communities to build local housing systems where all players work together and share accountability for making homelessness rare, and brief when it occurs. The key is organizing the key actors in each community around the same table, focused on the same goal, and sharing the same information. It's the level of collaboration one sees in other sectors dealing with many moving parts where teams use specific, real time data to guide their efforts, learn what is working and relentlessly improve their efforts.

Q ***An estimated 40-45% increase in homelessness has been projected due to the economic crisis. What can be done to keep that number from rising even more?***

A COVID-19 has put so many households at risk due to the economic crisis, but we are looking at it as an opportunity as well as a threat.

We see efforts where landlords are really stepping up to be helpful to tenants. They're worried about their tenants' health first, then concerned about rent. Landlords, tenants, and communities all have very aligned interests. This is a moment to work together to find solutions.

Significant government intervention will be needed as well to head off this crisis. The whole property industry -the whole country- has a stake in seeing that the Senate includes the housing assistance proposed in the HEROES Act passed by Congress in the next stimulus

Q ***Tell us about the similarities between Community Solutions and the property development community?***

A We feel real kinship with the property development and operating community as we know what's involved and how challenging this work is. As in property development, we look at a whole community. Our community data and improvement coaches and real estate experts work as a team with our local partners, including addressing housing supply issues when a community's data points to specific gaps. It's an essential part of our strategy.

Addressing a problem holistically and creatively can expedite solutions. Take for example, Denver, Colorado, which is a hot rental market. Even though all remaining homeless veterans had rental subsidy vouchers, in a market with a vacancy rate of only 1 percent, landlords didn't want to deal with the requirements of a federal program. So, Community Solutions used social impact capital to acquire existing rental housing and pledge vacancies to homeless veterans as units turned over. We reached out to high net worth individuals who would accept a smaller return for their investment. An example is a building, with 66 units, located just one mile from the VA hospital. And we closed in only 120 days.

Q ***What role do multifamily developers/owners/ operators play in helping to end homelessness?***

A Their participation in local teams has been critical to achieving reductions in homelessness in the places we work with. Landlords who see themselves as part of a community housing system aimed at ending homelessness have been pivotal to the process.

If developers are interested in doing even more, we encourage them to look at our Built For Zero communities. Built For Zero is made up of more than 80 cities and counties that have committed to measurably ending homelessness, one population at a time. These communities are using data to change how local homeless response systems work and the impact they can achieve.

Multifamily developers and operators can provide their communities with information on housing, available support, and act as an early warning system for struggling people facing housing emergencies. There's an enormous role for the property sector to play, as these are the true experts on the demographics of their markets, and know who is not being served by existing processes, and the typologies of housing that are in too short supply. This information is so valuable for innovators in real estate development and to inform local homelessness prevention strategies.

We also all need to ask ourselves: Why do we still build communities that tolerate homelessness?

Q ***Which cities are models for combating homelessness?***

A In the United States, two big success stories are in Jacksonville, FL and Rockford, IL, cities with very different geographies and politics.

Jacksonville has completely crushed it. They've nearly ended veteran homelessness by putting every entity in the county that interacts with homeless veterans around the same table: shelters, the VA medical center, landlords and landlord representatives, the coordination team, and more.

Rockford is a post-industrial city with lots of economic struggles, but they've ended veteran and chronic homelessness, and they're well on their way in reducing youth homelessness. Rockford made ending homelessness a real community mission and they're enlisting the property sector to be responsive to the problem.

Internationally, we can look at Finland. There they made a national policy decision and provided financial incentives to turn nearly all shelters throughout the country into permanent housing. They dramatically reduced homelessness as a result. *[CONTINUED ON PAGE 24]*

> “We also need to ask ourselves: Why do we still build communities that tolerate homelessness?”
>
> Rosanne Haggerty

[CONTINUED FROM PAGE 22]

Q *What's ahead for Community Solutions?*

A We are just launching our strategic plan for the next four years. We're proud that 13 communities have already ended chronic homelessness and over 40 have seen steady reductions.

Our next step is to get to the point where we've helped a critical mass of diverse communities end homelessness, proving it possible and necessary everywhere. That means removing regulations and barriers and changing minds. As we've seen during the COVID-19 pandemic, if any of us are to remain safe, then all of us must have the ability to be safely housed.

As we look ahead, we are honored to continue our partnership with Walker & Dunlop, who have given us flexible financial support for several years. This is so essential to a group like ours as we cut a new path. What keeps many communities from taking the necessary next steps are rigidly designed programs and financing. We're so appreciative of partners like Walker & Dunlop who give us the freedom, flexibility, and support to move forward.

"We're proud that 13 communities have already ended chronic homelessness and over 40 have seen steady reductions."

Rosanne Haggerty

SPOTLIGHT ON HOUSTON

The Hobby Center for the Performing Arts

FOCUS ON HOUSTON

A historic drop in oil prices, a global pandemic—fate dealt Houston a very difficult hand in 2020, to put it mildly. But this is not the first time the city has faced bleak conditions—and faced them down.

In 2015-2016, the metropolitan area was throttled by a double whammy of an oil bust and the Memorial Day and "tax day" floods, decimating a full 10 percent of its multifamily housing stock. Yet, by 2020, the city's job growth exceeded the national rate for the 25th consecutive month, and its multifamily market was set to deliver nearly 17,000 units, double the volume from 2019.

There is opportunity for investors with ready cash and an appetite for risk.

Right before the oil crash and COVID-19 pandemic hit, GlobeSt. wrote that "Houston's ever-diversifying economic engine continues to hum along, precipitating the need for more multifamily housing," adding that "the Houston multifamily market is bolstered by strong metro area fundamentals, with a broadened economic base going into 2020 and beyond that will continue to drive demand for the sector."

Through hurricanes, floods, tornados, and boom-bust cycles in the oil and gas markets, and more, Houston has persevered. It has one of largest metropolitan populations in the U.S. and is growing, adding more than a million people since 2010. This 2%-per-year average growth is more than twice the 0.7% average for the United States. Of the ten largest metropolitan areas, only Dallas-Fort Worth and Houston have been able to grow at this pace.

Furthermore, Houston is home to an international port that generates $801.9 billion in economic value each year and Texas Medical Center, the eighth largest business district in the United States and employer of over 100,000 people.

Finally, the city's unique lack of zoning—which leads to cycles of overdevelopment and demands in-depth local knowledge—has a powerful positive side, particularly when coupled with abundant, comparably affordable land.

"There are no oceans or mountains, just wide open prairie, no barriers to entry physically or otherwise. Apartments can pop up anywhere," said Tom Fish.

All of these qualities make Houston a market to watch in 2020 and beyond.

THE CURRENT LANDSCAPE

Just as certain sectors, like industrial and grocery-anchored retail, have continued to see financing through the crisis, multifamily has remained liquid in Houston, with a few caveats and considerations.

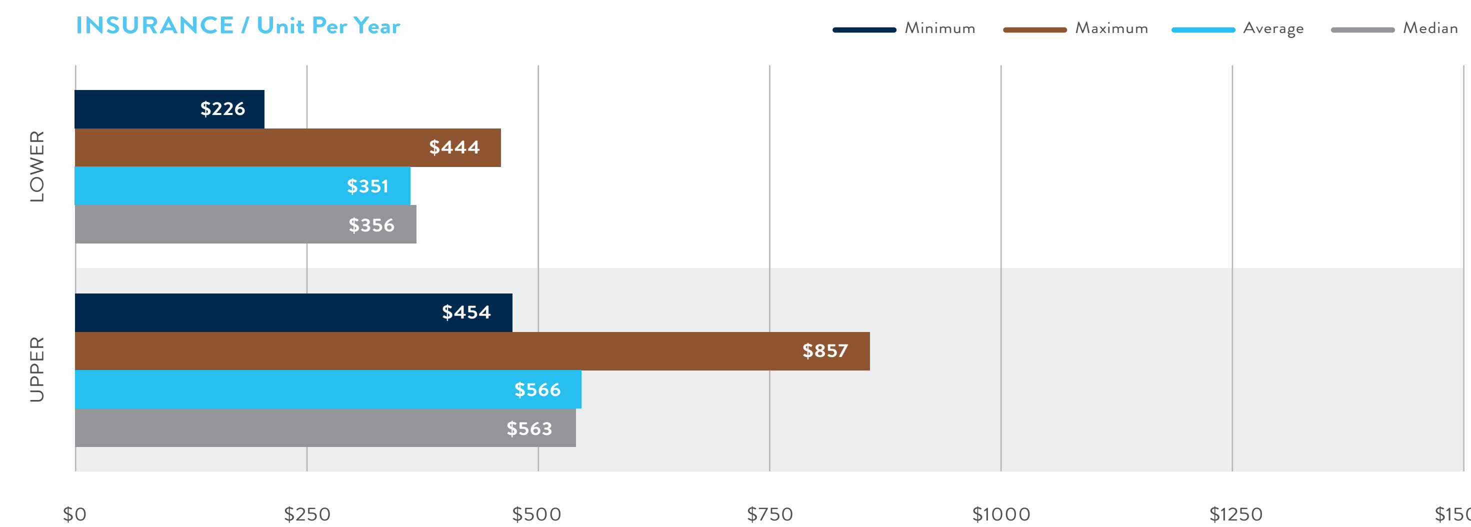
If you're in the Houston market already, "Revise your holding period and horizon and focus on staying cash-flow positive until it's more profitable to divest," said Mike Melody. "Owners won't get top dollar for properties now."

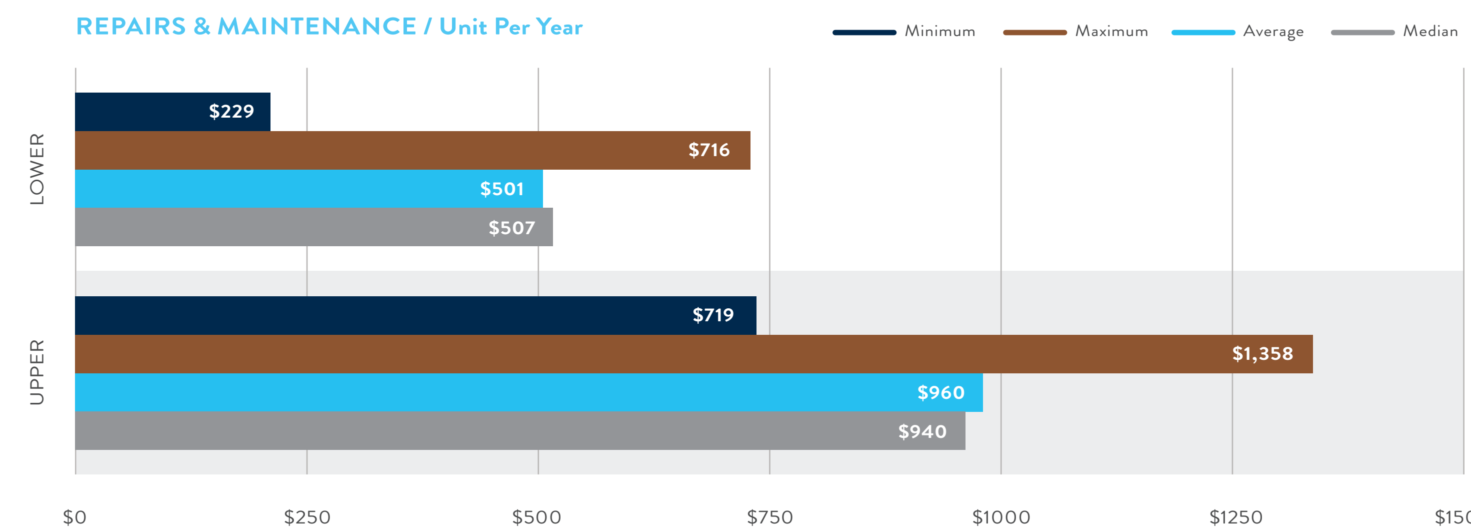
Furthermore, new construction may not be cost-feasible for several months, particularly in certain sectors.

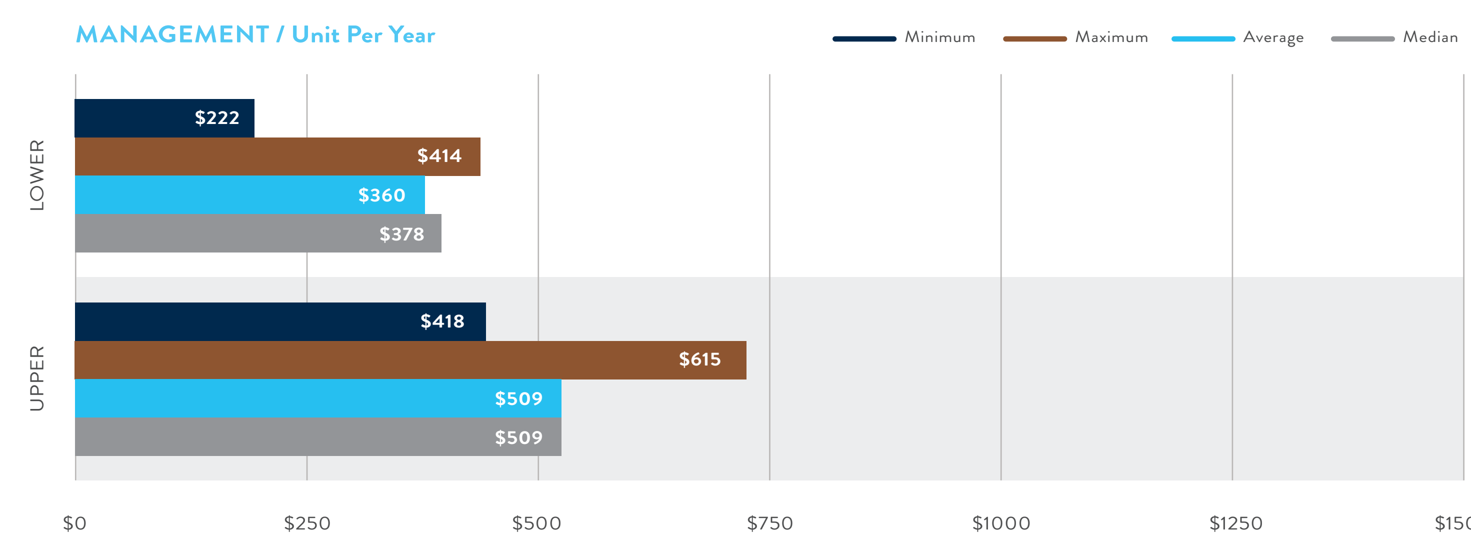
"Capital isn't totally shut off from new development, but a new development deal needs to have a unique positioning relative to other alternatives- irreplaceable basis, advantageous transaction structure, or unique resident value proposition to attract attention," said Jonathan Paine.

HOUSTON BY THE NUMBERS: AN EXCLUSIVE SNAPSHOT

Data provided by Apprise by Walker & Dunlop







*Houston Data Source: Apprise, *Repairs and Maintenance above includes R&M, Turnover, Grounds & Pest*

"The 'no barriers to entry' aspect of Houston may be our greatest weakness in terms of allowing new supply, but it is also our greatest strength. It is this same lack of barriers that create real economic opportunity and long term sustained population growth and diversity that makes Houston such a resilient and special city."

Tom Fish // Managing Director

One reason why is where Houston is in the development cycle. Houston saw more than 80,000 units delivered between 2014 and 2018 and 24,872 multifamily units under construction in the first quarter of 2020, many in the city's hottest new markets, like Montrose Heights and Medical Center west of downtown. Much of this overbuilding involves Class A properties. Think luxury high rises with sky lounges and bespoke floor plans in Houston's Inner Loop.

Today operators of luxury and Class A high rises are giving away significant concessions. Class A properties, which face the most competition from new developments, have seen the most prominent rent declines, with effective rents falling by 0.7% year-to-date. Meanwhile, Class B, B- and C properties are over 90 percent occupied, and rents in Class B properties were up by 0.9% year-to-date.

IMMEDIATE OPPORTUNITIES IN VALUE-ADD

As in cities across the United States, workforce and affordable housing have become a growing need in Houston. According to Mark Thiele, interim president and CEO of the Houston Housing Authority, one in two Houston renter households, over 430,000 total, pays more than 30% of their income in housing.

"There's a huge opportunity for new apartment projects that don't need $2,000-a-month rents to make money," said Tom Fish. "If you can give a tenant a nice product at an affordable rate, there's a need for that."

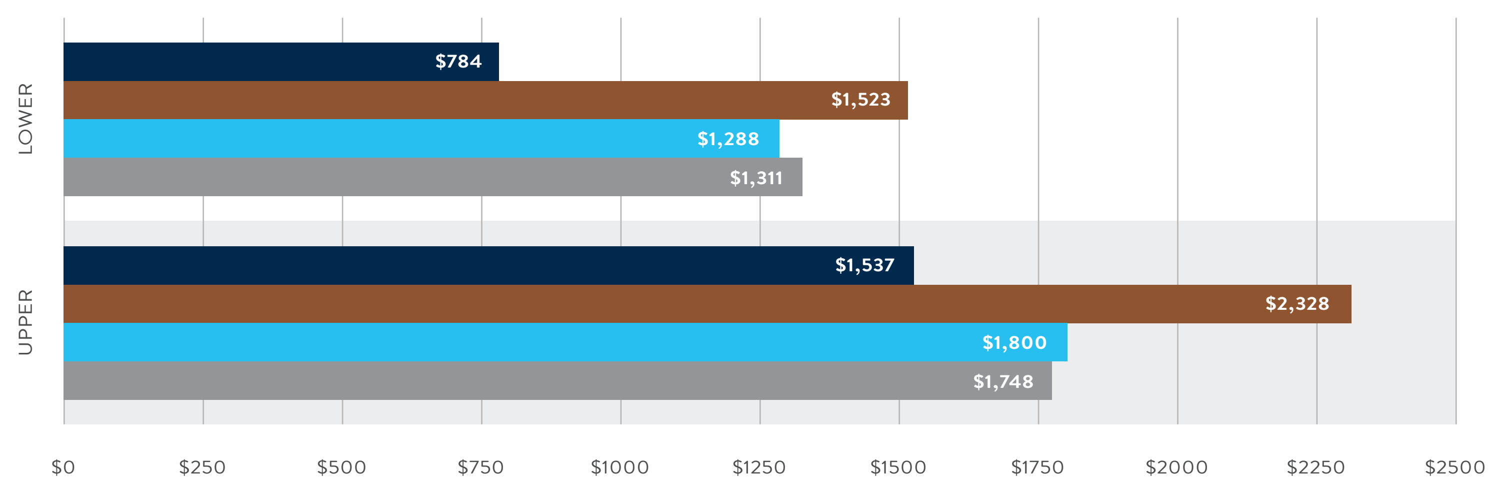
Thanks to federal aid after Hurricane Harvey and Mayor Sylvester Turner's commitment to affordable housing, ample programs exist for affordable and workforce housing. Opportunity also exists in Class C value-add projects—finding an older property and fixing it up, particularly in an emerging neighborhood.

Where to look? Close to downtown, Eastern Downtown (EaDo for short), remains an emerging leader with its proximity to metrorail, restaurants, shopping, nightlife, the new Houston Astros stadium, and both Texas Medical Center and the port.

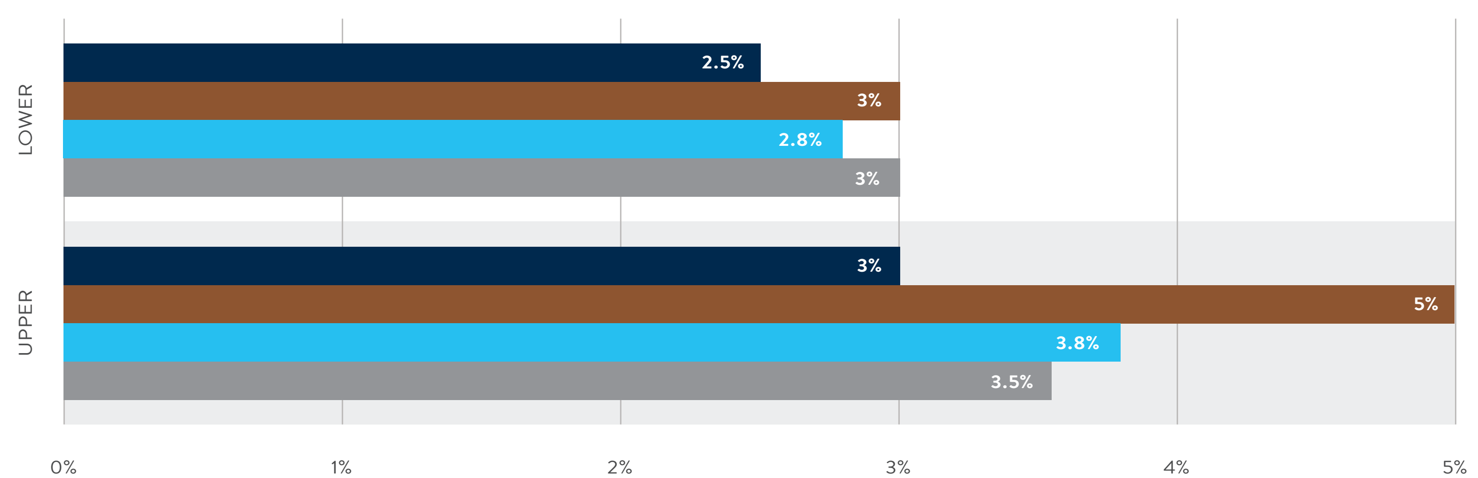
HOUSTON BY THE NUMBERS: AN EXCLUSIVE SNAPSHOT *CONTINUED*

Data provided by Apprise by Walker & Dunlop

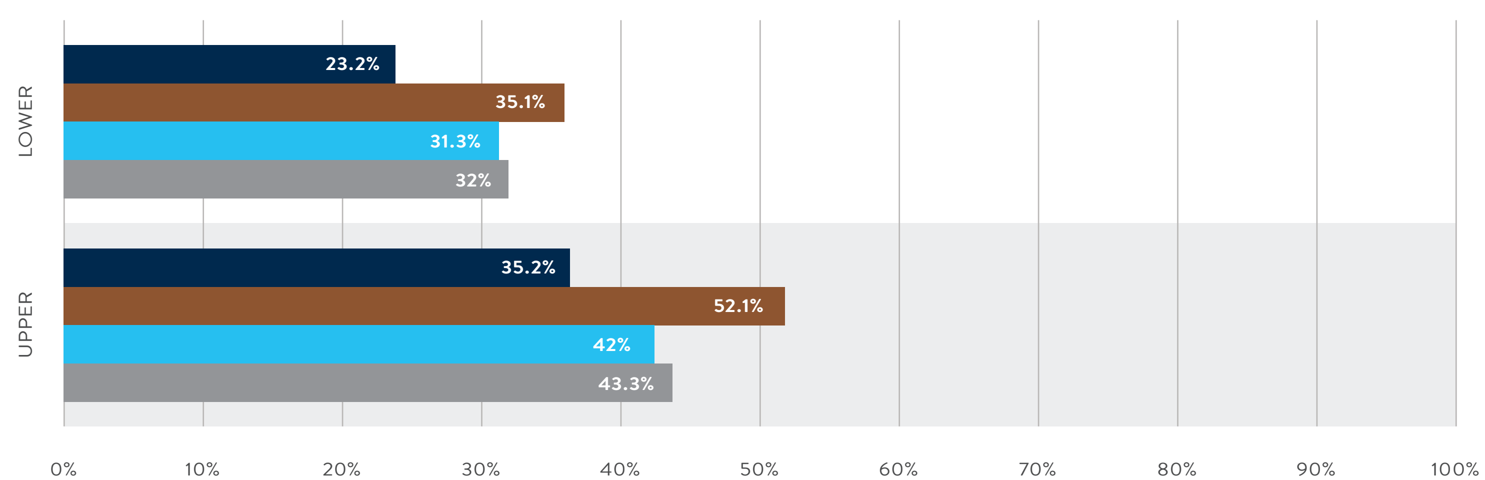
PAYROLL / Unit Per Year



MANAGEMENT AS %EGI



OPERATING EXPENSE RATIO AS %EGI



"There's still a significant price difference between east and west of downtown, and we think that will continue," said Mike Melody.

Houston's suburbs—like Katy, Spring (home to ExxonMobil's Houston campus), and Tomball in Harris County—these areas offer developers affordable land and residents less congestion, lower rents, and larger garden-style apartments, which may be particularly appealing after COVID-19 stay-at-home orders. Katy in particular, is a place to watch, with 4,200 units underway and 13 developments under construction in mid-2019.

Other submarkets to watch include the master planned community of Woodlands to the north, as well as semi-rural areas east between Houston and Beaumont and south en route to Galveston.

With Houston's no-zoning laws, it's important to enlist local expertise.

"You can build anywhere but some areas are more difficult. It's particularly important here to have advisors in this market," said Tom Melody.

FOR LONG-TERM INVESTMENTS, FOLLOW THE JOBS

Global businesses are moving operations to Houston. Katy, for example, has the 1,000-employee headquarters of Saudi Arabia-based oil company SABIC under development. In downtown Houston, military construction contractor MVL Group purchased the historic Republic Building and is renovating the 113-year-old Paul Building as its new corporate headquarters. Meanwhile, the southwest suburbs of Rosenberg-Richmond will soon be home to an 850,000-square foot Amazon fulfillment center and Brazos Town Center, one of the largest retail projects in Texas.

Concurrently, the medical and energy cornerstones of the city's economy are driving innovation. Texas Medical Center is building a new a multi-billion-dollar bioresearch campus, for example. In oil and gas, 95 percent of the capacity now entering the Texas electricity grid comes from solar, wind, or storage.

"Houston over the past two decades has added the equivalent of the population of Austin, and consistently employs more people each year," said Tom Melody. "It's a very business-friendly climate with a comparatively affordable cost of living. If we can maintain reasonable job growth in the next few years, we'll absorb the current oversupply and return to a rebalanced market."

The year's statistics look promising. Cap rates have held steady at near 5.8% on average in the first half of 2020. Effective apartment rents average $1.22 per square foot, falling between Charlotte and Milwaukee in terms of affordability. And while the market average vacancy rate of 10.3% is up year-to-date, vacancy of stabilized properties is 9%, similar to the rate at the beginning of the year.

SOURCES

https://www.forbes.com/sites/uhenergy/2018/07/24/how-houston-survived-the-great-oil-bust-of-2015-16/#483b878955db

https://www.chron.com/news/houston-texas/houston/article/Remembering-2015-s-Memorial-Day-flooding-in-12943900.php

https://www.chron.com/news/houston-texas/houston/article/tax-day-flood-houston-2016-photos-looking-back-12832654.php

https://www.bisnow.com/houston/news/multifamily/houston-multifamily-market-to-normalize-with-deliveries-set-to-double-in-2020-102528

https://www.globest.com/2020/02/24/houstons-575000-multifamily-units-are-expanding-by-170/?slreturn=20200519103644

https://www.statista.com/statistics/183600/population-of-metropolitan-areas-in-the-us/

U.S. Census Bureau, Table DP05 2010 to 2018

https://www.houston.org/news/houston-still-most-diverse-city-nation-report-finds#:~:text=A%20new%20report%20finds%20Houston,four%20residents%20are%20foreign%20born.

https://porthouston.com/

https://www.tmc.edu/tmc3/

https://www.multihousingnews.com/post/houston-multifamily-report-winter-2020/

https://realtynewsreport.com/2020/05/16/cbre-houston-apartment-rents-were-at-a-record-high-then-the-covid-hit/

https://www.bisnow.com/houston/news/multifamily/houstons-inner-loop-lands-another-multifamily-high-rise-102270

CoStar Multifamily Market Report, Houston-TX, 7/22/20

https://www.bizjournals.com/houston/news/2020/05/20/opinion-houston-needs-affordable-housing.html

https://www.cubesmart.com/blog/city-guides/houston/insider-tips/live-in-downtown-houstons-top-10-neighborhoods/

https://realtynewsreport.com/2020/06/17/banyan-residential-acquires-the-lofts-at-the-ballpark-near-the-now-silent-astros-stadium/

https://www.bisnow.com/houston/news/neighborhood/this-submarket-has-the-most-apartment-units-under-construction-in-houston-99777

https://realtynewsreport.com/from-kabul-to-historic-downtown-houston-another-construction-job-and-another-corporate-headquarters-for-space-city/

https://realtynewsreport.com/the-historic-republic-building-in-downtown-houston-has-been-sold/

https://realtynewsreport.com/850000-sf-amazon-fulfillment-center-under-construction-new-houston/

https://realtynewsreport.com/southwestern-surge-houstons-growth-moving-past-sugar-land-into-richmond-and-rosenberg/

https://www.texasmonthly.com/news/houston-not-prepared-oil-bust/

Costar Market price trends data which is based on the estimated price movement of all properties in the market, informed by actual transactions that have occurred

CoStar Multifamily National Report, United States, 7/22/20

CoStar Multifamily Market Report, Houston-TX, 7/22/20

MEET THE HOUSTON EXPERTS

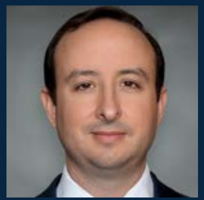
MULTIFAMILY DIRECTORS

TOM FISH
Managing Director

PAUL HOUSE
Managing Director

MIKE MELODY
Managing Director

TOM MELODY
Managing Director



JONATHAN PAINE
Senior Director

APPRISE SOUTHWEST APPRAISERS

CODY NIX, MAI
Managing Director

BRAD SAVAGE, MAI, CCIM
Managing Director

CONCLUSION

Our team will continue to closely track the performance of the multifamily market, as the pandemic evolves and the industry adjusts. Please visit our **Driven By Insight** hub to remain up-to-date on our latest reports, commentary, and analysis.

ABOUT WALKER & DUNLOP

Walker & Dunlop is one of the largest commercial real estate finance companies in the United States. The company provides a comprehensive range of capital solutions for all commercial real estate asset classes, as well as investment sales brokerage services to owners of multifamily properties. Walker & Dunlop is included on the S&P SmallCap 600 Index and was ranked as one of FORTUNE Magazine's Fastest Growing Companies in 2014, 2017, and 2018. Walker & Dunlop's 900+ professionals in 40 offices across the nation have an unyielding commitment to client satisfaction.

CORPORATE HEADQUARTERS
7501 Wisconsin Avenue
Suite 1200E
Bethesda, Maryland 20814
Phone 301.215.5500

WalkerDunlop.com