

SAN ANTONIO | MULTIFAMILY OUTLOOK

OVERVIEW

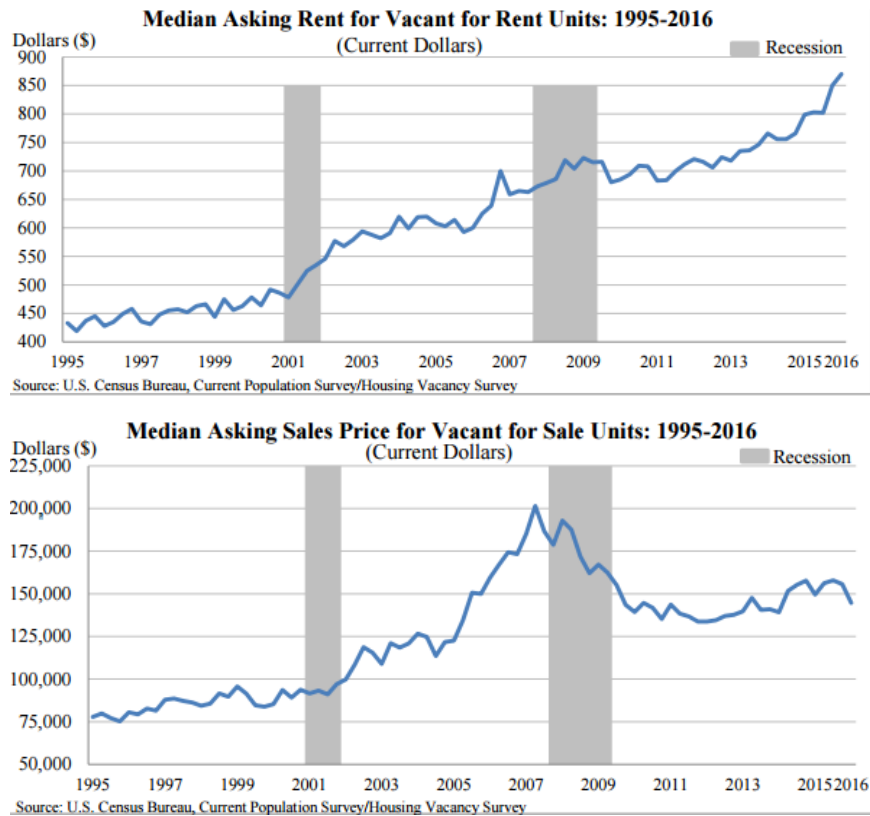
San Antonio entered 2016 as one of the United States' most stable economies. The city's diverse economy and growing employment base is continuing to attract young professionals that prefer renting to buying. Tenant **demand has been rising for Class B and Class C** multifamily rental properties in San Antonio as many of these professionals are blue collar workers and government employees. The growth in the demand for Class B/C properties is causing **vacancy rates to decline and rental rates to increase** (Marcus & Millichap). The San Antonio market presents a unique opportunity for investors looking to reposition their portfolios and benefit from the city's rising property prices and historically low interest rates. In addition, the banks increased desire to lend to multifamily properties gives access to relatively inexpensive liquidity that allows investors to rehab properties to increase rents and in turn raise net operating incomes.



ECONOMIC INDICATORS

MACRO ECONOMY

The U.S. nationwide homeownership rate has declined again during the first quarter of 2016, reaching its lowest level in nearly two decades. On the other hand, the multifamily sector has been experiencing sustained growth. Tenant and investor demand for multifamily housing has been on the rise. **Median rental rates have been increasing over the past two decades and demonstrate less volatility/sensitivity to recessions and economic downturns than single family homes**, making them a relatively safe investment option. In addition, nationwide demand for multifamily housing has also been increasing as a fairly strong labor market increases employment opportunities for young adults, the key market segment for the apartment rental industry.

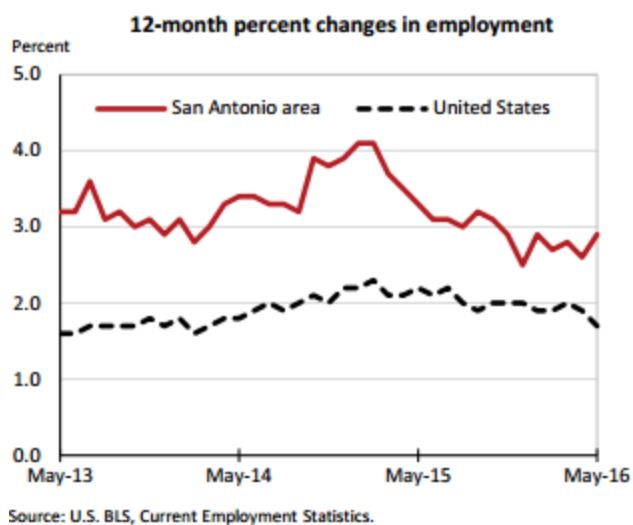


SAN ANTONIO ECONOMY

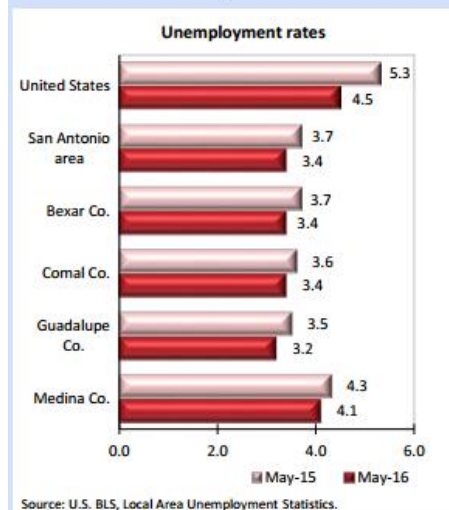
San Antonio is strategically located in South Central Texas, and has historically been the economic hub of the region. The city's median household income is above the national average at \$53,748 and is expected to grow 3.2% in the coming year (Forbes). According to the US Census, **San Antonio's growth rate has been steadily increasing for the previous five years**. San Antonio's diverse economy has allowed the city to remain strong while the rest of the state has experienced some turmoil as oil prices have plummeted. **San Antonio's job growth has not been hurt by the falling oil prices because about only two to three percent of the city's jobs are related to the energy sector**. San Antonio's unemployment rate is currently declining as the state average is increasing.

EMPLOYMENT

San Antonio's unemployment rate has been steadily decreasing since its peak of 7.7% in 2011. The city's unemployment rate in May 2016 was 3.4% compared to 4.4% in Texas and 4.5% in the U.S. for the same time period (Bureau of Labor Statistics). Job growth has been strong in recent years and is expected to increase 2.5%, or by about 25,000 workers, in 2016. Employment increases are mainly driven by the healthcare, trade and hospitality industries (Marcus and Millichap).



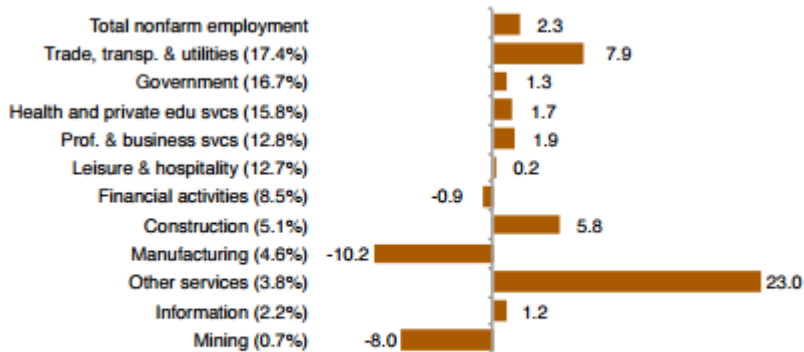
Unemployment rates for the San Antonio area, selected area counties, and the nation



MAJOR EMPLOYERS & INDUSTRIES

The major industry sectors in San Antonio are **healthcare, national defense, tourism, business services, and the new emerging energy sector**. Healthcare plays an important role in San Antonio's economy, with South Texas Medical Center being a vital part of the sector with their conglomerate of hospitals, clinics, and research facilities. In addition, government and national defense are one of the largest employment sectors of the city mainly due to the location of four military bases in the area. San Antonio is one of the **most visited cities in Texas** because of its popular tourist destinations such as the Alamo and River Walk. The tourism sector is expected to generate thousands of jobs yearly, making the sector a key driver of San Antonio's economy. Furthermore, the new emerging energy sector is opening up great opportunities for the future growth of the city with the help of the San Antonio Economic Development Foundation.

Employment Growth by Sector



NOTES: Data show seasonally adjusted and annualized percentage employment growth by industry supersector for March-May 2016. Numbers in parentheses represent share of total employment and may not sum to 100 due to rounding.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; adjustments by the Dallas Fed.

| Corporate Headquarters in San Antonio | | |
|---------------------------------------|----------------------------------|-------------------------|
| Company | Business | Employed in San Antonio |
| H-E-B | Super Market Chain | 20,000 |
| USAA | Financial Services and Insurance | 17,000 |
| Bill Miller Bar-B-Q | Fast Food Chain | 4,190 |
| Cullen / Frost Bankers | Financial Services | 3,982 |
| Valero Energy | Oil Refinery & Gasoline Mktg. | 3,777 |
| Rackspace | IT Managed Hosting Solutions | 3,300 |
| Southwest Research Institute | Applied Research | 3,046 |
| Toyota Motor Manufacturing | Auto Manufacturing | 2,900 |
| Clear Channel Communications, Inc. | TV & Radio Stations, Outdoor Ads | 2,800 |
| KCI | Medical Supplies | 2,000 |
| Harland Clarke | Check Printing | 1,500 |
| Tesoro | Oil Refiner & Petroleum Products | 800 |
| NuStar Energy | Energy | 550 |

Source: The San Antonio Business Journal and by contact with company representatives. Updated August 2013.

| Major Regional Employers in San Antonio | | |
|---|----------------------------------|-------------------------|
| Company | Business | Employed in San Antonio |
| Lackland Air Force Base | Military | 37,097 |
| Fort Sam Houston – U.S. Army | Military | 32,000 |
| H-E-B | Super Market Chain | 20,000 |
| USAA | Financial Services and Insurance | 17,000 |
| Northside I.S.D. | School District | 12,751 |
| City of San Antonio | City Government | 11,731 |
| Randolph Air Force Base | Military | 11,068 |
| North East I.S.D. | School District | 10,522 |
| Methodist Healthcare System | Health Care Services | 8,000 |
| San Antonio I.S.D. | School District | 7,374 |

Source: The 2013 Book of Lists, The San Antonio Business Journal and by contact with company representatives.

POPULATION TRENDS

San Antonio is the seventh largest municipality in the U.S. The city experienced a population growth of around 8.55% between 2010 and 2016 and is projected to **grow an additional 6.90%** through the year 2021. Crime has been generally declining since the early 2000s.

| Area | 2010 Census | Est. Pop. 2016 | Projected Growth 2016-2021 |
|-------------|-------------|----------------|----------------------------|
| San Antonio | 1,327,407 | 1,440,900 | 6.90% |

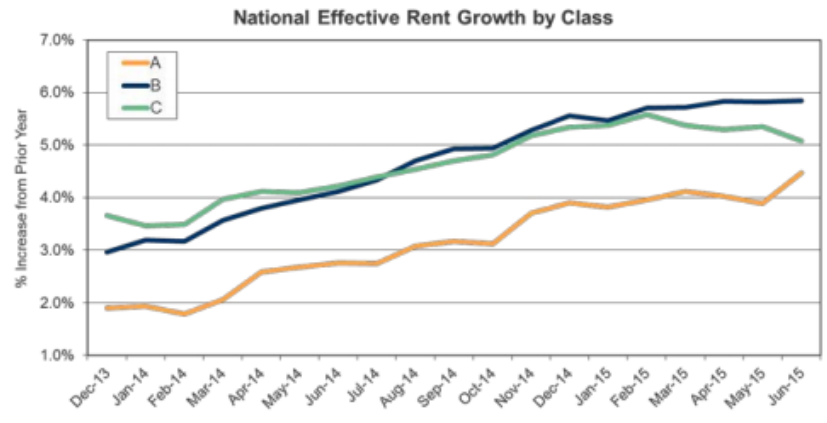
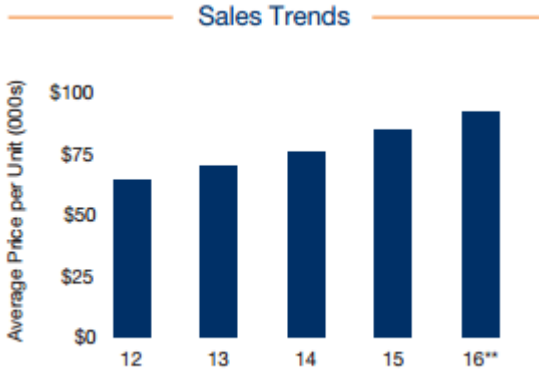
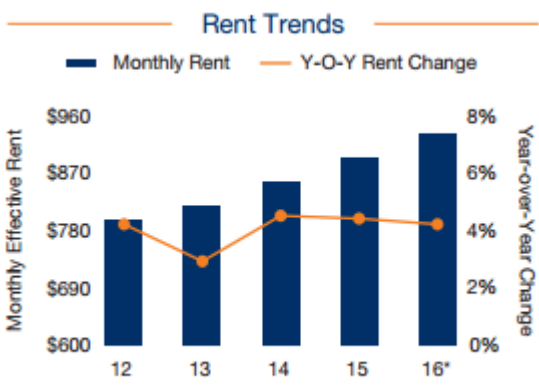
LOCAL MULTIFAMILY TRENDS

VACANCY

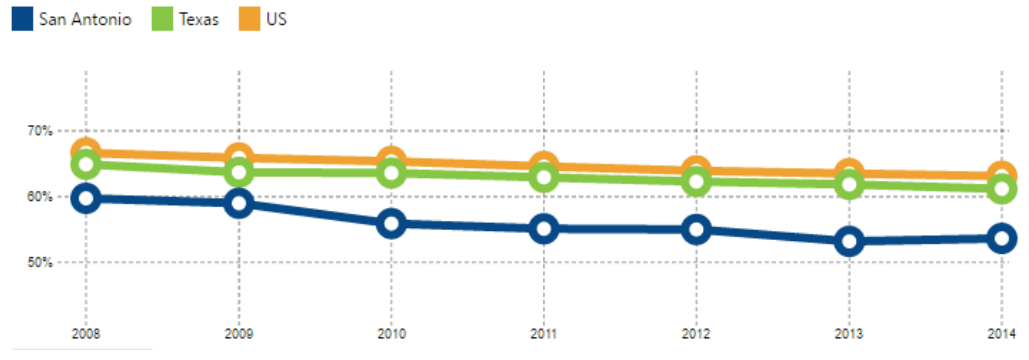
Vacancy rates in 2016 are expected to increase slightly by 40 basis points, 0.4%, annually to 6.5% with a net absorption of 5,100 units (Marcus and Millichap). The increase in vacancy rates is mainly due to the increases in new construction of luxury apartments. However, the new constructions do not have a major effect on the occupancy of B/C class apartments built before 1990 due to the fact that they affect a different tenant group. **The vacancy rates for apartments built prior to 1990 have tightened and declined about 100 basis points**, meanwhile vacancy rates for 1990s forward apartments have increased 120 basis points (to 7.2%) during the previous fiscal period (Marcus and Millichap).

LOCAL RENTAL ECONOMICS

Rental rates have been growing at one of the strongest paces since 2008. Average rents are expected to increase around 4.2% in 2016, raising the monthly effective rental rate to \$933. In addition, on a year-to-year basis average rents in 2016 have been increasing at a higher pace than they were in the previous annual period. From 2015 to 2016, average rents increased around 6% compared to 5.1% in the previous year (Marcus & Millichap Market Report). During the previous fiscal period, rents surpassed \$1,100 per month in four San Antonio submarkets, ranging from \$1,080 per month to \$1,238 per month. Furthermore, it is important to note that **rental growth has been the strongest among properties built in the 1970s and 1980s, increasing 6.1%** (Fannie Mae Multifamily Report). The strong growth rate for older properties is largely due to the increase in demand for such properties by the employment gains in the blue-collar workforce. Homeownership rates are on the downward trend in San Antonio, which directly leads to a larger pool of renters, which makes multifamily investing more attractive.



Homeownership Rate in San Antonio over years



CAP RATES

CBRE categorizes San Antonio as a Tier III market for multifamily. Cap rates for **Class B** suburban multifamily properties stand at **5.25% - 6.00% for stable and value add**; For **class C** they stand at **5.75% - 6.00% for both stable and value add**. San Antonio's cap rates are favorable compared to other metropolitan areas, specially tier I

assets, that have cap rates between 3.75% - 5.00% for stabilized class B assets and 5.00% to 6.00% for class B value add assets.

MULTIFAMILY SUBURBAN | UNITED STATES KEY RATES

| TIER I | CLASS A | | | | CLASS B | | | | CLASS C | | | |
|------------------------|---|---------------------|--|---------------------|---|---------------------|--|---------------------|---|---------------------|--|---------------------|
| | CAP RATES FOR STABILIZED PROPERTIES (%) | | EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%) | | CAP RATES FOR STABILIZED PROPERTIES (%) | | EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%) | | CAP RATES FOR STABILIZED PROPERTIES (%) | | EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%) | |
| | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ |
| ATLANTA | 5.00 - 5.50 | ↔ | 6.25 - 6.75 | ▲ | 5.75 - 6.25 | ▲ | 6.50 - 7.00 | ↔ | 6.50 - 7.00 | ▲ | 7.25 - 7.75 | ↔ |
| BOSTON | 4.50 - 5.00 | ↔ | 5.75 - 6.25 | ↔ | 5.00 - 5.50 | ↔ | 6.50 - 7.00 | ↔ | 6.25 - 6.75 | ↔ | 7.00 - 7.50 | ↔ |
| CHICAGO | 4.75 - 5.00 | ▼ | 5.25 - 5.50 | ↔ | 5.50 - 5.75 | ↔ | 5.50 - 5.75 | ↔ | 6.50 - 7.00 | ↔ | 6.25 - 6.50 | ↔ |
| DALLAS/FORT WORTH | 4.75 - 5.75 | ▲ | 4.50 - 5.50 | ↔ | 5.50 - 6.50 | ▲ | 5.25 - 6.25 | ▲ | 6.75 - 7.50 | ↔ | 8.00 - 9.00 | ↔ |
| HOUSTON | 5.25 - 5.75 | ↔ | 5.25 - 5.75 | ↔ | 6.00 - 6.50 | ▲ | 5.75 - 6.25 | ▼ | 7.25 - 7.75 | ▲ | 7.00 - 7.50 | ▼ |
| N. CA: OAKLAND | 4.50 - 5.00 | — | 4.50 - 5.00 | — | 4.75 - 5.25 | — | 4.75 - 5.25 | — | 5.00 - 5.50 | — | 5.00 - 5.50 | — |
| N. CA: SAN FRANCISCO | 3.75 - 4.25 | ↔ | 4.00 - 4.50 | ↔ | 4.25 - 4.75 | ↔ | 4.25 - 4.75 | ↔ | 4.75 - 5.25 | ↔ | 4.50 - 5.00 | ↔ |
| N. CA: SAN JOSE | 4.00 - 4.50 | ↔ | 4.00 - 4.75 | ↔ | 4.25 - 4.75 | ↔ | 4.25 - 5.00 | ↔ | 4.50 - 5.00 | ↔ | 4.50 - 5.25 | ↔ |
| NY: N. NEW JERSEY | 4.75 - 5.25 | ↔ | 5.75 - 6.25 | ↔ | 5.50 - 6.00 | ↔ | 6.50 - 7.00 | ↔ | — | — | — | — |
| NY: STAMFORD | 5.50 - 6.00 | ↔ | 6.25 - 6.75 | ↔ | 6.25 - 6.75 | ▼ | 6.75 - 7.25 | ▼ | — | — | — | — |
| S. CA: INLAND EMPIRE | 4.75 - 5.25 | ↔ | 5.00 - 5.50 | ↔ | 5.00 - 5.50 | ↔ | 5.50 - 6.00 | ↔ | 6.00 - 6.50 | ↔ | 6.50 - 7.00 | ↔ |
| S. CA: LOS ANGELES | 3.75 - 4.25 | ▼ | 4.25 - 4.75 | ▼ | 4.25 - 5.25 | ▼ | 4.75 - 5.75 | ▼ | 5.50 - 6.50 | — | 5.75 - 6.75 | — |
| S. CA: ORANGE COUNTY | 4.00 - 4.50 | ▲ | 4.75 - 5.25 | — | 4.25 - 5.00 | ↔ | 5.25 - 5.75 | — | 5.25 - 5.75 | ↔ | 6.25 - 6.75 | — |
| S. FL: FORT LAUDERDALE | 4.25 - 5.00 | — | 5.00 - 5.50 | — | 4.75 - 5.00 | — | 5.00 - 5.50 | — | 6.25 - 7.00 | — | 6.75 - 7.50 | — |
| S. FL: MIAMI | 4.25 - 4.75 | ▼ | 5.00 - 5.50 | ▼ | 4.50 - 5.00 | ▼ | 5.00 - 5.50 | ▼ | 6.00 - 6.75 | ▼ | 6.75 - 7.50 | ▼ |
| S. FL: WEST PALM BEACH | 4.25 - 4.75 | — | 5.00 - 5.50 | — | 4.50 - 5.00 | — | 5.00 - 5.50 | — | 6.00 - 6.75 | — | 6.75 - 7.50 | — |
| SEATTLE | 4.50 - 5.00 | ↔ | 4.75 - 5.00 | ↔ | 5.00 - 5.50 | ↔ | 5.25 - 5.75 | ↔ | 5.75 - 6.25 | ▼ | 6.00 - 6.50 | ↔ |
| WASHINGTON, D.C. | 4.50 - 5.25 | ↔ | 4.75 - 5.50 | ↔ | 5.25 - 5.75 | ↔ | 5.75 - 6.50 | ↔ | 6.00 - 6.75 | ↔ | 6.75 - 7.75 | ↔ |

| TIER II | CLASS A | | | | CLASS B | | | | CLASS C | | | |
|--------------|---|---------------------|--|---------------------|---|---------------------|--|---------------------|---|---------------------|--|---------------------|
| | CAP RATES FOR STABILIZED PROPERTIES (%) | | EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%) | | CAP RATES FOR STABILIZED PROPERTIES (%) | | EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%) | | CAP RATES FOR STABILIZED PROPERTIES (%) | | EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%) | |
| | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ |
| AUSTIN | 4.75 - 5.50 | ▲ | 4.75 - 5.25 | ▲ | 5.00 - 6.00 | ▲ | 5.00 - 5.75 | ▲ | 5.50 - 6.50 | ▲ | 5.25 - 6.00 | ↔ |
| BALTIMORE | 5.00 - 5.50 | ↔ | 5.25 - 5.75 | ↔ | 5.25 - 5.80 | ↔ | 6.75 - 7.25 | ↔ | 6.25 - 7.00 | ↔ | 8.00 - 8.00 | ↔ |
| DENVER | 5.00 - 5.50 | ↔ | 6.00 - 7.00 | ↔ | 5.50 - 6.00 | ↔ | 6.75 - 7.50 | ↔ | 5.75 - 6.25 | ↔ | 7.50 - 9.00 | ↔ |
| ORLANDO | 4.75 - 5.25 | ↔ | — | — | 5.50 - 6.00 | ↔ | 6.25 - 6.75 | ▲ | 6.50 - 7.00 | ↔ | 6.50 - 8.00 | ↔ |
| PHILADELPHIA | 4.50 - 5.00 | ▼ | 6.25 - 6.75 | ▼ | 5.50 - 6.00 | ▼ | 6.75 - 7.25 | ▼ | 6.00 - 6.75 | ▼ | 7.25 - 7.75 | ▼ |
| PHOENIX | 5.00 - 5.25 | ↔ | 6.25 - 6.50 | ↔ | 5.00 - 5.50 | ▼ | 6.25 - 6.75 | ▼ | 5.75 - 6.25 | ▼ | 7.00 - 7.50 | ▼ |
| SAN DIEGO | 4.00 - 4.50 | ▼ | 4.25 - 4.75 | ↔ | 4.75 - 5.25 | ↔ | 5.00 - 5.50 | ↔ | 5.25 - 5.75 | ↔ | 5.50 - 6.00 | ↔ |
| TAMPA | 4.75 - 5.25 | ↔ | 5.25 - 5.75 | ↔ | 5.50 - 6.00 | ↔ | 6.00 - 6.50 | ↔ | 6.50 - 7.00 | ↔ | 7.00 - 7.50 | ↔ |

MULTIFAMILY SUBURBAN | UNITED STATES KEY RATES CONT.

| TIER III | CLASS A | | | | CLASS B | | | | CLASS C | | | |
|----------------|---|---------------------|--|---------------------|---|---------------------|--|---------------------|---|---------------------|--|---------------------|
| | CAP RATES FOR STABILIZED PROPERTIES (%) | | EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%) | | CAP RATES FOR STABILIZED PROPERTIES (%) | | EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%) | | CAP RATES FOR STABILIZED PROPERTIES (%) | | EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%) | |
| | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ | | CHANGE ¹ |
| ALBUQUERQUE | 5.50 - 6.00 | ▼ | 6.50 - 7.00 | ↔ | 5.75 - 6.50 | ↔ | 7.00 - 7.50 | ↔ | 6.75 - 7.50 | ↔ | 8.00 - 9.00 | ↔ |
| CHARLOTTE | 5.00 - 5.25 | ↔ | 5.00 - 5.25 | ↔ | 5.25 - 5.75 | ↔ | 5.25 - 5.75 | ↔ | 6.00 - 6.50 | ↔ | 6.00 - 6.50 | ↔ |
| CINCINNATI | 5.00 - 6.00 | ▼ | 7.00 - 8.00 | ↔ | 6.25 - 6.75 | ▲ | 8.00 - 9.00 | ▲ | 8.00 - 9.50 | ▲ | 9.00 - 10.00 | ▲ |
| CLEVELAND | 6.50 - 7.50 | ↔ | 7.50 - 8.50 | ↔ | 6.75 - 7.75 | ↔ | — | — | 8.50 - 10.00 | ▲ | 9.00 - 11.00 | ↔ |
| COLUMBUS | 5.50 - 6.50 | ↔ | 6.25 - 6.75 | ↔ | 6.50 - 7.50 | ↔ | 7.25 - 7.75 | ↔ | 7.75 - 9.00 | ↔ | 8.75 - 9.25 | ↔ |
| DETROIT | 6.25 - 7.00 | ↔ | 6.75 - 8.00 | ↔ | 6.75 - 7.50 | ▼ | 7.00 - 8.00 | ▼ | 7.75 - 9.00 | ▼ | 8.75 - 10.00 | ▼ |
| HONOLULU | — | — | — | — | — | — | — | — | — | — | — | — |
| INDIANAPOLIS | 5.25 - 5.75 | ↔ | 6.00 - 6.75 | ▼ | 5.75 - 6.25 | ↔ | 6.50 - 7.25 | ▼ | 7.00 - 8.25 | ↔ | 8.00 - 10.00 | ↔ |
| JACKSONVILLE | 4.25 - 5.25 | ▼ | 5.25 - 6.00 | ↔ | 5.75 - 6.75 | ↔ | 6.25 - 7.00 | ↔ | 6.75 - 7.75 | ↔ | 7.50 - 8.00 | ↔ |
| KANSAS CITY | 5.25 - 5.50 | ↔ | 5.75 - 6.00 | ↔ | 5.25 - 5.50 | ↔ | 5.75 - 6.00 | ▼ | 6.00 - 6.50 | ▼ | 6.75 - 7.25 | ▼ |
| LAS VEGAS | 5.00 - 5.25 | ↔ | 5.25 - 5.50 | ↔ | 5.25 - 5.75 | ↔ | 5.50 - 6.00 | ↔ | 6.25 - 7.00 | ↔ | 6.50 - 6.50 | ▼ |
| MINNEAPOLIS | 5.00 - 5.25 | ↔ | 5.50 - 5.75 | ↔ | 5.25 - 5.75 | ↔ | 6.00 - 6.50 | ↔ | 6.25 - 6.75 | ▲ | 6.50 - 7.00 | ↔ |
| NASHVILLE | 4.75 - 5.50 | ↔ | 5.75 - 6.25 | ↔ | 5.50 - 6.00 | ↔ | 6.00 - 6.50 | ↔ | 6.00 - 6.50 | ↔ | 6.75 - 7.25 | ↔ |
| OKLAHOMA CITY | 5.50 - 6.00 | ↔ | 7.50 - 8.00 | ▼ | 5.50 - 6.00 | ▼ | 8.00 - 8.50 | ▼ | 7.50 - 8.50 | ▲ | 8.50 - 9.50 | ▲ |
| PITTSBURGH | 6.00 - 6.50 | ↔ | 6.50 - 7.00 | ↔ | 6.50 - 7.00 | ↔ | 7.00 - 7.50 | ↔ | 7.50 - 8.00 | ↔ | 8.50 - 9.00 | ↔ |
| PORTLAND | 4.75 - 5.25 | ↔ | 4.50 - 5.00 | ↔ | 5.00 - 5.50 | ▼ | 4.75 - 5.25 | ▼ | 5.25 - 5.75 | ▼ | 5.00 - 5.50 | ▼ |
| RALEIGH-DURHAM | 4.75 - 5.25 | ↔ | 4.95 - 5.45 | ↔ | 5.25 - 5.50 | ↔ | 5.50 - 5.75 | ↔ | 6.50 - 7.00 | ↔ | 6.75 - 8.00 | ↔ |
| RICHMOND | 5.75 - 6.25 | ↔ | 6.25 - 7.00 | ↔ | 6.00 - 7.50 | ↔ | 6.75 - 8.00 | ↔ | 7.25 - 8.50 | ↔ | 8.00 - 10.00 | ↔ |
| SACRAMENTO | 4.25 - 5.00 | ▼ | 5.00 - 5.50 | ▲ | 5.00 - 5.75 | ↔ | 5.50 - 6.00 | ↔ | 5.75 - 6.25 | ↔ | 6.25 - 7.00 | ↔ |
| SALT LAKE CITY | 5.00 - 5.50 | ↔ | 5.50 - 5.75 | ↔ | 5.25 - 5.75 | ↔ | 5.75 - 6.25 | ↔ | 6.00 - 6.50 | ↔ | 6.00 - 6.50 | ↔ |
| SAN ANTONIO | 5.00 - 5.75 | ↔ | 4.75 - 5.50 | ▼ | 5.25 - 6.00 | ↔ | 5.25 - 6.00 | ▼ | 5.75 - 6.50 | ↔ | 5.75 - 6.50 | ▼ |
| SAINT LOUIS | 5.50 - 5.75 | ↔ | — | — | 6.00 - 6.75 | ↔ | — | — | 7.25 - 8.25 | ↔ | — | — |

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