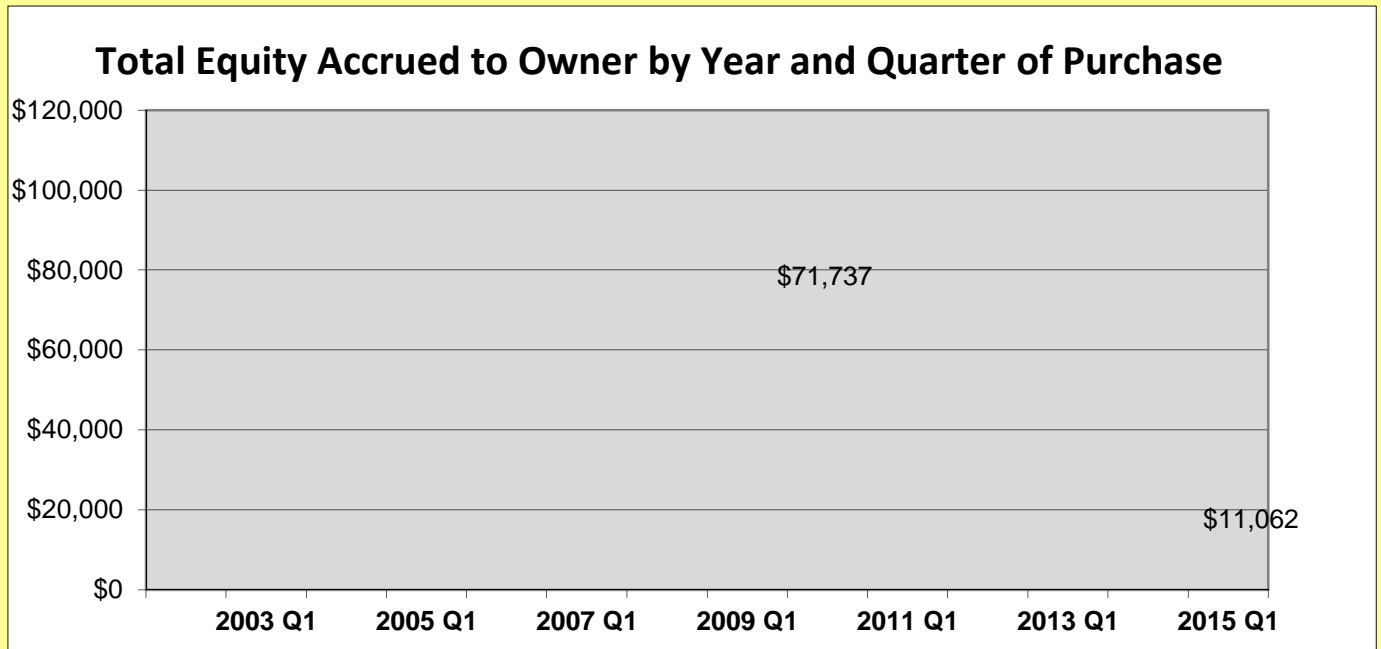




# Benefits of Ownership: Total Equity Appreciation



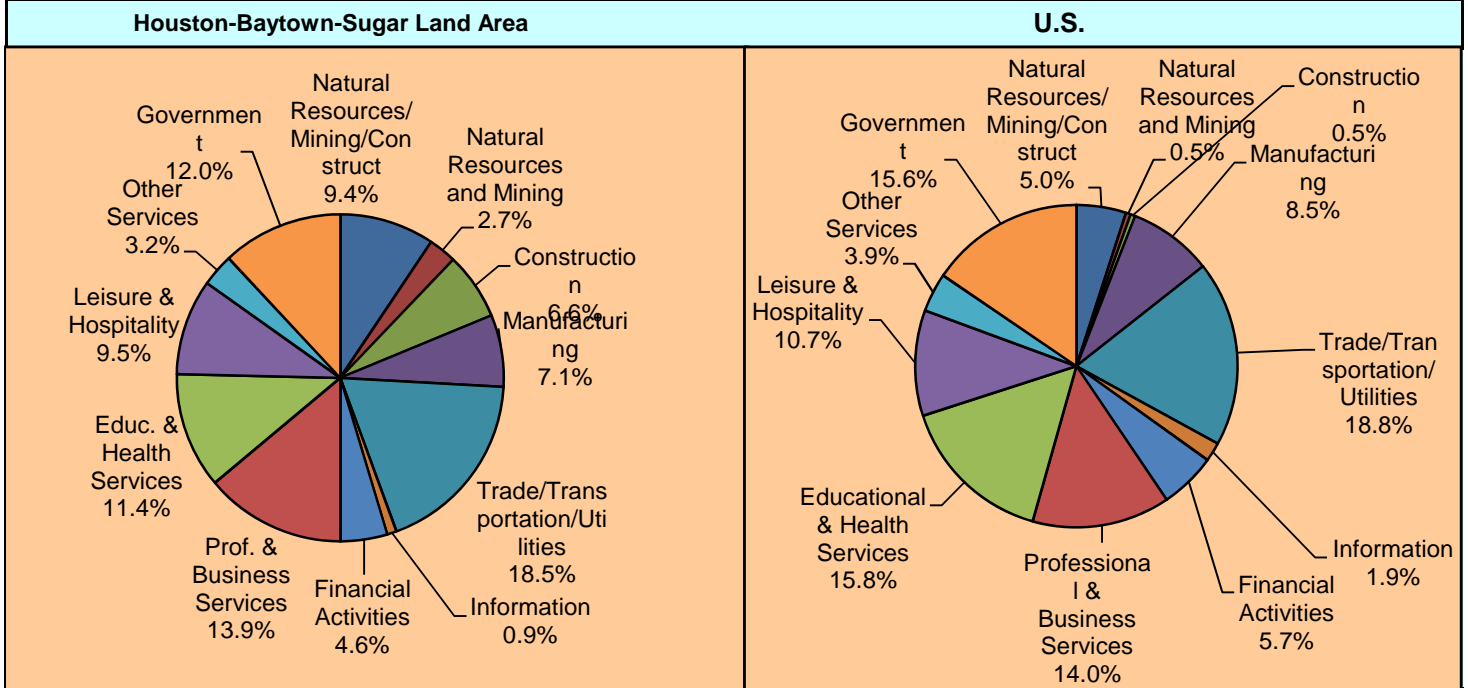
Total Equity Gained** through 2016 Q1 from quarter in which home was of purchased			
Price Activity	Houston	U.S.	Local Trend
1-year (4-quarter)	\$11,062	\$15,781	Price appreciation and principle payments in the last 3 years have boosted total equity growth since the recession
3-year (12-quarter)*	\$53,161	\$49,356	
5-year (20-quarter)*	\$70,871	\$68,727	
7-year (28 quarters)*	\$84,639	\$59,758	
9-year (36 quarters)*	\$79,484	\$16,435	
If purchase in 2005, the national price peak	\$94,152	\$30,059	

\*Note: Equity gain reflects price and principle payments since purchase, prevailing 30-year fixed rate mortgage at time of purchase and a 10% downpayment. Downpayment is not included in total equity

# Drivers of Local Supply and Demand...

Local Economic Outlook	Houston	U.S.	
12-month Job Change (Mar)	7,400	Not Comparable	Employment growth has eased, but remains positive
12-month Job Change (Feb)	8,600	Not Comparable	
36-month Job Change (Mar)	184,300	Not Comparable	Unemployment has risen since the same period last year, but Houston's labor market has been more resilient than the national average
Current Unemployment Rate (Mar)	4.9%	5.0%	
Year-ago Unemployment Rate	4.3%	5.5%	Local employment growth is poor and needs to improve
1-year (12 month) Job Growth Rate	0.2%	2.0%	

## Share of Total Employment by Industry



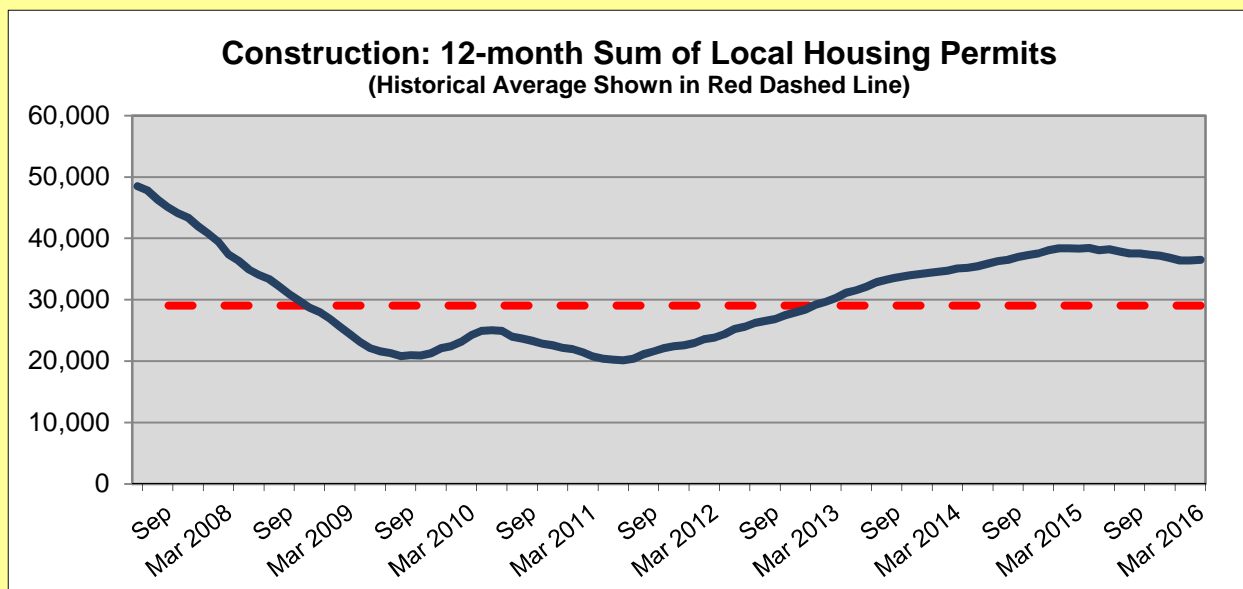
### 12-month Employment Change by Industry in the Houston-Baytown-Sugar Land Area (Mar - 2016)

Goods Producing	NA	Information	-1,000
Natural Resources/Mining/Construction	-10,000	Financial Activities	2,100
Natural Resources and Mining	-14,100	Prof. & Business Services	-10,200
Construction	4,100	Educ. & Health Services	14,500
Manufacturing	-20,600	Leisure & Hospitality	18,900
Service Providing Excluding Government	NA	Other Services	-200
Trade/Transportation/Utilities	5,900	Government	8,000

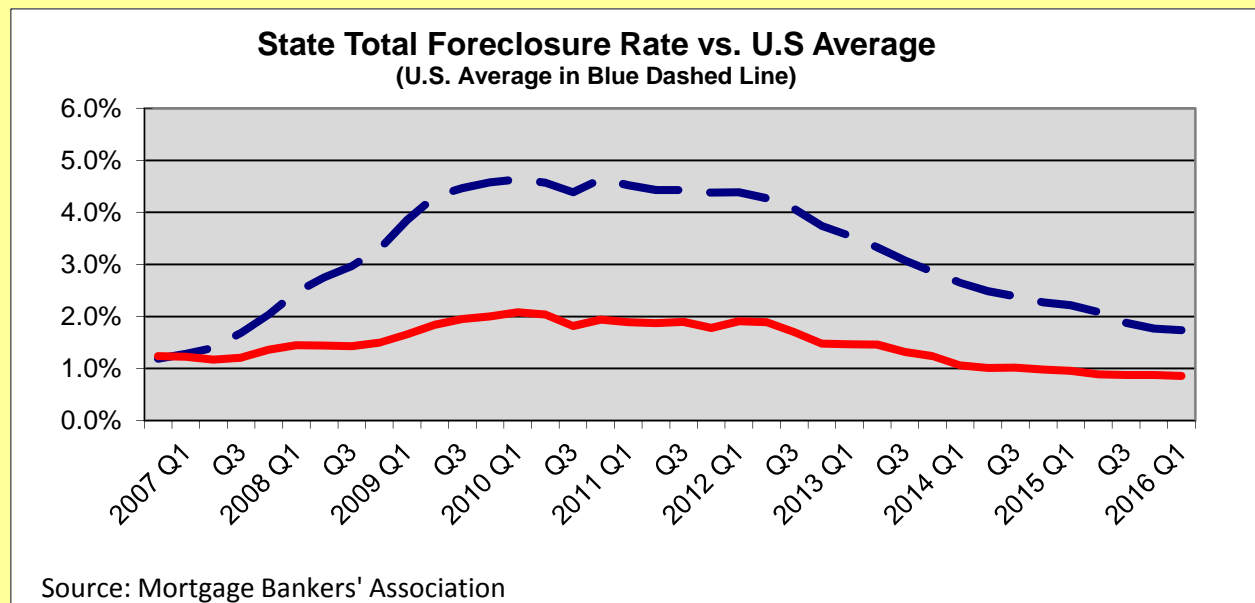
State Economic Activity Index	Texas	U.S.	
12-month change (2016 - Mar)	2.5%	3.1%	Texas's economy is growing, but decelerated from last month's 2.55% change and lags the rest of the nation
36-month change (2016 - Mar)	13.1%	10.5%	

## New Housing Construction

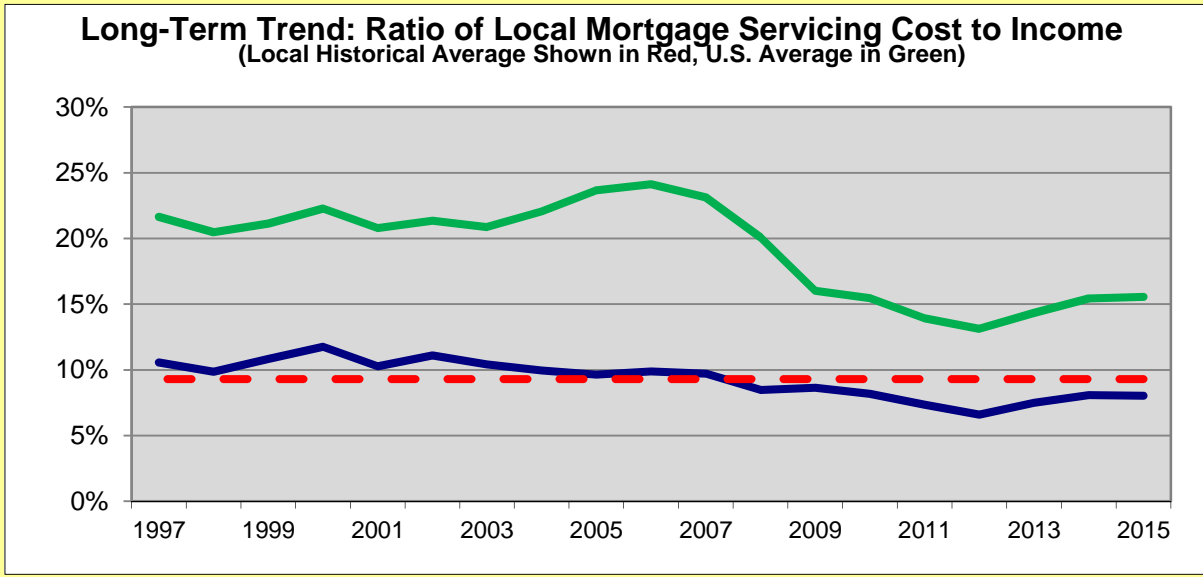
Local Fundamentals	Houston	U.S.	
12-month Sum of 1-unit Building Permits through Mar 2016	36,506	not comparable	The current level of construction is 25.6% above the long-term average
8-year average for 12-month Sum of 1-Unit Building Permits	29,064	not comparable	Production above trend for an extended period of time could cause prices to moderate as inventory is built
Single-Family Housing Permits (Mar 2016) 12-month sum vs. a year ago	-4.7%	11.3%	Construction is down from last year, but appears to have bottomed.



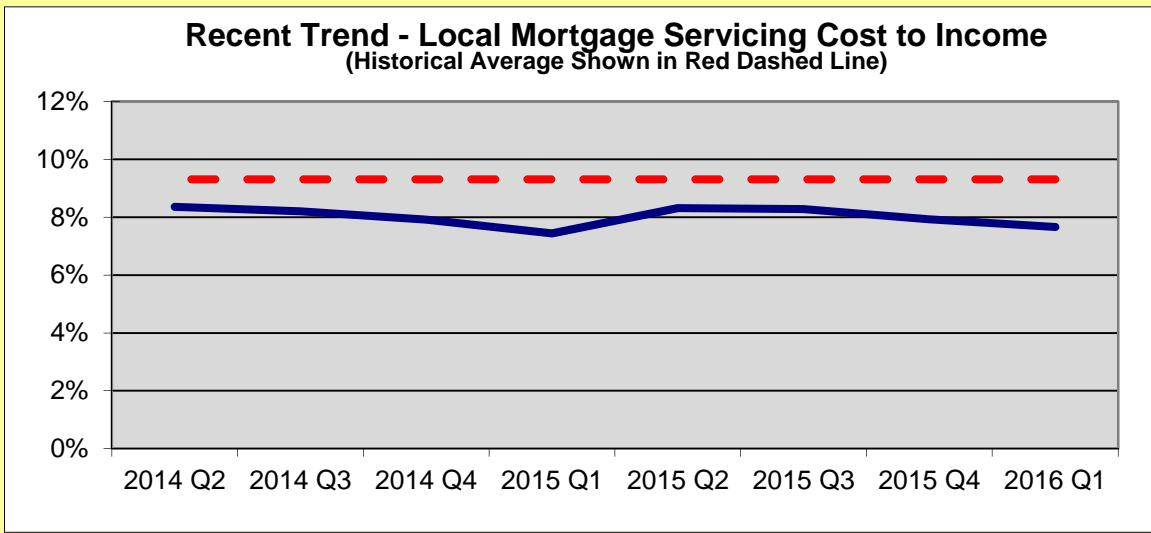
While new construction is the traditional driver of supply in real estate, foreclosures and short-sales now have a strong impact on inventories, particularly at the local level. Rising inventories, through construction or distressed sales, place downward pressure on the median home prices.



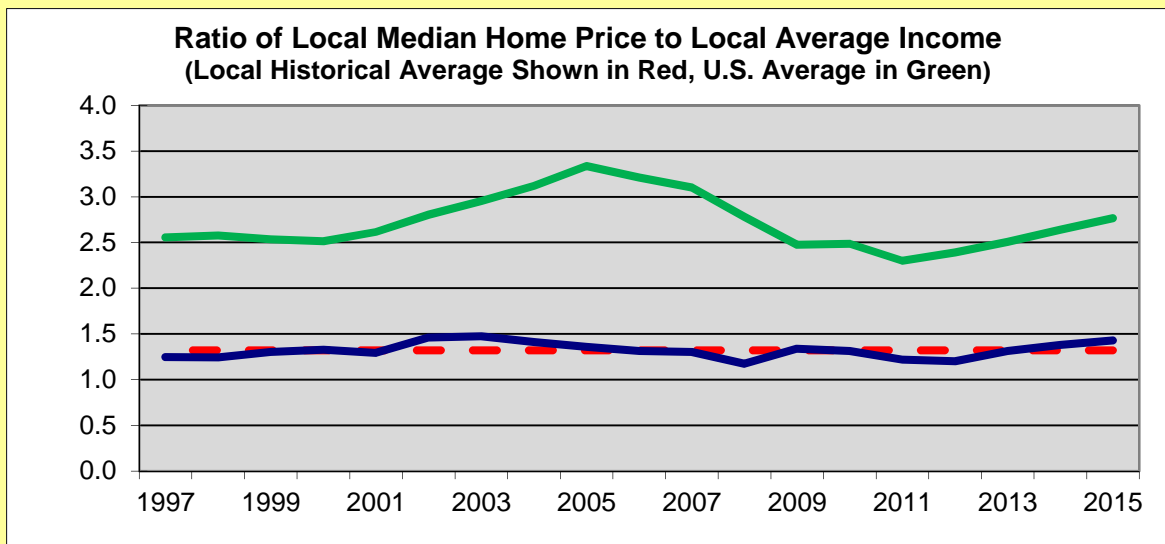
# Affordability



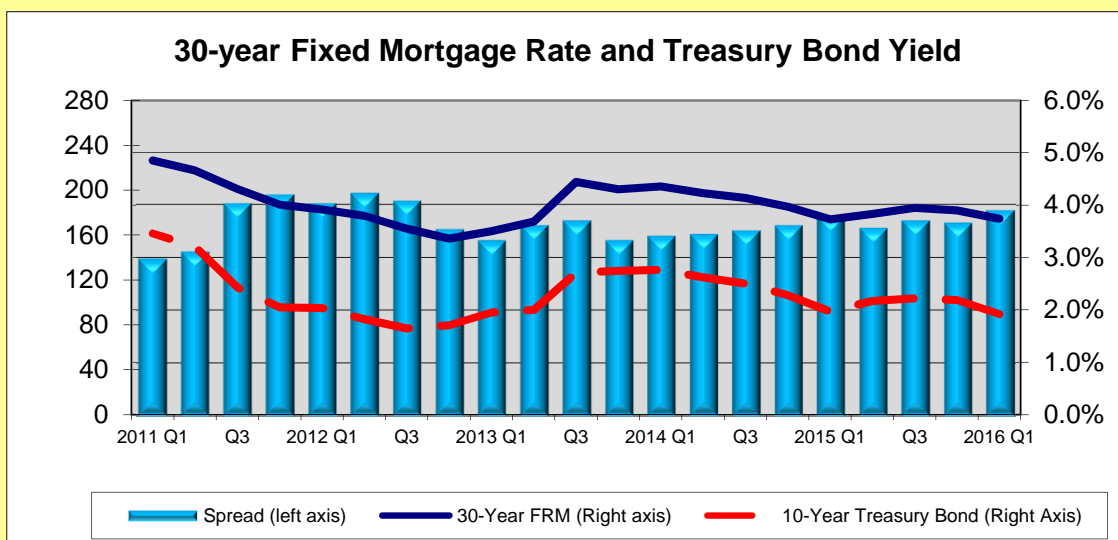
Monthly Mortgage Payment to Income	Houston	U.S.	
Ratio for 2015	8.0%	15.6%	Historically strong and an improvement over the fourth quarter of 2015
Ratio for 2016 Q1	7.7%	14.5%	
Historical Average	9.3%	19.5%	More affordable than most markets



Median Home Price to Income	Houston	U.S.	
Ratio for 2015	1.4	2.8	The price-to-income ratio eased, but could be better
Ratio for 2016 Q1	1.4	2.6	
Historical Average	1.3	2.7	Affordable compared to most markets

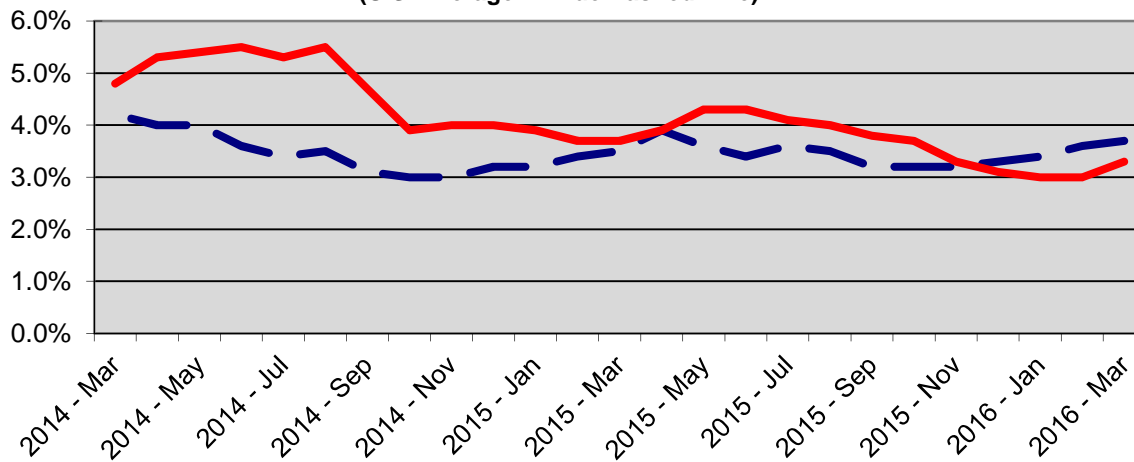


## The Mortgage Market



The first quarter of 2016 was marked by paroxysms in financial, energy, and commodity markets. The uncertainty in China and the emerging-market economies, the gathering doubt about the sustainability of the modern European project, and weakness in domestic growth were the issues of the early days of 2016. With regard to the mortgage market, the year began after the FED started its tightening cycle with the first rate hike this past December. However, since the start of the year mortgage rates have dropped as the FED held off on expected rate hikes. The 30-year fixed-rate mortgages eased from 3.9 percent in the 4th quarter of 2015 to 3.7 percent in the first quarter of 2016. The 10-year Treasury fell to 1.92 percent which is the lowest rate after Q4 2012. Rates are likely to remain low through the spring as the market deals with international instability and mixed signals for the domestic economy. NAR is now forecasting fewer rate hikes by the FED in 2016 and as a result the 30-year fixed rate mortgage is now expected to average just 4.3 percent for 2016."

### REALTOR® Price Expectations for the Next 12 Months (U.S. Average in Blue Dashed Line)



Source: NAR

REALTOR® Price Expectations	Texas	U.S.	
2016 - Apr	3.7%	3.8%	REALTORS® expect weaker price growth in Texas than in the U.S. in the next 12 months. Their price expectations for the local market are more modest than a year ago.
Prior 12 months	3.9%	3.9%	



## Geographic Coverage for this Report

The Houston area referred to in this report covers the geographic area of the Houston-Baytown-Sugar Land metro area as officially defined by the Office of Management and Budget of the U.S. Government. The official coverage area includes the following counties:

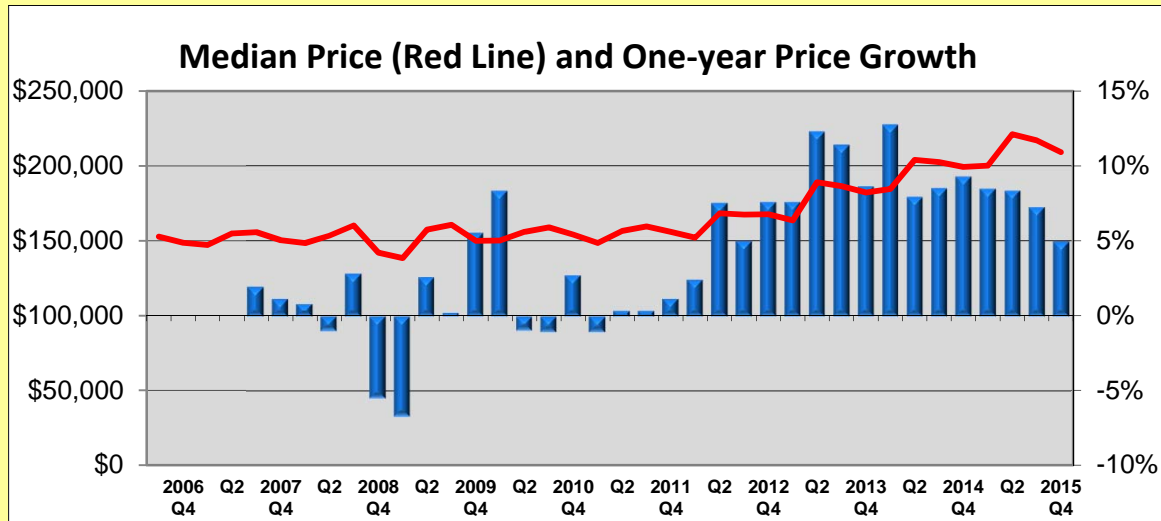
Austin County, Brazoria County, Chambers County, Fort Bend County, Galveston County, Harris County, Liberty County, Montgomery County, San Jacinto County, and Waller County

More information on the OMB's geographic definitions can be found at [http://www.whitehouse.gov/omb/inforeg\\_statpolicy/](http://www.whitehouse.gov/omb/inforeg_statpolicy/)



## Houston-Baytown-Sugar Land Area Local Market Report, Fourth Quarter 2015

### Today's Market...



Local Price Trends			
Price Activity	Houston	U.S.	Local Trend
Current Median Home Price (2015 Q4)	\$209,200	\$221,067	Prices are up from a year ago, but price growth is slowing
1-year (4-quarter) Appreciation (2015 Q4)	5.0%	6.5%	
3-year (12-quarter) Appreciation (2015 Q4)	24.7%	23.6%	
3-year (12-quarter) Housing Equity Gain*	\$41,400	\$42,233	Gains in the last 3 years have extended the trend of positive price growth after the recession
7-year (28 quarters) Housing Equity Gain*	\$67,100	\$40,300	
9-year (36 quarters) Housing Equity Gain*	\$60,600	\$1,633	

\*Note: Equity gain reflects price appreciation only

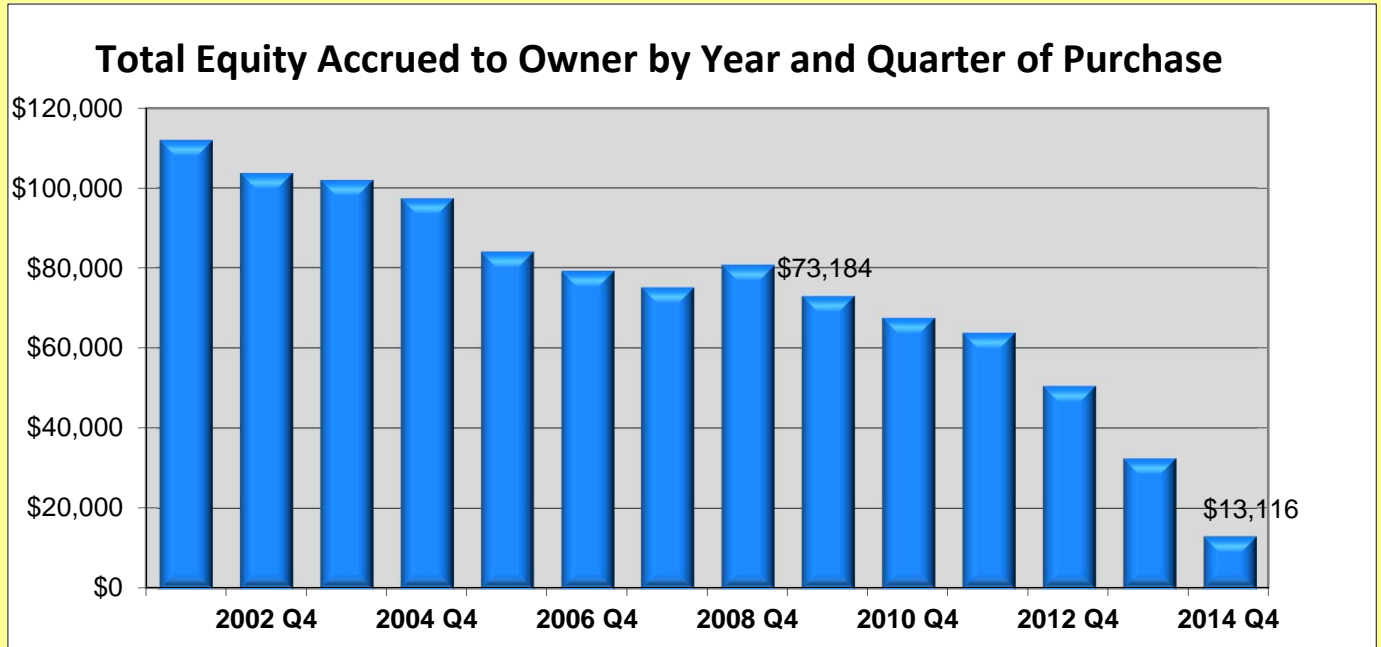
	Houston	U.S.	
<b>Conforming Loan Limit**</b>	\$417,000	\$625,500	Most buyers in this market have access to government-backed financing
<b>FHA Loan Limit</b>	\$326,600	\$625,500	
<b>Local Median to Conforming Limit Ratio</b>	50%	not comparable	

Note: limits are current and include the changes made in November of 2012 and extended in November of 2013

#### Local NAR Leadership

The Houston-Baytown-Sugar Land market is part of region 10 in the NAR governance system, which includes all of Louisiana and Texas. The 2016 NAR Regional Vice President representing region 10 is Matthew Ritchie.

# Benefits of Ownership: Total Equity Appreciation



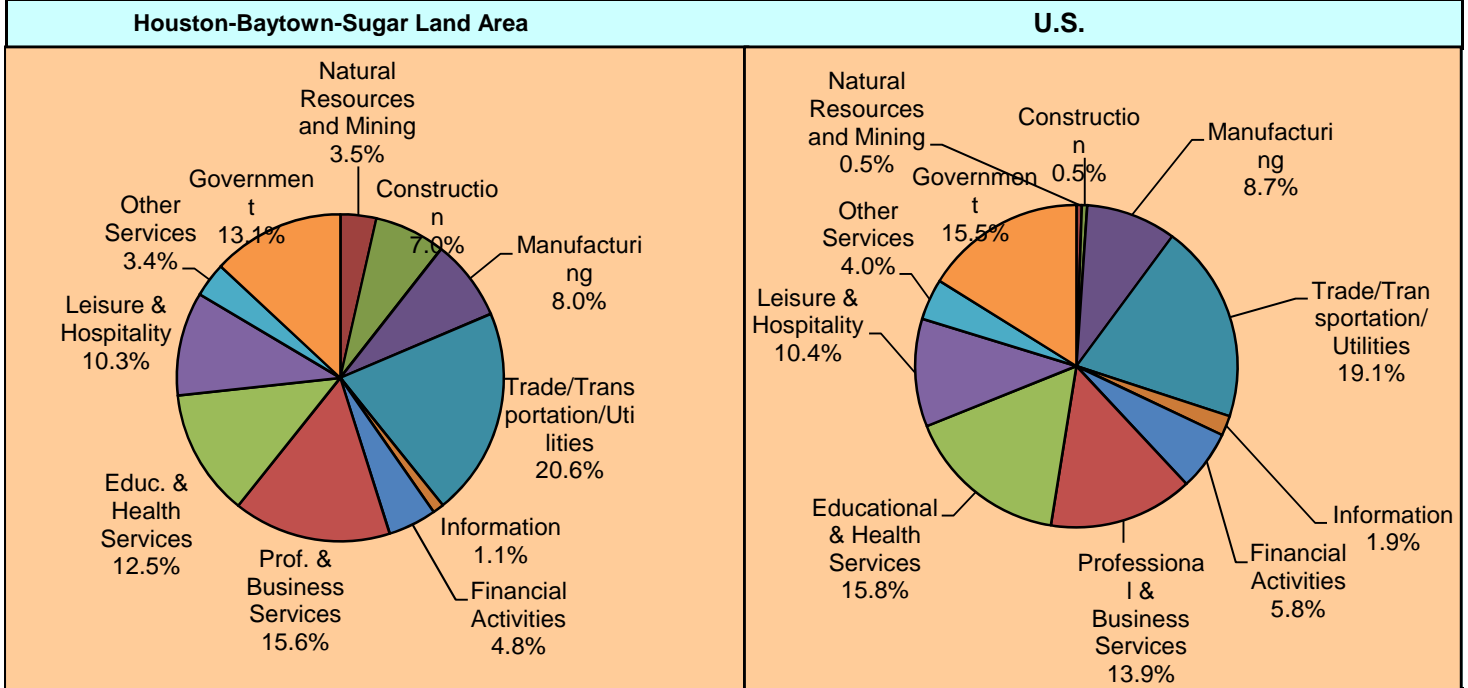
Total Equity Gained** through 2015 Q4 from quarter in which home was of purchased			
Price Activity	Houston	U.S.	Local Trend
1-year (4-quarter)	\$13,116	\$16,784	Price appreciation and principle payments in the last 3 years have boosted total equity growth since the recession
3-year (12-quarter)*	\$50,686	\$52,129	
5-year (20-quarter)*	\$67,699	\$62,764	
7-year (28 quarters)*	\$80,931	\$52,606	
9-year (36 quarters)*	\$79,402	\$16,571	
If purchase in 2005, the national price peak	\$84,227	\$11,104	

\*Note: Equity gain reflects price and principle payments since purchase, prevailing 30-year fixed rate mortgage at time of purchase and a 10% downpayment. Downpayment is not included in total equity

# Drivers of Local Supply and Demand...

Local Economic Outlook	Houston	U.S.	
12-month Job Change (Dec)	23,200	Not Comparable	Employment growth has eased, but remains positive
12-month Job Change (Nov)	24,600	Not Comparable	
36-month Job Change (Dec)	217,800	Not Comparable	Unemployment has risen since the same period last year, but Houston's labor market has been more resilient than the national average
Current Unemployment Rate (Dec)	4.6%	5.0%	
Year-ago Unemployment Rate	4.0%	5.6%	Local employment growth is poor and needs to improve
1-year (12 month) Job Growth Rate	0.8%	2.1%	

## Share of Total Employment by Industry



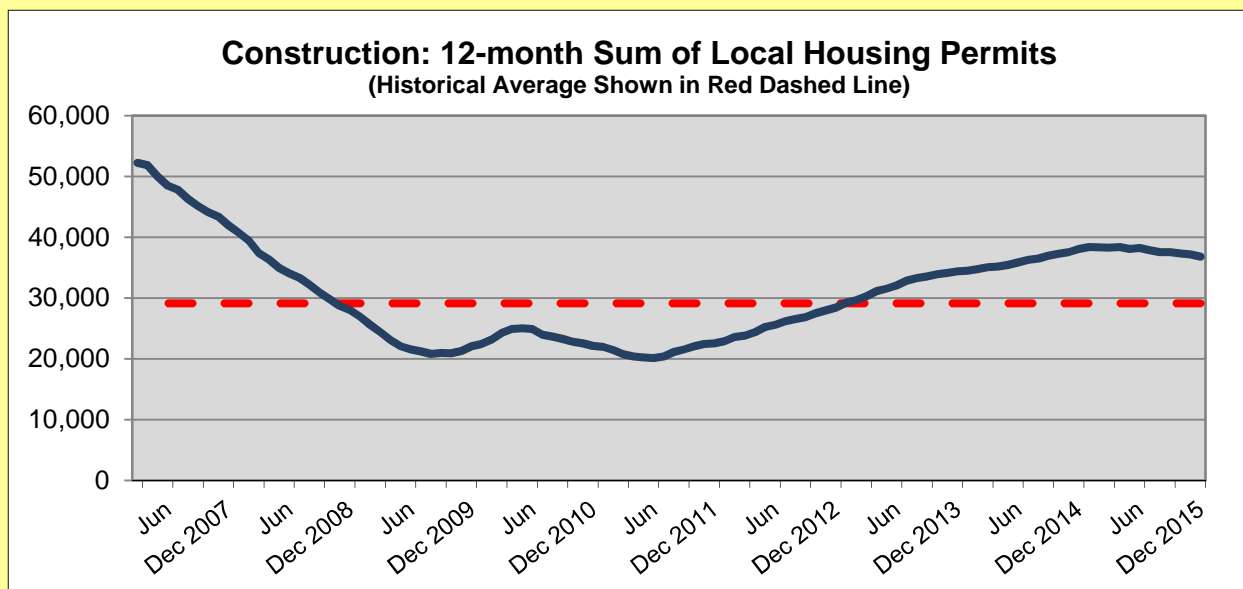
### 12-month Employment Change by Industry in the Houston-Baytown-Sugar Land Area (Dec - 2015)

Goods Producing	NA	Information	1,400
Natural Resources/Mining/Construction	NA	Financial Activities	-5,200
Natural Resources and Mining	-8,500	Prof. & Business Services	400
Construction	2,900	Educ. & Health Services	19,100
Manufacturing	-16,000	Leisure & Hospitality	19,600
Service Providing Excluding Government	NA	Other Services	-1,500
Trade/Transportation/Utilities	800	Government	10,200

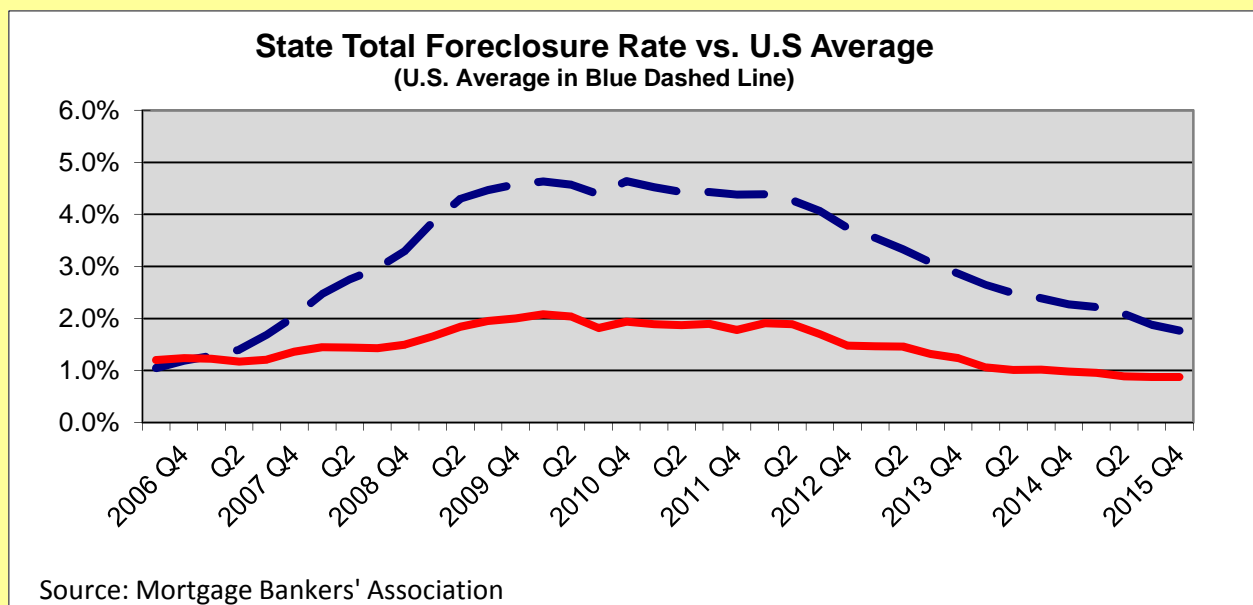
State Economic Activity Index	Texas	U.S.	
12-month change (2015 - Dec)	2.5%	3.2%	Texas's economy is growing, but decelerated from last month's 2.75% change and lags the rest of the nation
36-month change (2015 - Dec)	12.9%	10.6%	

## New Housing Construction

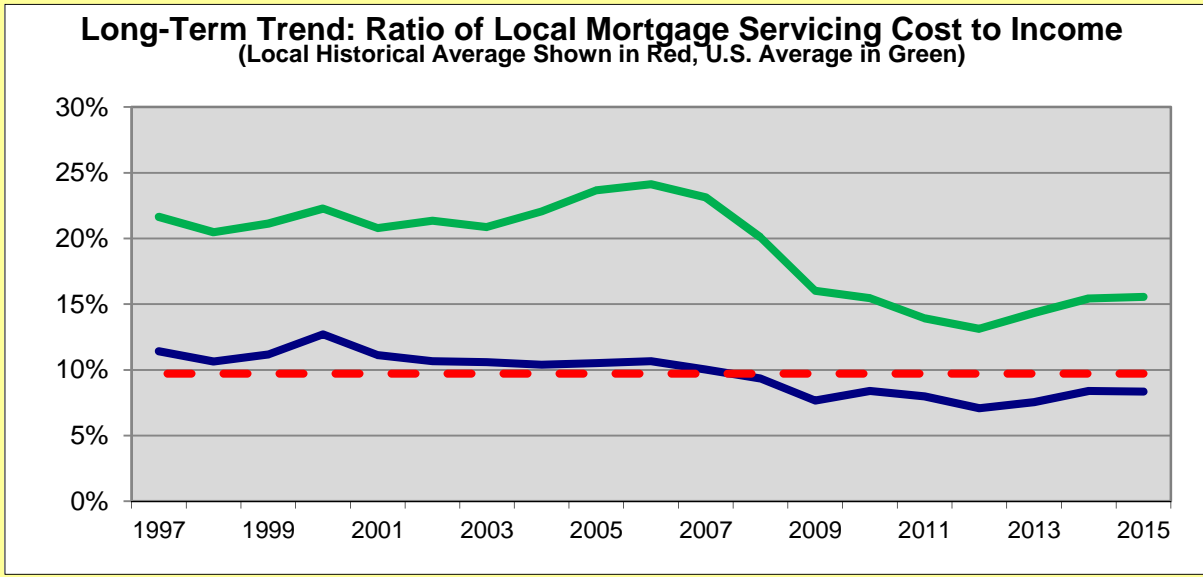
Local Fundamentals	Houston	U.S.	
12-month Sum of 1-unit Building Permits through Dec 2015	36,825	not comparable	The current level of construction is 26.3% above the long-term average
8-year average for 12-month Sum of 1-Unit Building Permits	29,150	not comparable	Production above trend for an extended period of time could cause prices to moderate as inventory is built
Single-Family Housing Permits (Dec 2015) 12-month sum vs. a year ago	-3.3%	9.7%	Construction continues to decline from last year



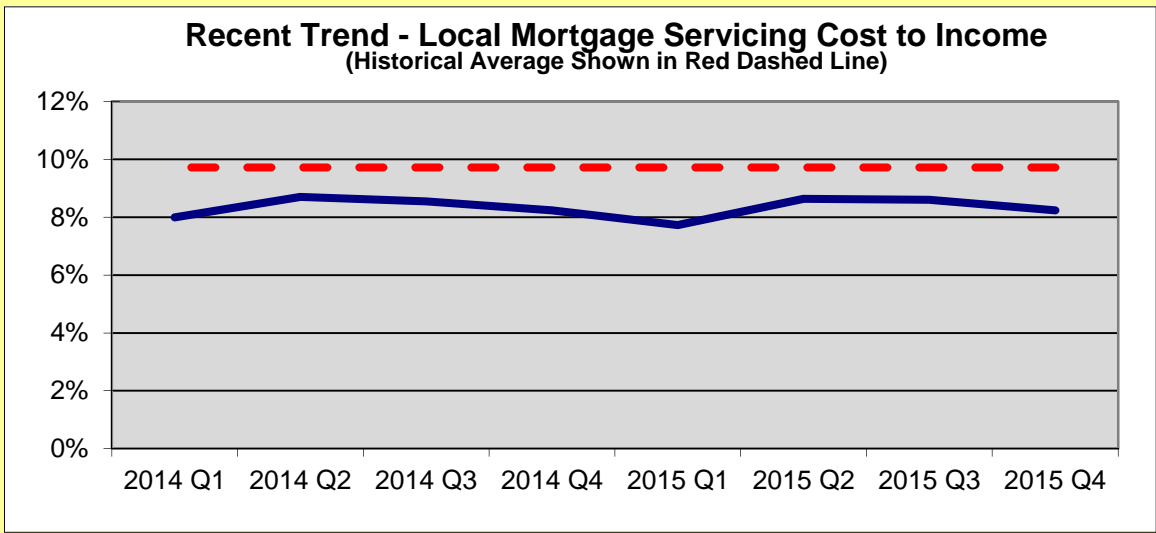
While new construction is the traditional driver of supply in real estate, foreclosures and short-sales now have a strong impact on inventories, particularly at the local level. Rising inventories, through construction or distressed sales, place downward pressure on the median home prices.



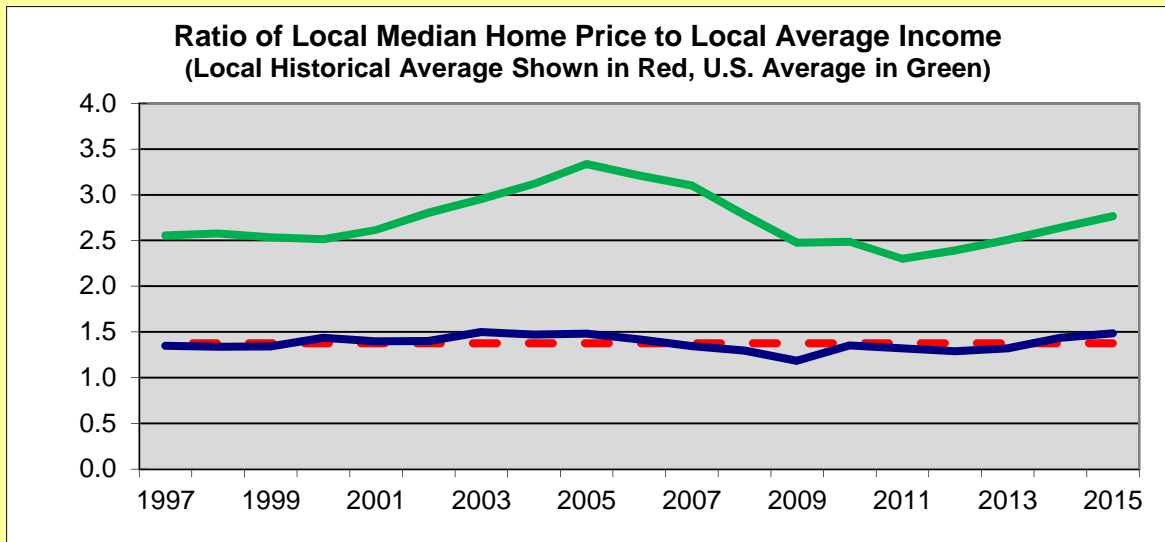
# Affordability



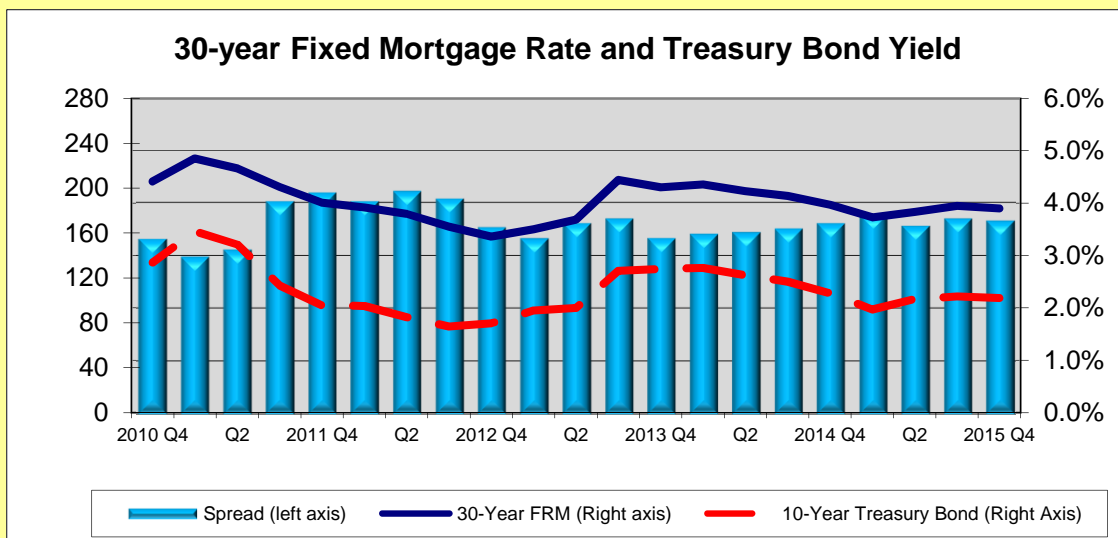
Monthly Mortgage Payment to Income	Houston	U.S.	
Ratio for 2015	8.4%	15.6%	Historically strong and an improvement over the third quarter of 2015
Ratio for 2015 Q4	8.2%	15.1%	
Historical Average	9.7%	19.5%	More affordable than most markets



Median Home Price to Income	Houston	U.S.	
Ratio for 2015	1.5	2.8	The price-to-income ratio eased, but could be better
Ratio for 2015 Q4	1.5	2.7	
Historical Average	1.4	2.7	Affordable compared to most markets

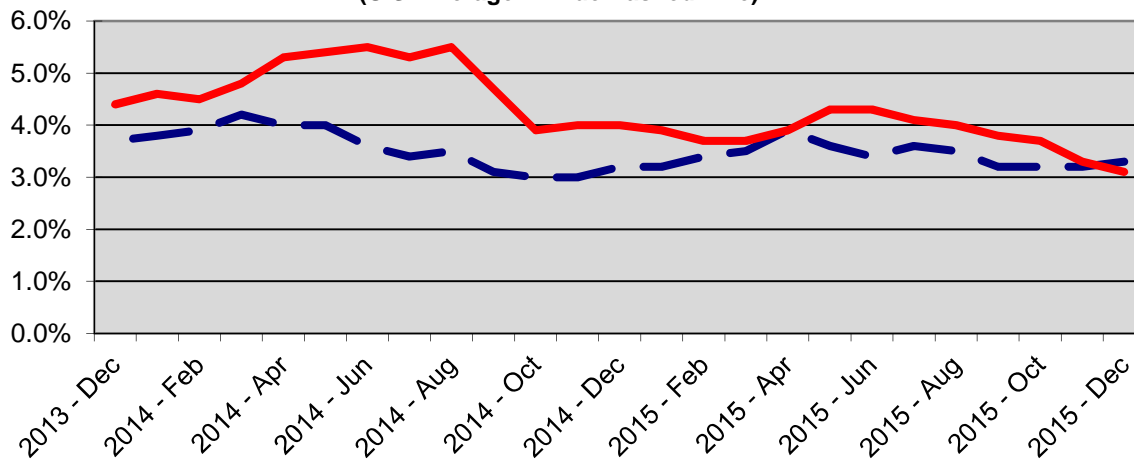


## The Mortgage Market



Despite indications of economic strength early in the 4th quarter, the Federal Reserve held off its much anticipated rate increases until mid-December. However, a fresh set of weak economic numbers centered on a slowing Chinese economy, excess oil, and the potential impacts on domestic oil exploration and manufacturing softened domestic economic growth in the 4th quarter. As a result, Treasuries slumped as investors moved money into this safe haven and mortgage rates benefited. The average 30-year fixed rate mortgage eased modestly from 4.0 percent in the 3rd quarter to 3.9 percent in the 4th. The 10-year Treasury did not fall as much as MBS and as a result the spread between them eased from 173 basis points to 171. While mortgage rates remained cheap, lenders were hit with the implementation of the new TILA-RESPA Integrated Disclosure rules (TRID) on October 3rd. Some lenders struggled to comply and as a result roughly 10 percent of settlements were delayed by roughly 8 days on average, though few were canceled. Rates are likely to remain low through the spring as the market deals with international instability and the FED pulls back from planned rate hikes, but some lenders may continue to have issues with the new settlement procedures. NAR is now forecasting fewer rate hikes by the FED in 2016 and as a result the 30-year fixed rate mortgage is now expected to average just 4.3 percent for 2016, down from earlier estimates near 5.0 percent.

### REALTOR® Price Expectations for the Next 12 Months (U.S. Average in Blue Dashed Line)



Source: NAR

REALTOR® Price Expectations	Texas	U.S.	
2015 - Dec	3.1%	3.3%	REALTORS® expect weaker price growth in Texas than in the U.S. in the next 12 months. Their price expectations for the local market are more modest than a year ago.
Prior 12 months	3.9%	3.4%	



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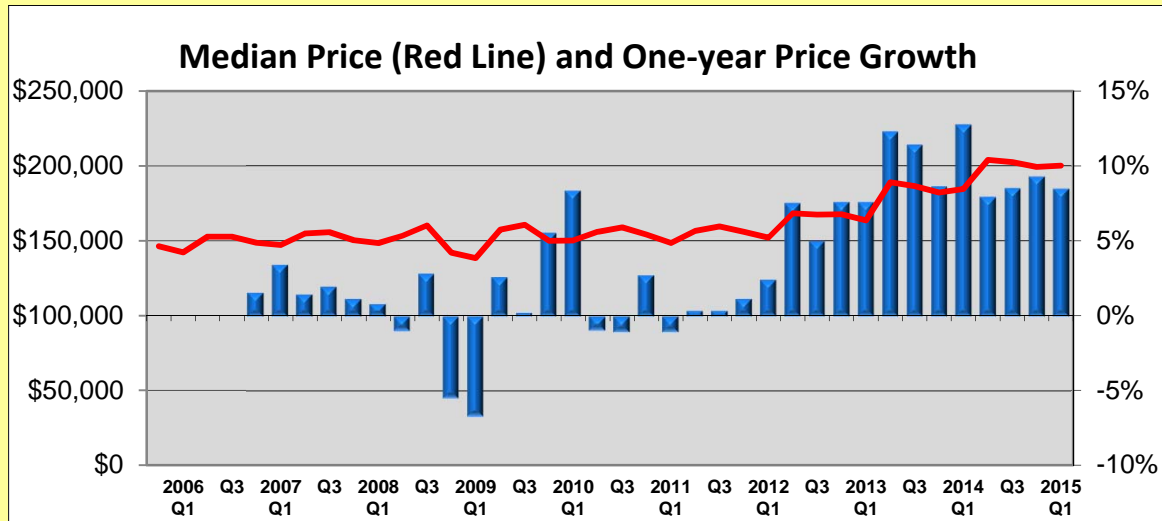
Austin County, Brazoria County, Chambers County, Fort Bend County, Galveston County, Harris County, Liberty County, Montgomery County, San Jacinto County, and Waller County

More information on the OMB's geographic definitions can be found at [http://www.whitehouse.gov/omb/inforeg\\_statpolicy/](http://www.whitehouse.gov/omb/inforeg_statpolicy/)



## Houston-Baytown-Sugar Land Area Local Market Report, First Quarter 2015

### Today's Market...



Local Price Trends			
Price Activity	Houston	U.S.	Local Trend
Current Median Home Price (2015 Q1)	\$200,300	\$203,867	Prices are up from a year ago, but price growth is slowing
1-year (4-quarter) Appreciation (2015 Q1)	8.5%	6.7%	
3-year (12-quarter) Appreciation (2015 Q1)	31.7%	28.8%	
3-year (12-quarter) Housing Equity Gain*	\$48,200	\$45,533	Gains in the last 3 years have extended the trend of positive price growth after the recession
7-year (28 quarters) Housing Equity Gain*	\$51,900	\$5,333	
9-year (36 quarters) Housing Equity Gain*	\$58,000	-\$13,067	

\*Note: Equity gain reflects price appreciation only

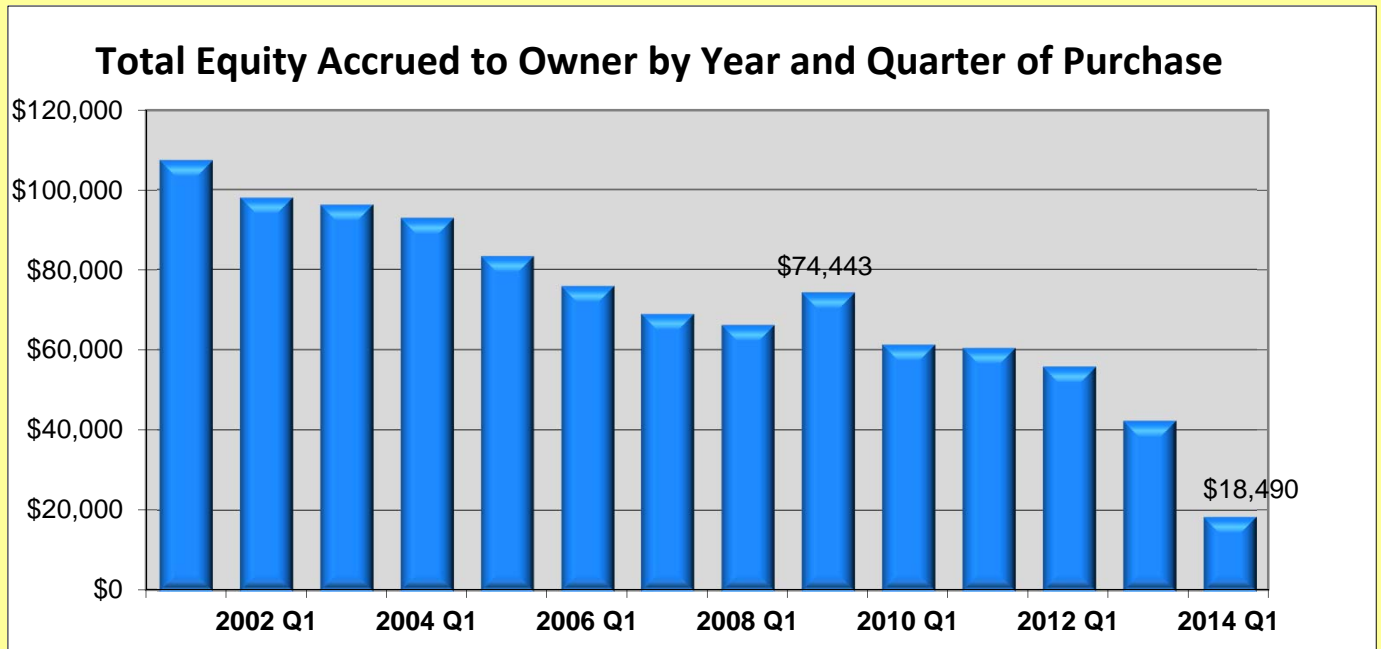
	Houston	U.S.	
<b>Conforming Loan Limit**</b>	\$417,000	\$625,500	Most buyers in this market have access to government-backed financing
<b>FHA Loan Limit</b>	\$326,600	\$625,500	
<b>Local Median to Conforming Limit Ratio</b>	48%	not comparable	

Note: limits are current and include the changes made in November of 2012 and extended in November of 2013

#### Local NAR Leadership

The Houston-Baytown-Sugar Land market is part of region 10 in the NAR governance system, which includes all of Louisiana and Texas. The 2015 NAR Regional Vice President representing region 10 is Bill Jones.

# Benefits of Ownership: Total Equity Appreciation



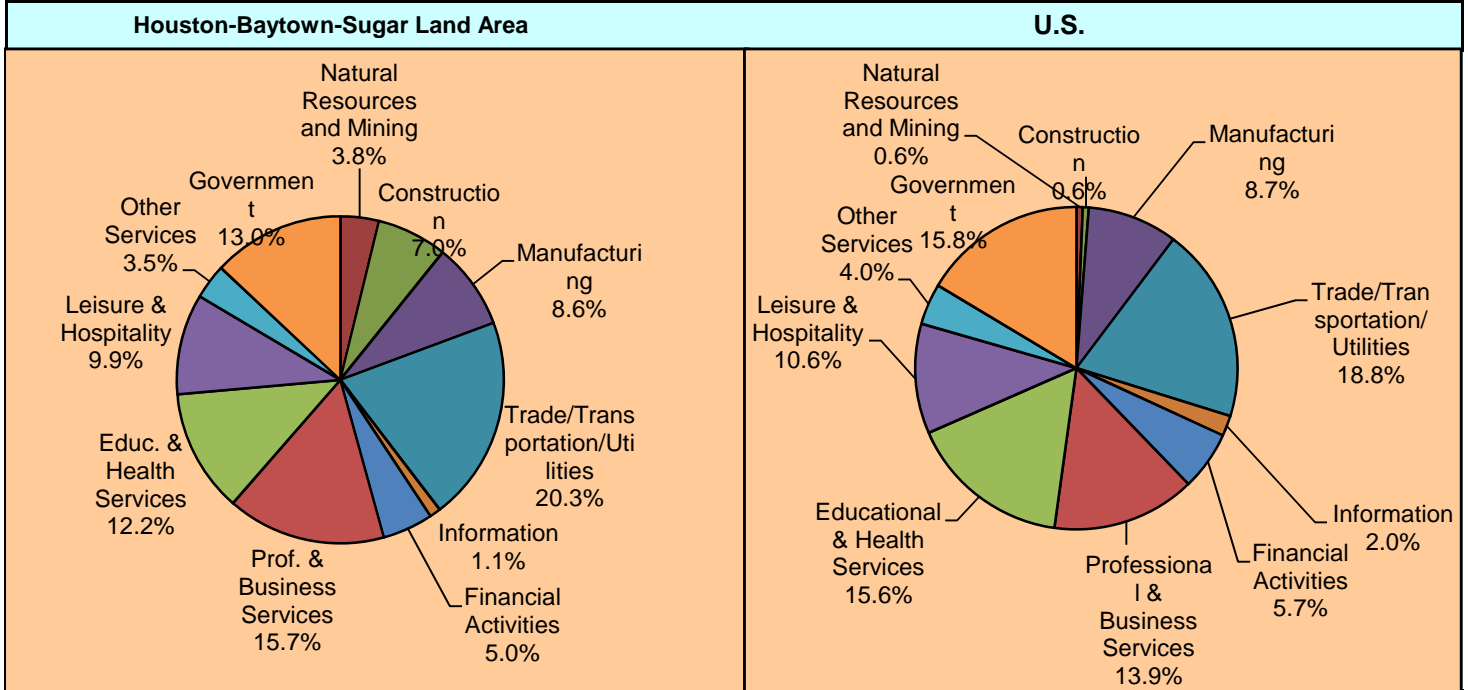
Total Equity Gained** through 2015 Q1 from quarter in which home was of purchased			
Price Activity	Houston	U.S.	Local Trend
1-year (4-quarter)	\$18,490	\$15,753	Price appreciation and principle payments in the last 3 years have boosted total equity growth since the recession
3-year (12-quarter)*	\$55,915	\$53,565	
5-year (20-quarter)*	\$61,441	\$47,444	
7-year (28 quarters)*	\$66,323	\$17,200	
9-year (36 quarters)*	\$76,021	\$100	
If purchase in 2005, the national price peak	\$83,581	\$16,323	

\*Note: Equity gain reflects price and principle payments since purchase, prevailing 30-year fixed rate mortgage at time of purchase and a 10% downpayment. Downpayment is not included in total equity

# Drivers of Local Supply and Demand...

Local Economic Outlook	Houston	U.S.	
12-month Job Change (Mar)	82,500	Not Comparable	Employment growth has eased, but remains positive
12-month Job Change (Feb)	96,000	Not Comparable	
36-month Job Change (Mar)	282,200	Not Comparable	Unemployment in Houston is better than the national average and improving
Current Unemployment Rate (Mar)	4.2%	5.5%	
Year-ago Unemployment Rate	5.2%	6.6%	Local employment growth is strong compared to other markets
1-year (12 month) Job Growth Rate	2.9%	2.1%	

## Share of Total Employment by Industry



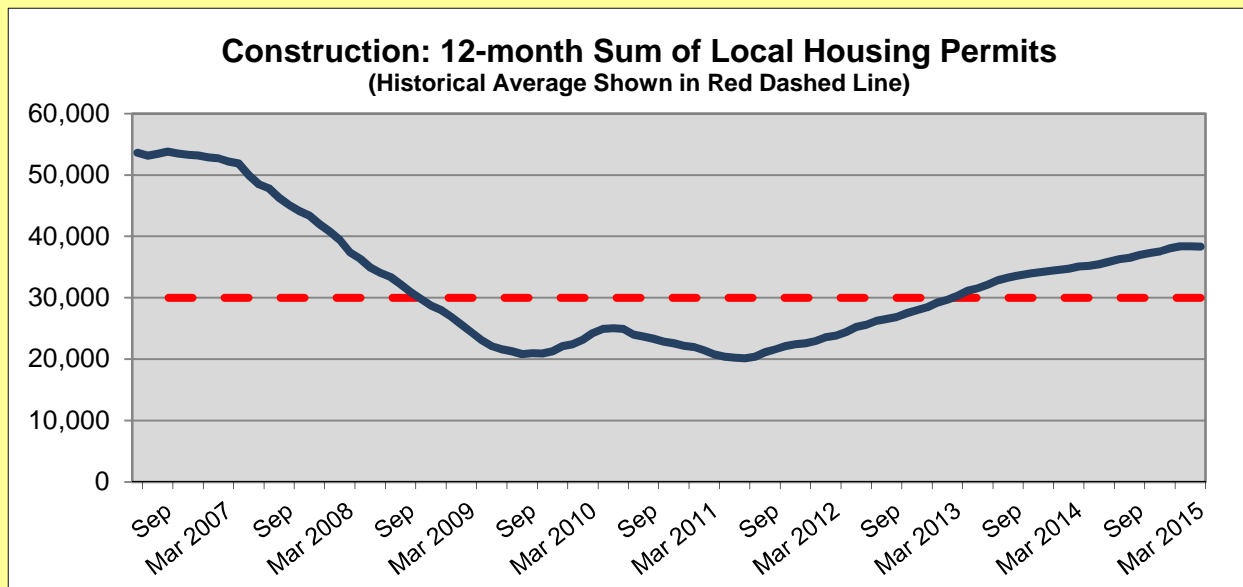
### 12-month Employment Change by Industry in the Houston-Baytown-Sugar Land Area (Mar - 2015)

Goods Producing	NA	Information	100
Natural Resources/Mining/Construction	NA	Financial Activities	3,000
Natural Resources and Mining	5,500	Prof. & Business Services	10,700
Construction	8,600	Educ. & Health Services	16,500
Manufacturing	2,300	Leisure & Hospitality	12,900
Service Providing Excluding Government	NA	Other Services	300
Trade/Transportation/Utilities	15,900	Government	6,700

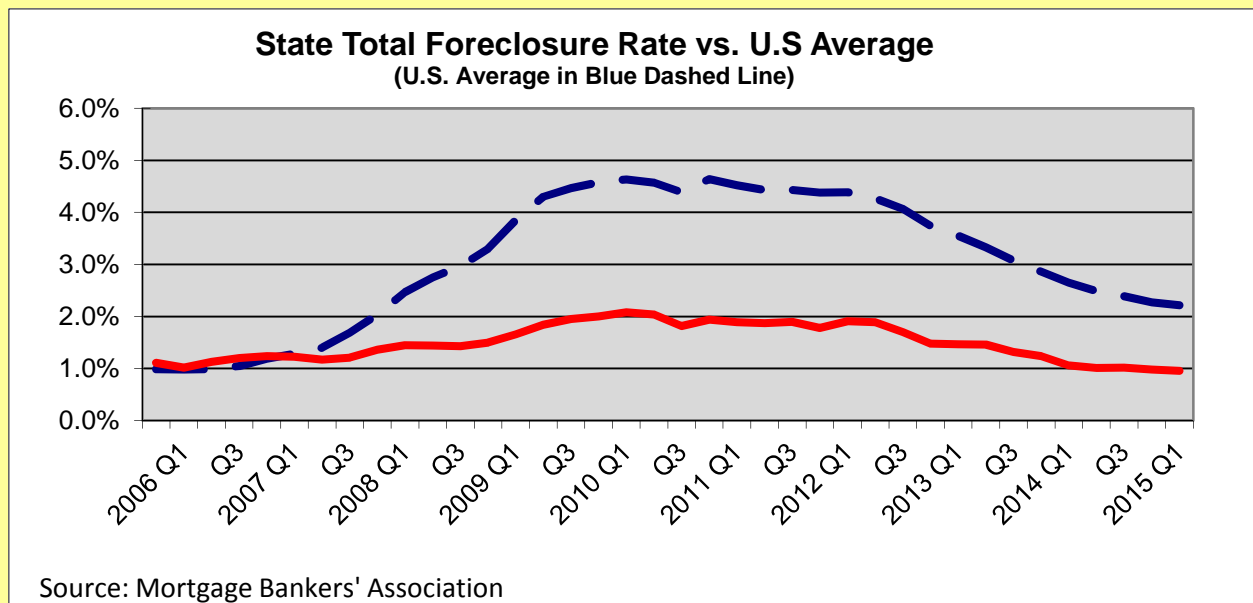
State Economic Activity Index	Texas	U.S.	
12-month change (2015 - Mar)	4.3%	3.4%	Texas's economy is stronger than the nation's, but slowed from last month's 4.55% change
36-month change (2015 - Mar)	13.2%	9.3%	

## New Housing Construction

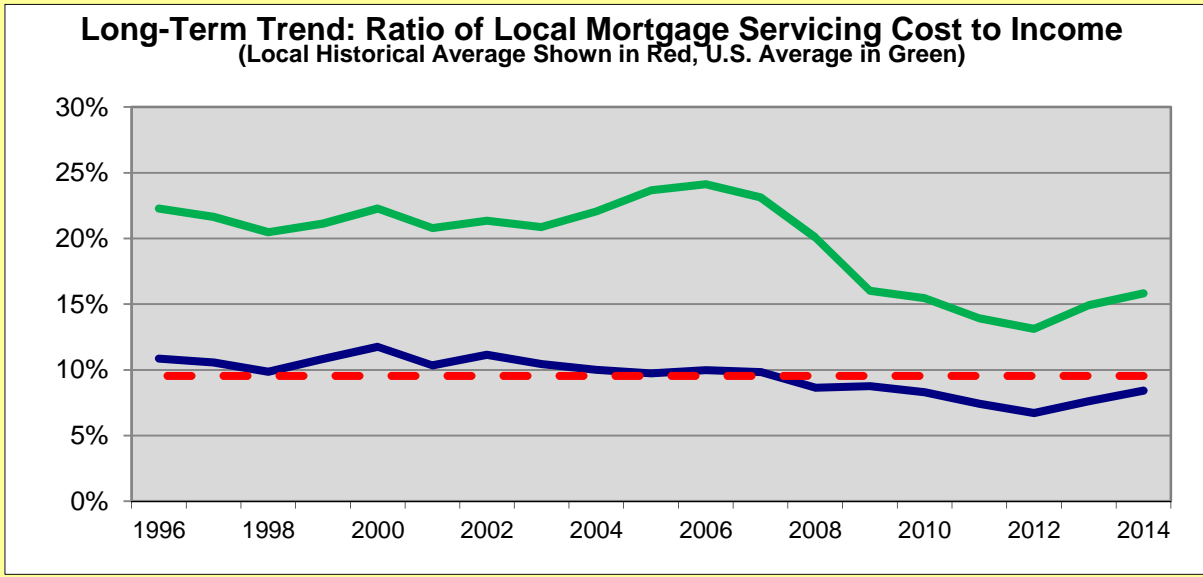
Local Fundamentals	Houston	U.S.	
12-month Sum of 1-unit Building Permits through Mar 2015	38,304	not comparable	The current level of construction is 27.8% above the long-term average
8-year average for 12-month Sum of 1-Unit Building Permits	29,983	not comparable	Production above trend for an extended period of time could cause prices to moderate as inventory is built
Single-Family Housing Permits (Mar 2015) 12-month sum vs. a year ago	9.2%	3.1%	Construction is on the rise relative to last year, suggesting that the local inventory has stabilized



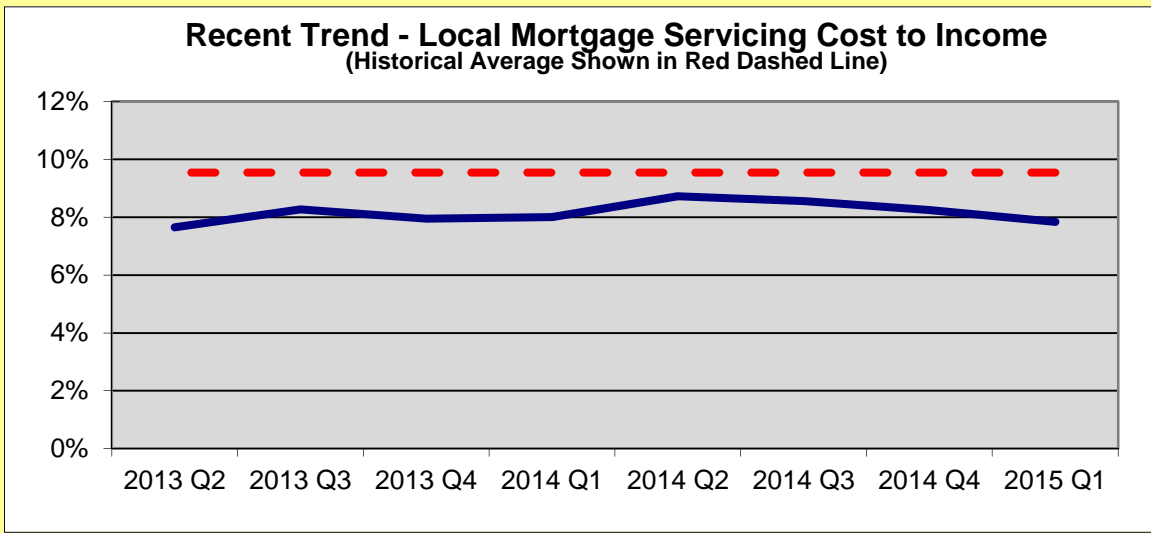
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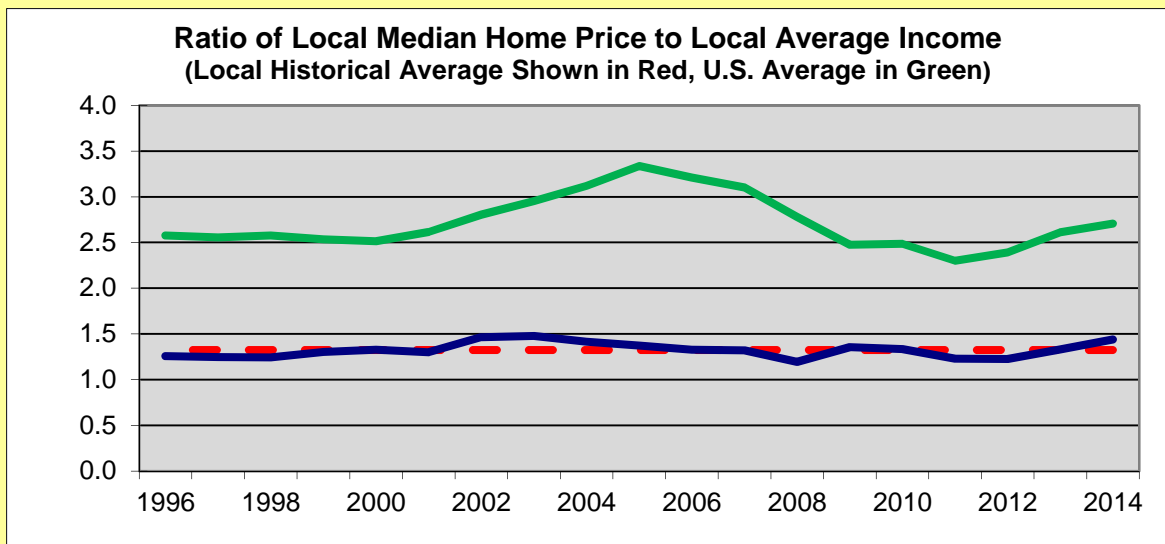
# Affordability



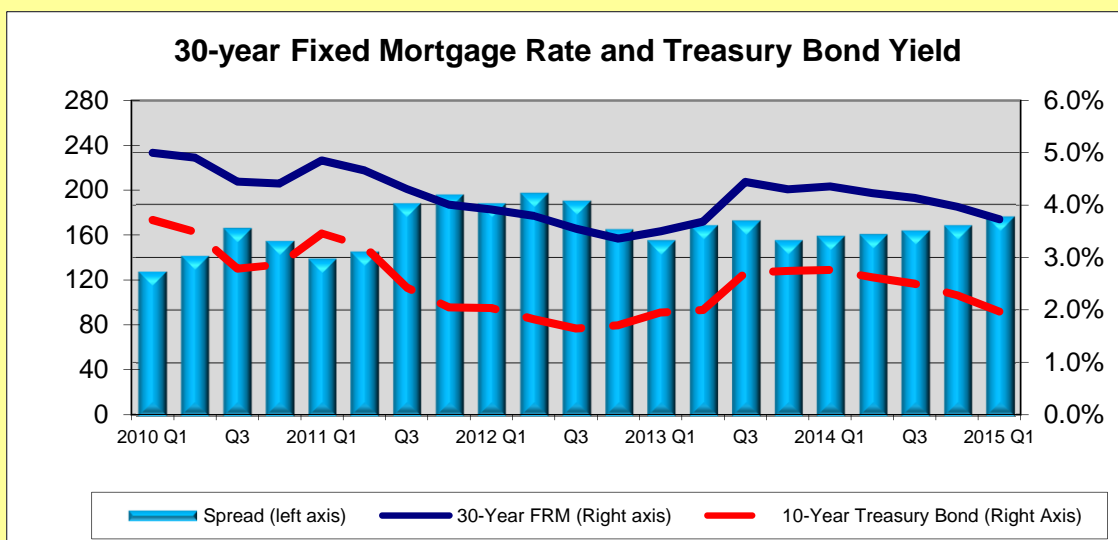
Monthly Mortgage Payment to Income	Houston	U.S.	
Ratio for 2014	8.4%	15.8%	Historically strong and an improvement over the fourth quarter of 2014
Ratio for 2015 Q1	7.8%	14.3%	
Historical Average	9.5%	20.0%	More affordable than most markets



Median Home Price to Income	Houston	U.S.	
Ratio for 2014	1.4	2.7	The price-to-income ratio eased, but could be better
Ratio for 2015 Q1	1.4	2.6	
Historical Average	1.3	2.7	Affordable compared to most markets

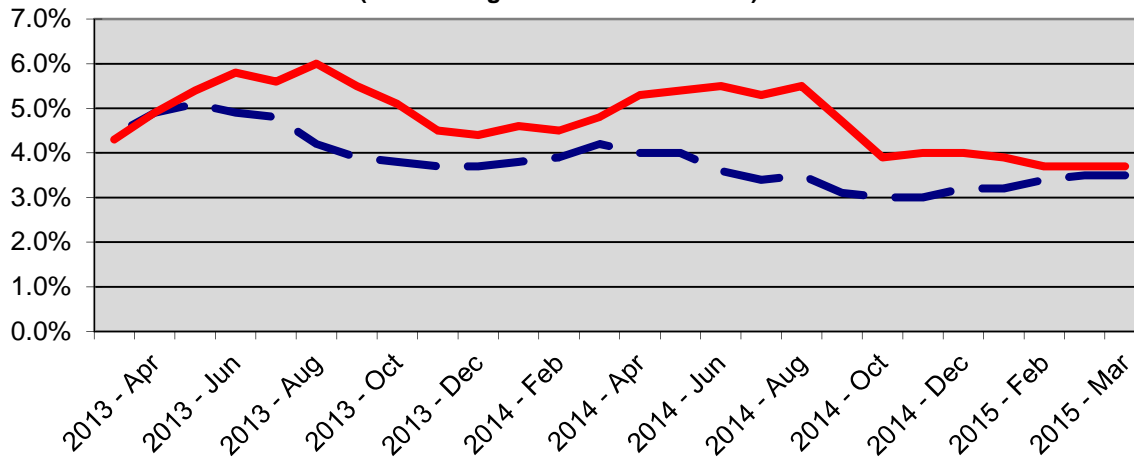


## The Mortgage Market



The headline measure of economic activity, GDP growth, swung from a soft 2.2% in the 4th quarter of 2014 to a dismal 0.2% in the 1st quarter of 2015 with some suggesting that the 1st quarter figure would be revised lower. Sharp declines in global fuel prices over the winter impacted the domestic oil industry, while a rapid rise in the value of the dollar impacted domestic manufacturers' ability to export and increased competition from importers. As a result, employment in both industries slumped in the first quarter. Compounding these issues was weakness in single family housing starts and construction. Weather was partially to blame, but builder sentiment was weak reflecting a pullback in consumer confidence. While not a recession, this economic soft patch weighed on mortgage rates in the 1st quarter which saw the average 30-year fixed rate fall from 3.97% in the 4th quarter to 3.73% in the 1st quarter of 2015. Treasury rates fell by more and as a result the spread between the two rose from 169 basis points to 176. Affordability surged on sub-4% mortgage rates that were augmented by a sharp 50 basis point cut to the FHA's annual mortgage insurance premium. NAR Research forecasts the average rate for a 30-year fixed rate mortgage to climb to 4.3% by year end 2014 and to average 5.2% in 2016 as the Federal Reserve begins to raise short term rates in response to improving domestic and international economic conditions gain steam.

### REALTOR® Price Expectations for the Next 12 Months (U.S. Average in Blue Dashed Line)



Source: NAR

REALTOR® Price Expectations	Texas	U.S.	
2015 - Mar	3.7%	3.5%	REALTORS® expect higher price growth in Texas than in the U.S. in the next 12 months. However, their price expectations for the local market are more modest than a year ago.
Prior 12 months	4.7%	3.5%	



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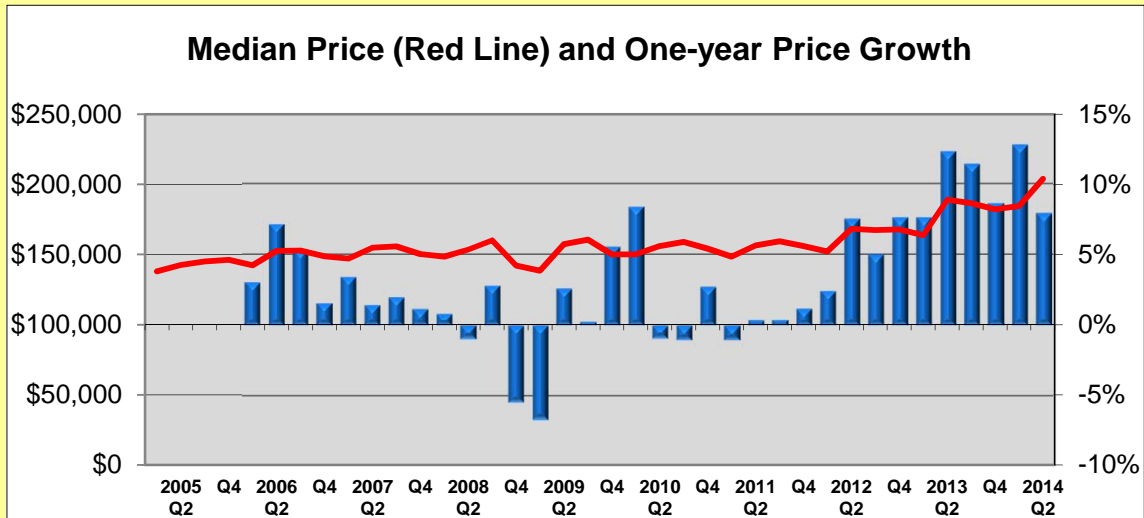
Austin County, Brazoria County, Chambers County, Fort Bend County, Galveston County, Harris County, Liberty County, Montgomery County, San Jacinto County, and Waller County

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## Houston-Baytown-Sugar Land Area Local Market Report, Second Quarter 2014

### Today's Market...

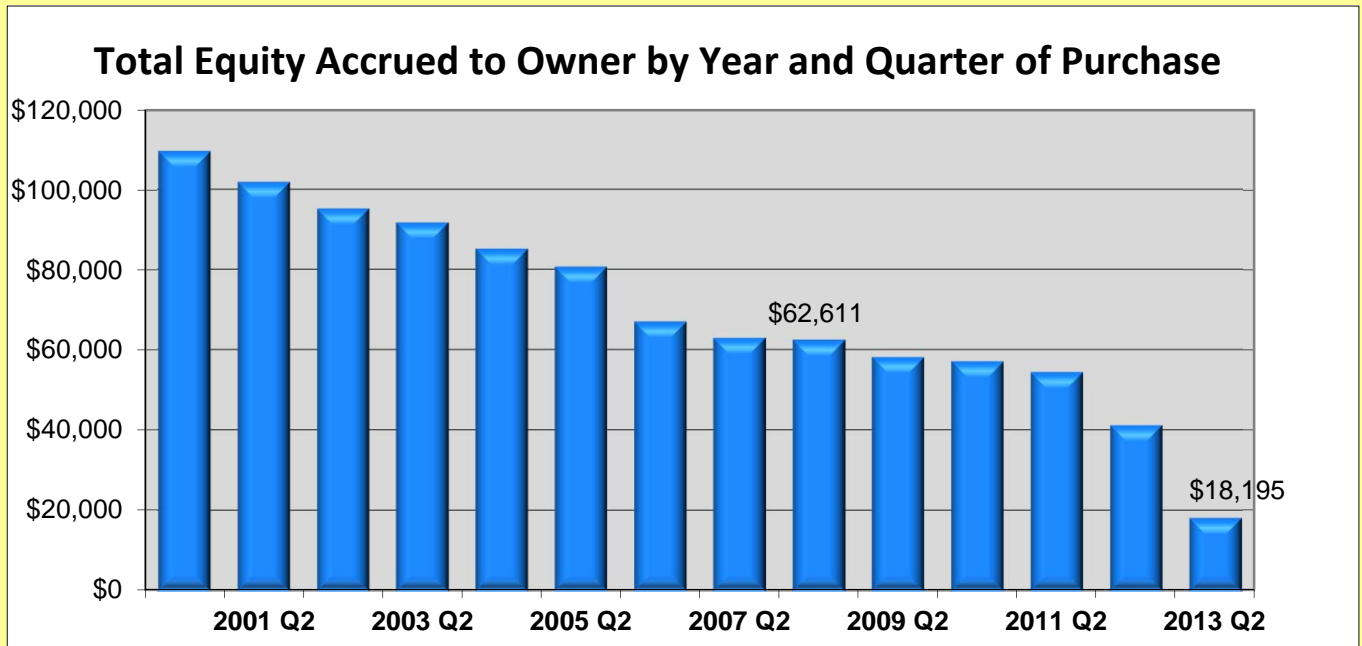


Local Price Trends			
Price Activity	Houston	U.S.	Local Trend
Current Median Home Price (2014 Q2)	\$204,000	\$212,267	Prices are up from a year ago, but price growth is slowing
1-year (4-quarter) Appreciation (2014 Q2)	7.9%	4.6%	
3-year (12-quarter) Appreciation (2014 Q2)	30.4%	25.8%	
3-year (12-quarter) Housing Equity Gain*	\$47,500	\$43,600	Gains in the last 3 years have extended the trend of positive price growth after the recession
7-year (28 quarters) Housing Equity Gain*	\$49,100	-\$11,500	
9-year (36 quarters) Housing Equity Gain*	\$61,500	-\$8,000	
*Note: Equity gain reflects price appreciation only			

	Houston	U.S.	
Conforming Loan Limit**	\$417,000	\$625,500	Most buyers in this market have access to government-backed financing
FHA Loan Limit	\$295,550	\$625,500	
Local Median to Conforming Limit Ratio	49%	not comparable	
Note: limits are current and include the changes made in November of 2012 and extended in November of 2013			

Local NAR Leadership
The Houston-Baytown-Sugar Land market is part of region 10 in the NAR governance system, which includes all of Louisiana and Texas. The 2014 NAR Regional Vice President representing region 10 is David McKey.

# Benefits of Ownership: Total Equity Appreciation



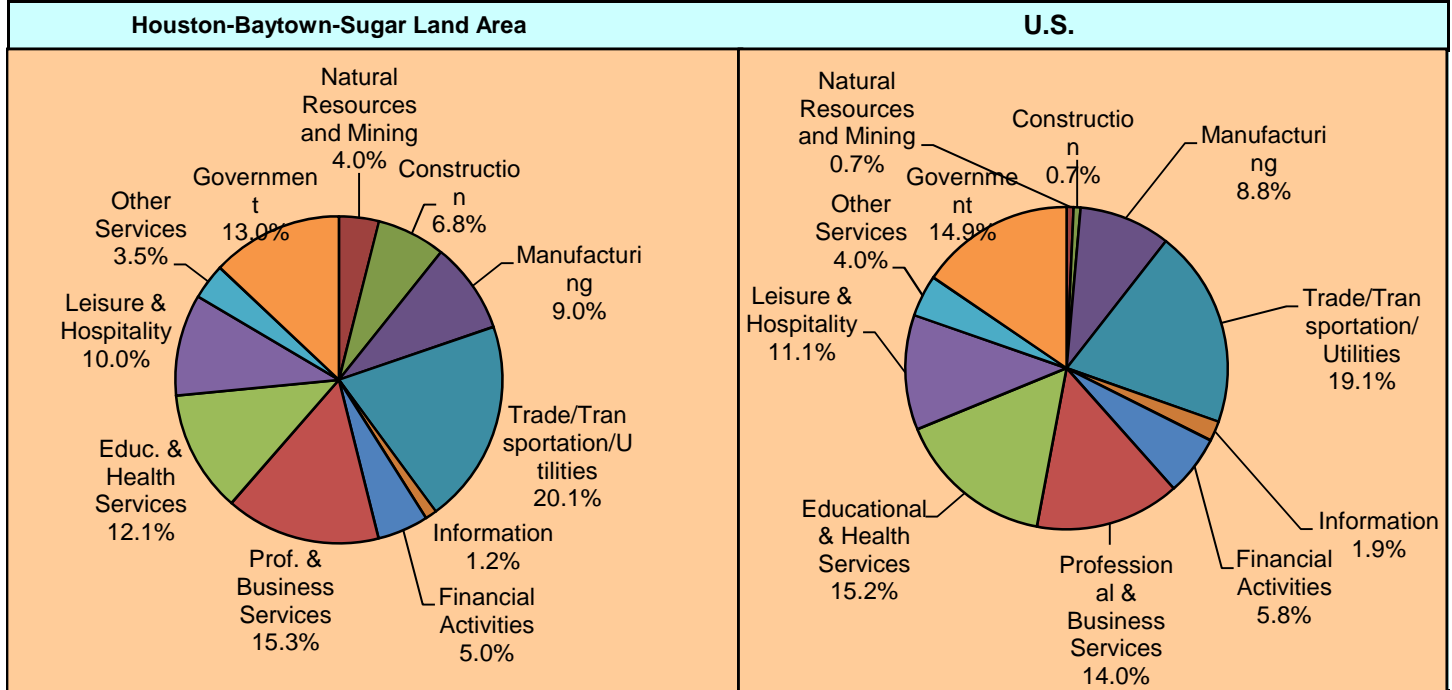
Total Equity Gained** through 2014 Q2 from quarter in which home was of purchased			
Price Activity	Houston	U.S.	Local Trend
1-year (4-quarter)	\$18,195	\$12,731	Price appreciation and principle payments in the last 3 years have boosted total equity growth since the recession
3-year (12-quarter)*	\$54,556	\$51,204	
5-year (20-quarter)*	\$58,328	\$48,225	
7-year (28 quarters)*	\$63,129	\$1,750	
9-year (36 quarters)*	\$80,855	\$5,043	
If purchase in 2005, the national price peak	\$80,855	\$5,043	

\*Note: Equity gain reflects price and principle payments since purchase, prevailing 30-year fixed rate mortgage at time of purchase and a 10% downpayment. Downpayment is not included in total equity

# Drivers of Local Supply and Demand...

Local Economic Outlook	Houston	U.S.	
12-month Job Change (Jun)	87,500	Not Comparable	Employment growth has eased, but remains positive
12-month Job Change (May)	93,300	Not Comparable	
36-month Job Change (Jun)	285,400	Not Comparable	Unemployment in Houston is better than the national average and improving
Current Unemployment Rate (Jun)	5.4%	6.1%	
Year-ago Unemployment Rate	6.7%	7.5%	Local employment growth is strong compared to other markets
1-year (12 month) Job Growth Rate	3.1%	1.7%	

## Share of Total Employment by Industry



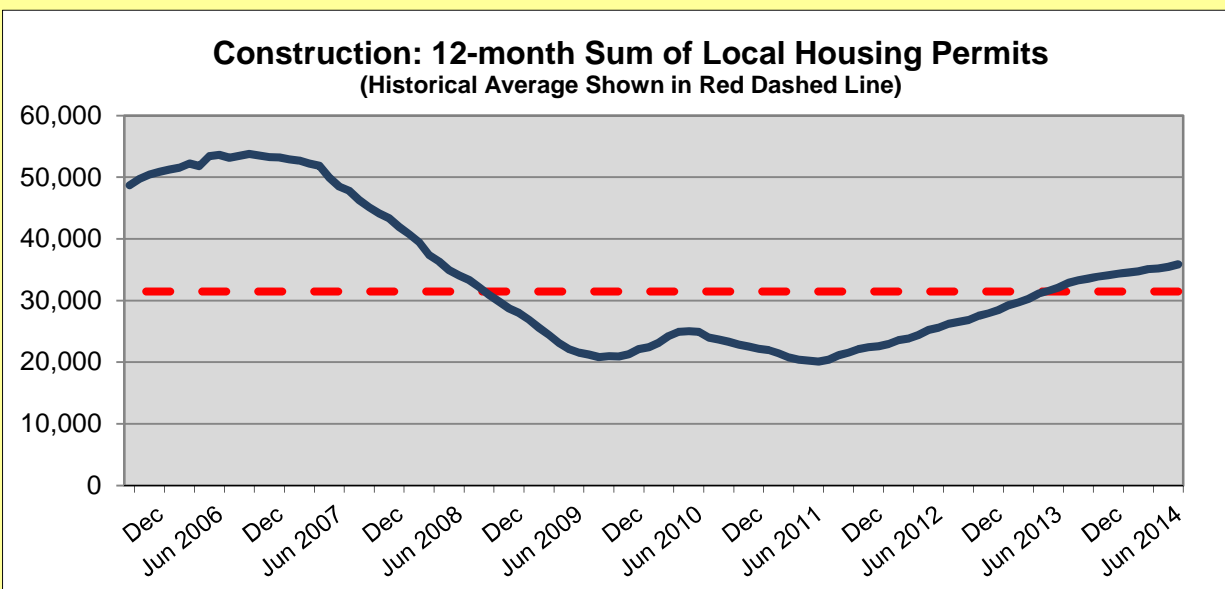
### 12-month Employment Change by Industry in the Houston-Baytown-Sugar Land Area (Jun - 2014)

Goods Producing	NA	Information	500
Natural Resources/Mining/Construction	NA	Financial Activities	2,300
Natural Resources and Mining	6,700	Prof. & Business Services	12,500
Construction	5,600	Educ. & Health Services	12,500
Manufacturing	6,900	Leisure & Hospitality	11,900
Service Providing Excluding Government	NA	Other Services	1,500
Trade/Transportation/Utilities	17,100	Government	10,000

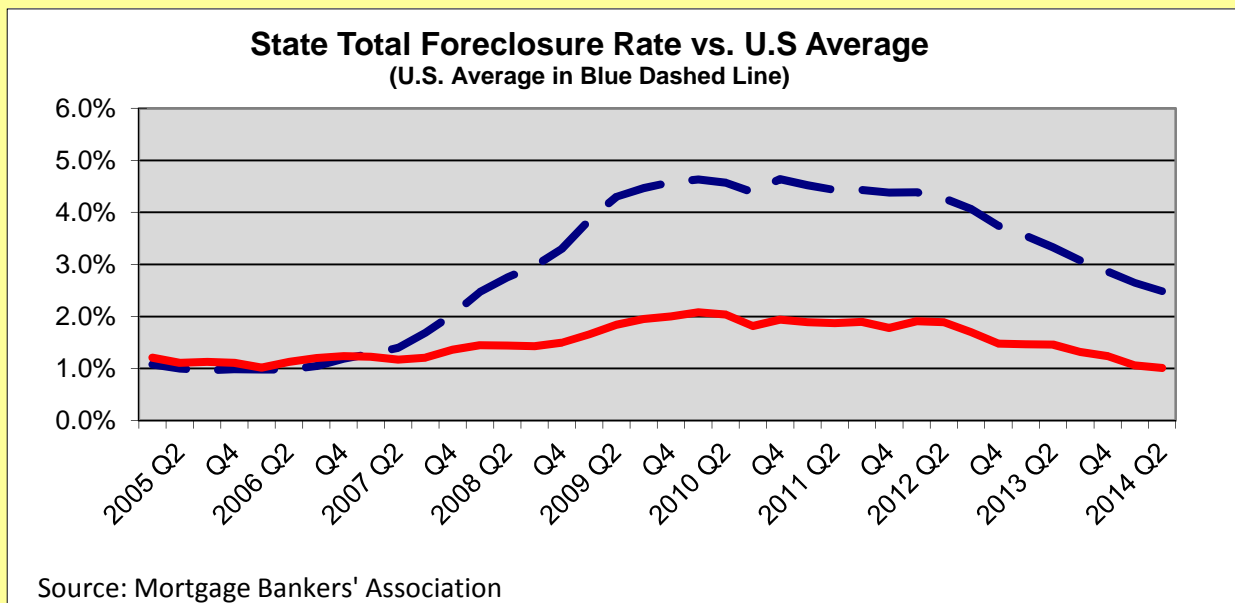
State Economic Activity Index	Texas	U.S.	
12-month change (2014 - Jun)	4.7%	3.2%	The economy of Texas has outpaced the rest of the nation and improved modestly from last month's 4.41% change
36-month change (2014 - Jun)	13.7%	9.2%	

## New Housing Construction

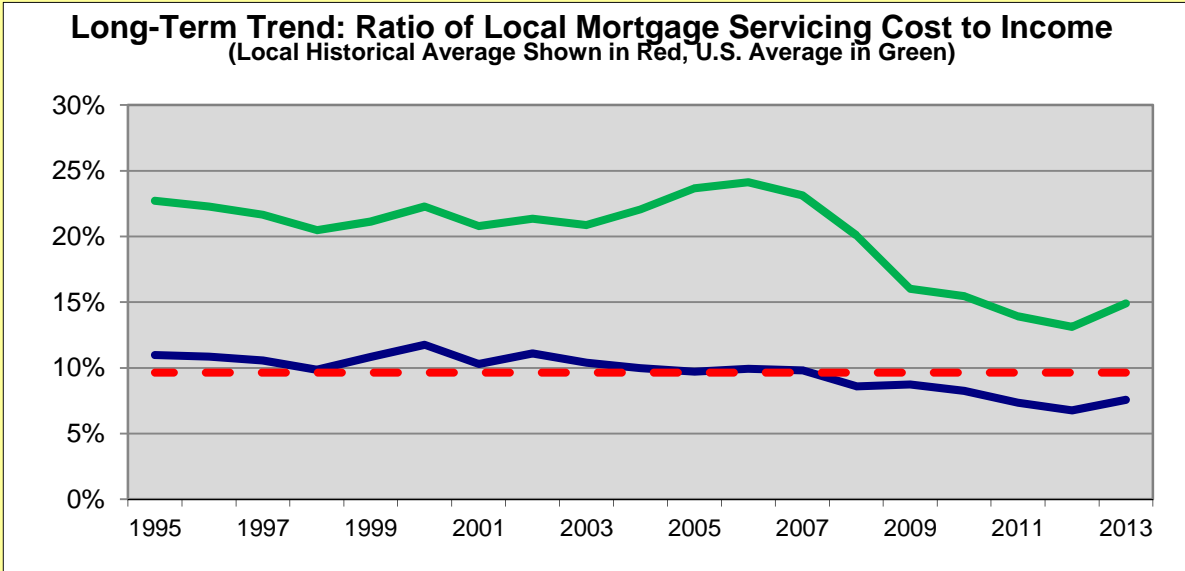
Local Fundamentals	Houston	U.S.	
12-month Sum of 1-unit Building Permits through Jun 2014	35,860	not comparable	The current level of construction is 14.0% above the long-term average
8-year average for 12-month Sum of 1-Unit Building Permits	31,446	not comparable	Production above trend for an extended period of time could cause prices to moderate as inventory is built
Single-Family Housing Permits (Jun 2014) 12-month sum vs. a year ago	11.7%	6.4%	Construction is on the rise relative to last year, suggesting that the local inventory has stabilized



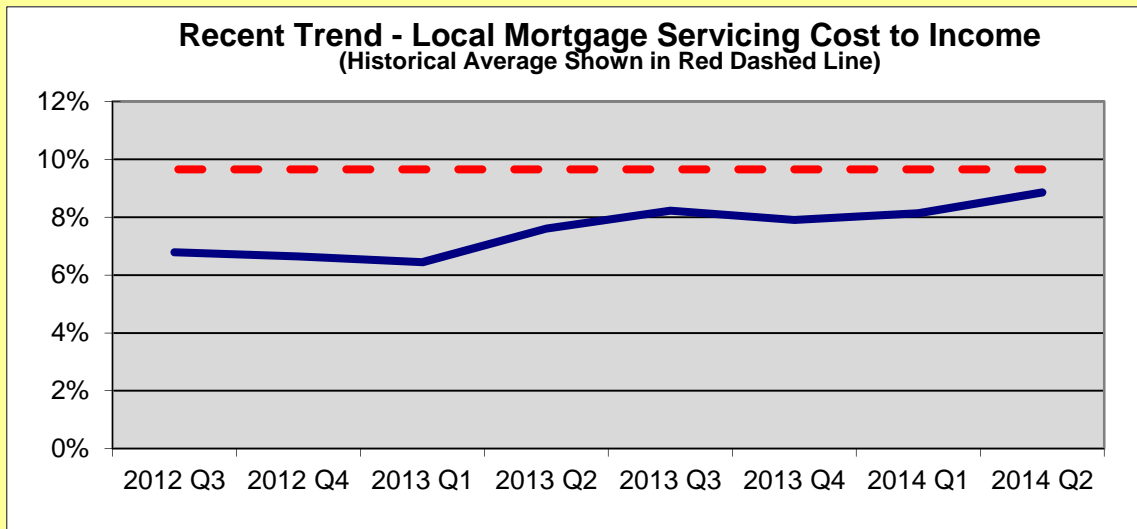
While new construction is the traditional driver of supply in real estate, foreclosures and short-sales now have a strong impact on inventories, particularly at the local level. Rising inventories, through construction or distressed sales, place downward pressure on the median home prices.



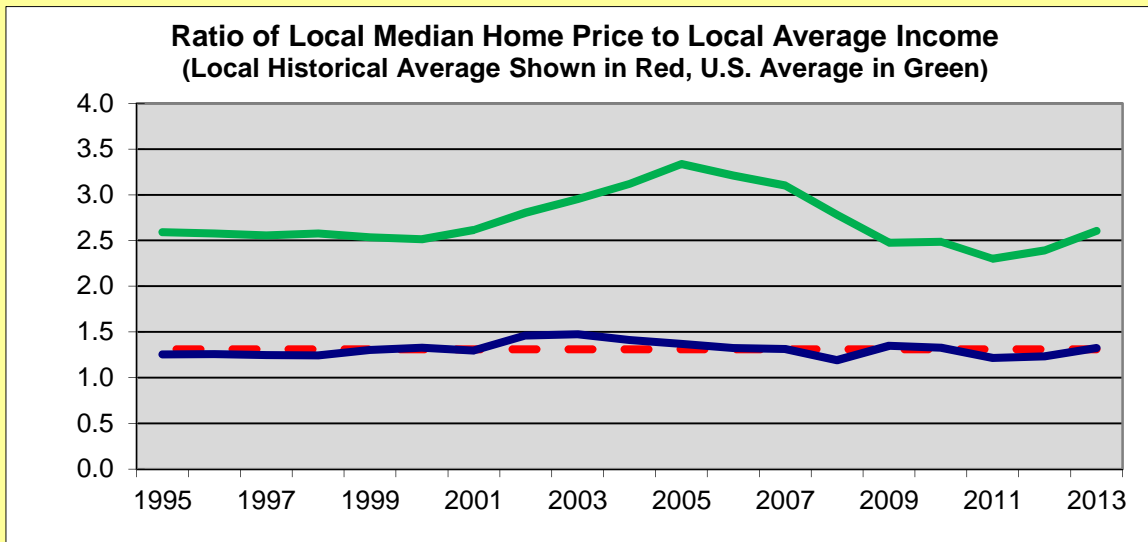
# Affordability



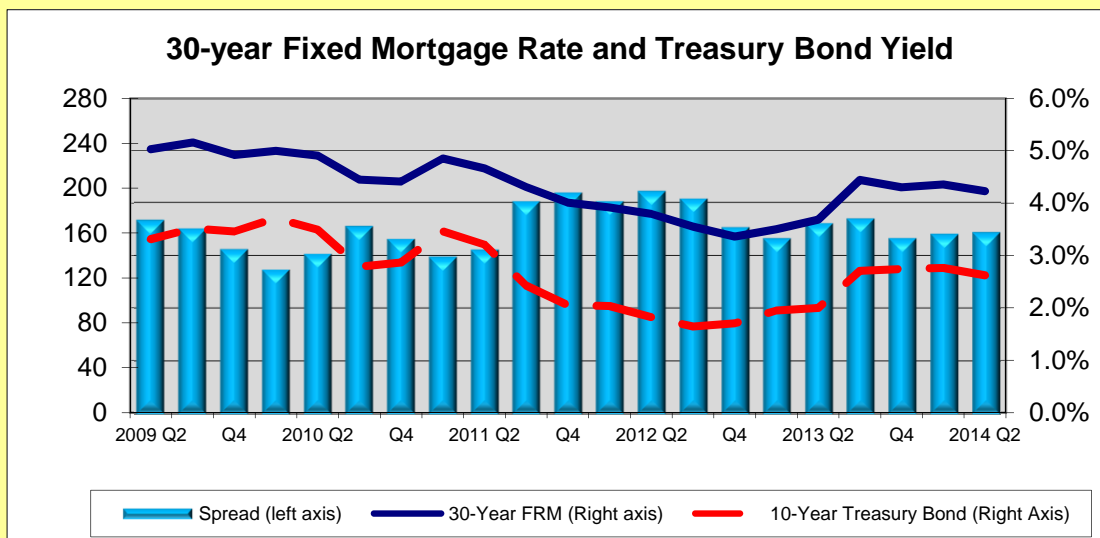
Monthly Mortgage Payment to Income	Houston	U.S.	
Ratio for 2013	7.6%	14.9%	Historically strong, but weaker than the first quarter of 2014
Ratio for 2014 Q2	8.9%	16.1%	
Historical Average	9.7%	20.3%	More affordable than most markets



Median Home Price to Income	Houston	U.S.	
Ratio for 2013	1.3	2.6	The price-to-income ratio is high by historic standards and getting worse
Ratio for 2014 Q2	1.5	2.7	
Historical Average	1.3	2.7	Affordable compared to most markets



## The Mortgage Market



Despite the continued wind-down of the Federal Reserve's MBS and Treasury purchase program, mortgage rates remain low. The program was averaging \$40 billion in purchases monthly of MBS issued by Ginnie Mae, Fannie Mae and Freddie Mac as well as \$45 billion in US Treasury bonds prior to the taper. The intent was to place downward pressure on the long-term borrowing costs. Rates were anticipated to rise as the Fed withdrew its support. However, GDP fell sharply in the 1st quarter, outpacing already weak expectations for the quarter. Furthermore, continued instability in Europe with the conflict in Ukraine heating up as well as volatility in the Israel, Syria, and Iraq, coupled with lingering questions about the veracity of the US economy have kept rates low. Rates averaged roughly 4.25% in the 2nd quarter of 2014. The Fed will continue to taper its new purchases of MBS through the late summer ending this portion of the program in October. The Fed will continue to reinvest the principle of MBS and Treasuries indefinitely, though, which is supportive of the market. Rates will likely be more volatile in response to economic news without the robust Fed purchase volume or nascent expansion of private demand for agency MBS. Eventually, a stronger economy, be it robust or modest in nature, will drive up rates over the long-term. NAR is forecasting an average 30-year fixed rate of 4.5% for 2014, but to be 4.8% in the 4th quarter of 2014 and to average 5.3% for 2015.

## Geographic Coverage for this Report

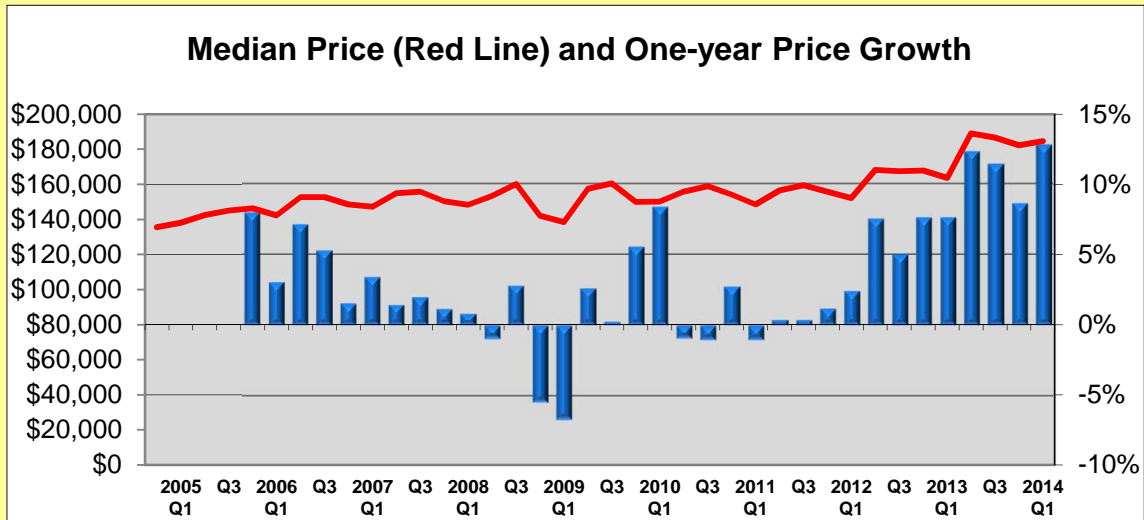
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## Houston-Baytown-Sugar Land Area Local Market Report, First Quarter 2014

### Today's Market...



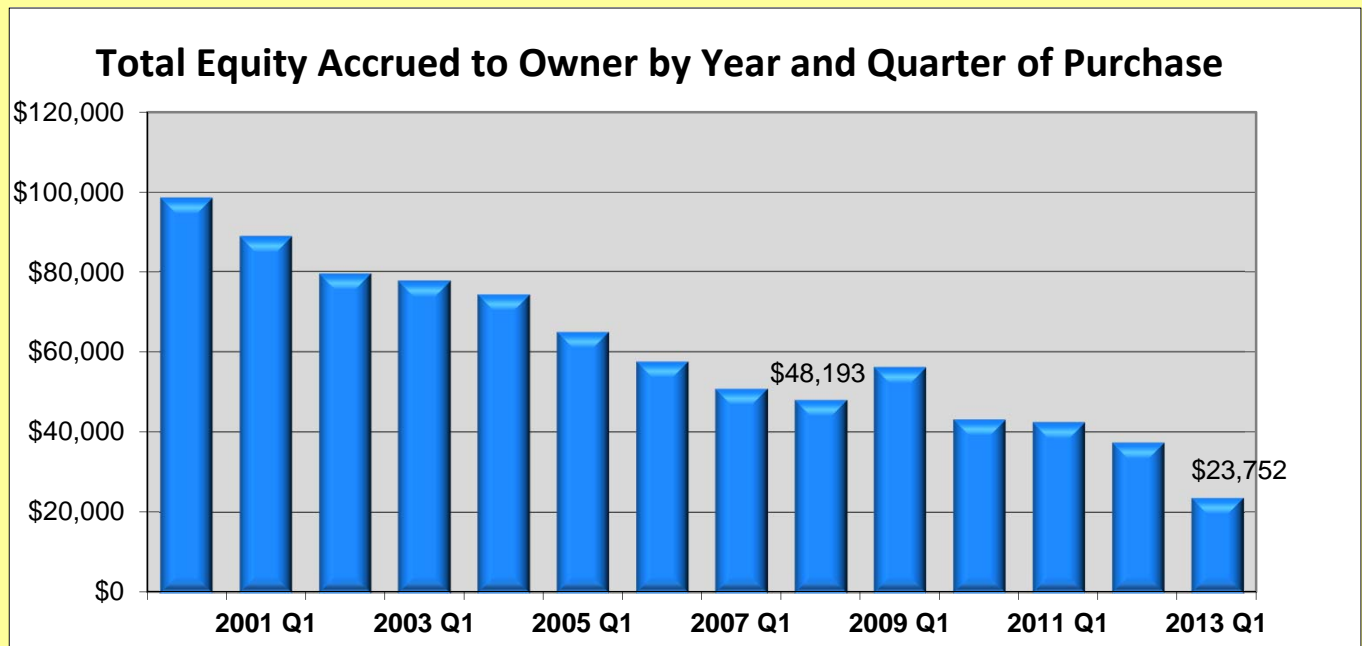
Local Price Trends			
Price Activity	Houston	U.S.	Local Trend
Current Median Home Price (2014 Q1)	\$184,600	\$191,567	Prices continue to grow relative to last year
1-year (4-quarter) Appreciation (2014 Q1)	12.8%	8.9%	
3-year (12-quarter) Appreciation (2014 Q1)	24.3%	21.3%	
3-year (12-quarter) Housing Equity Gain*	\$36,100	\$33,633	Gains in the last 3 years have extended the trend of positive price growth after the recession
7-year (28 quarters) Housing Equity Gain*	\$37,400	-\$22,533	
9-year (36 quarters) Housing Equity Gain*	\$46,500	-\$8,000	
*Note: Equity gain reflects price appreciation only			

	Houston	U.S.	
Conforming Loan Limit**	\$417,000	\$625,500	Most buyers in this market have access to government-backed financing
FHA Loan Limit	\$295,550	\$625,500	
Local Median to Conforming Limit Ratio	44%	not comparable	
Note: limits are current and include the changes made in November of 2012 and extended in November of 2013			

Local NAR Leadership
The Houston-Baytown-Sugar Land market is part of region 10 in the NAR governance system, which includes all of Louisiana and Texas. The 2014 NAR Regional Vice President representing region 10 is David McKey.



# Benefits of Ownership: Total Equity Appreciation



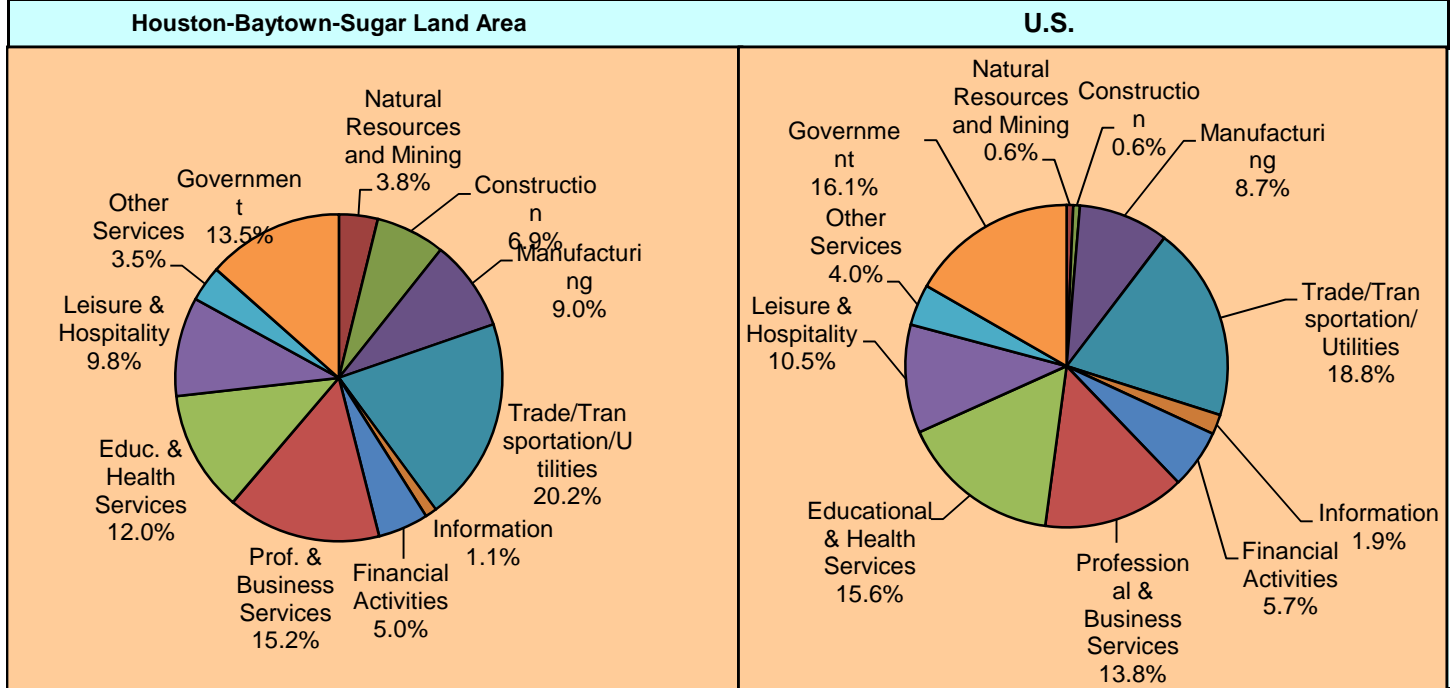
Total Equity Gained** through 2014 Q1 from quarter in which home was of purchased			
Price Activity	Houston	U.S.	Local Trend
1-year (4-quarter)	\$23,752	\$18,699	Price appreciation and principle payments in the last 3 years have boosted total equity growth since the recession
3-year (12-quarter)*	\$42,597	\$40,543	
5-year (20-quarter)*	\$56,368	\$33,789	
7-year (28 quarters)*	\$51,015	\$10,026	
9-year (36 quarters)*	\$65,165	\$3,658	
If purchase in 2005, the national price peak	\$65,165	\$3,658	

\*Note: Equity gain reflects price and principle payments since purchase, prevailing 30-year fixed rate mortgage at time of purchase and a 10% downpayment. Downpayment is not included in total equity

# Drivers of Local Supply and Demand...

Local Economic Outlook	Houston	U.S.	
12-month Job Change (Mar)	80,100	Not Comparable	Employment has held up and is on an upward trend
12-month Job Change (Feb)	78,400	Not Comparable	
36-month Job Change (Mar)	282,000	Not Comparable	Unemployment in Houston is better than the national average and improving
Current Unemployment Rate (Mar)	5.2%	6.7%	
Year-ago Unemployment Rate	6.1%	7.5%	Local employment growth is strong compared to other markets
1-year (12 month) Job Growth Rate	2.9%	1.7%	

## Share of Total Employment by Industry



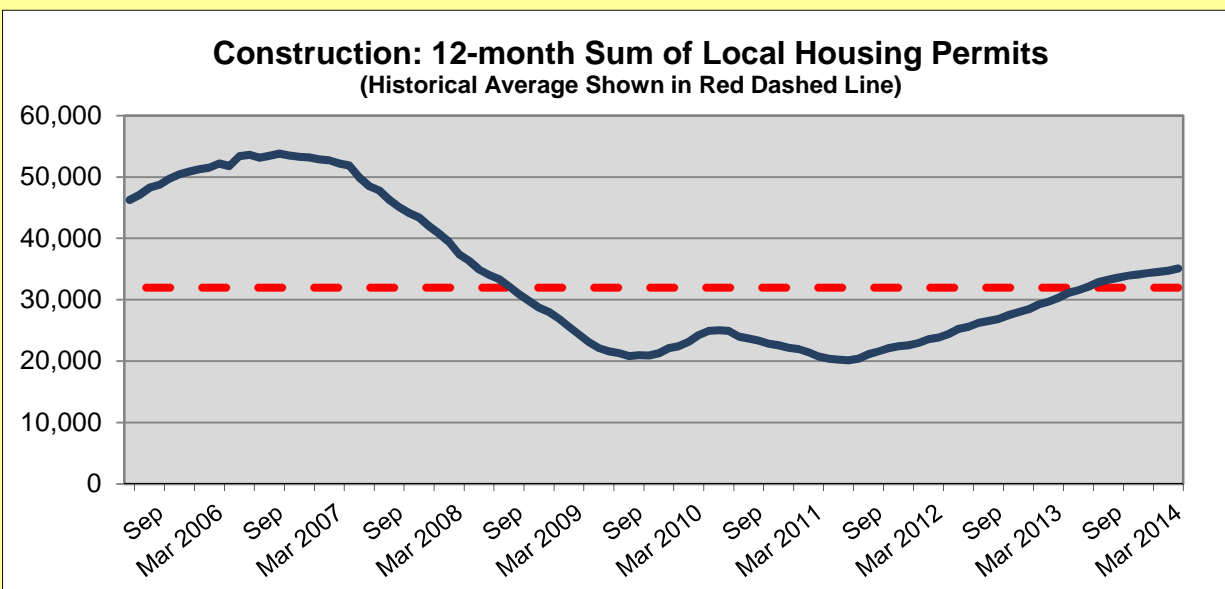
### 12-month Employment Change by Industry in the Houston-Baytown-Sugar Land Area (Mar - 2014)

Goods Producing	NA	Information	800
Natural Resources/Mining/Construction	NA	Financial Activities	1,000
Natural Resources and Mining	5,200	Prof. & Business Services	8,900
Construction	6,600	Educ. & Health Services	6,700
Manufacturing	7,000	Leisure & Hospitality	10,800
Service Providing Excluding Government	NA	Other Services	2,700
Trade/Transportation/Utilities	19,500	Government	10,900

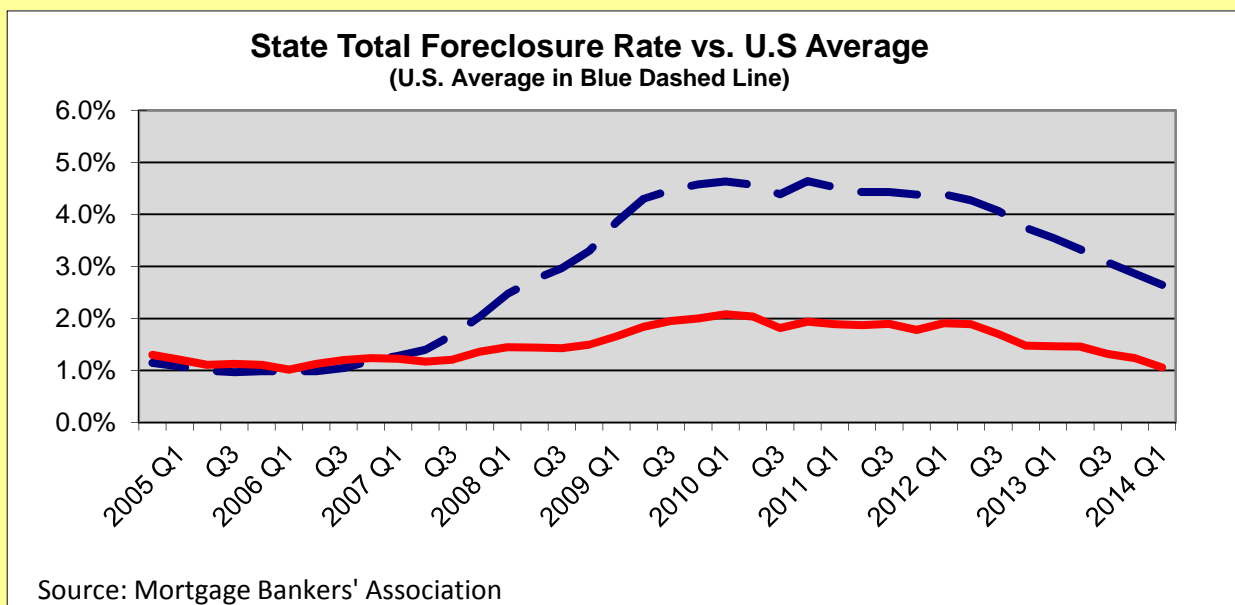
State Economic Activity Index	Texas	U.S.	
12-month change (2014 - Mar)	4.4%	2.9%	The economy of Texas has outpaced the rest of the nation and improved modestly from last month's 4.19% change
36-month change (2014 - Mar)	13.9%	8.8%	

## New Housing Construction

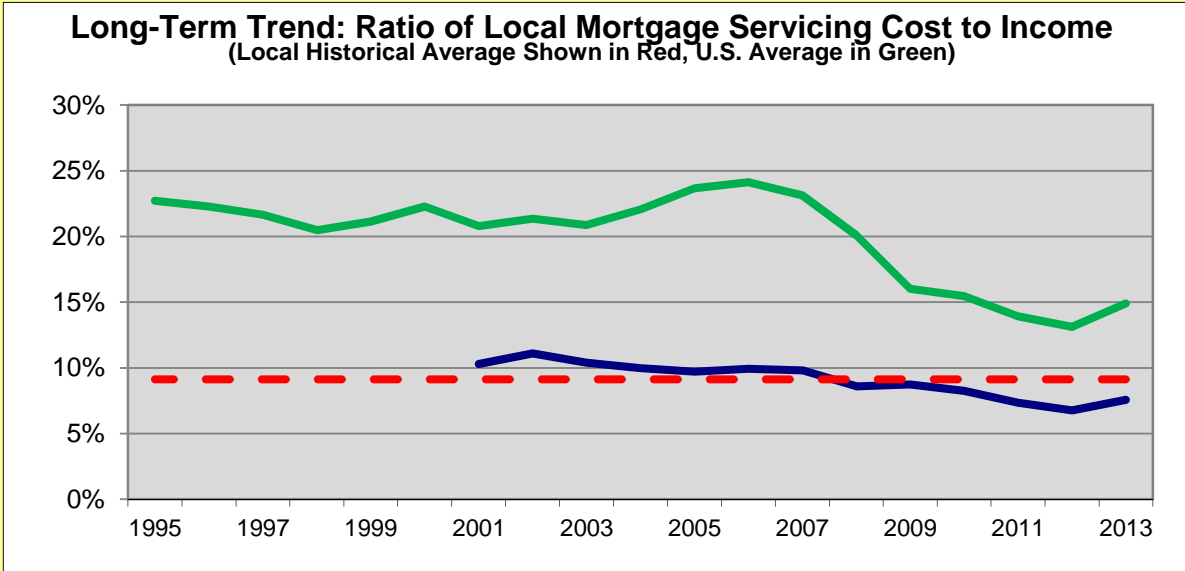
Local Fundamentals	Houston	U.S.	
12-month Sum of 1-unit Building Permits through Mar 2014	35,088	not comparable	The current level of construction is 09.7% above the long-term average
8-year average for 12-month Sum of 1-Unit Building Permits	31,991	not comparable	Production above trend for an extended period of time could cause prices to moderate as inventory is built
Single-Family Housing Permits (Mar 2014) 12-month sum vs. a year ago	15.9%	14.2%	Construction is on the rise relative to last year, suggesting that the local inventory has stabilized



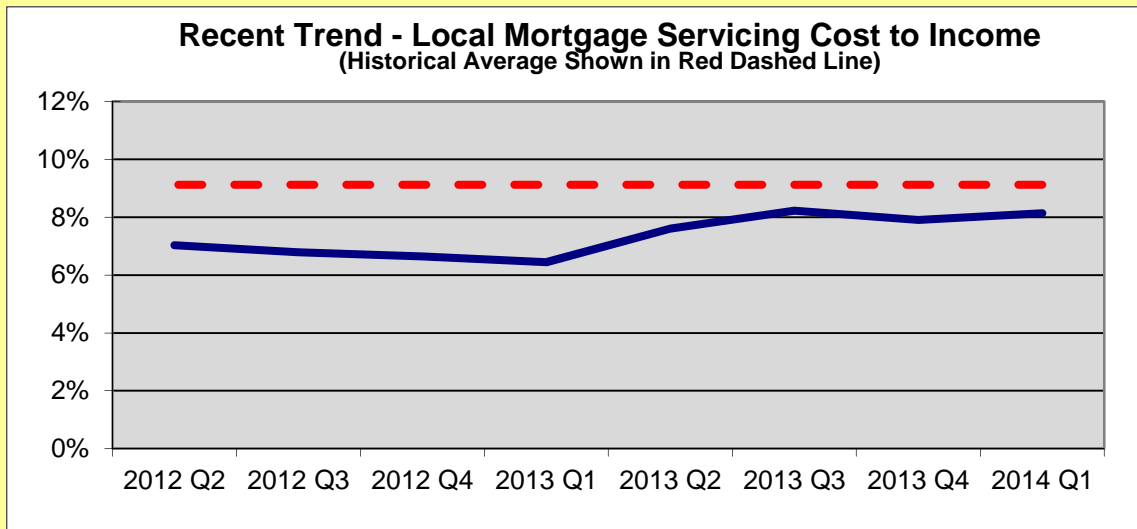
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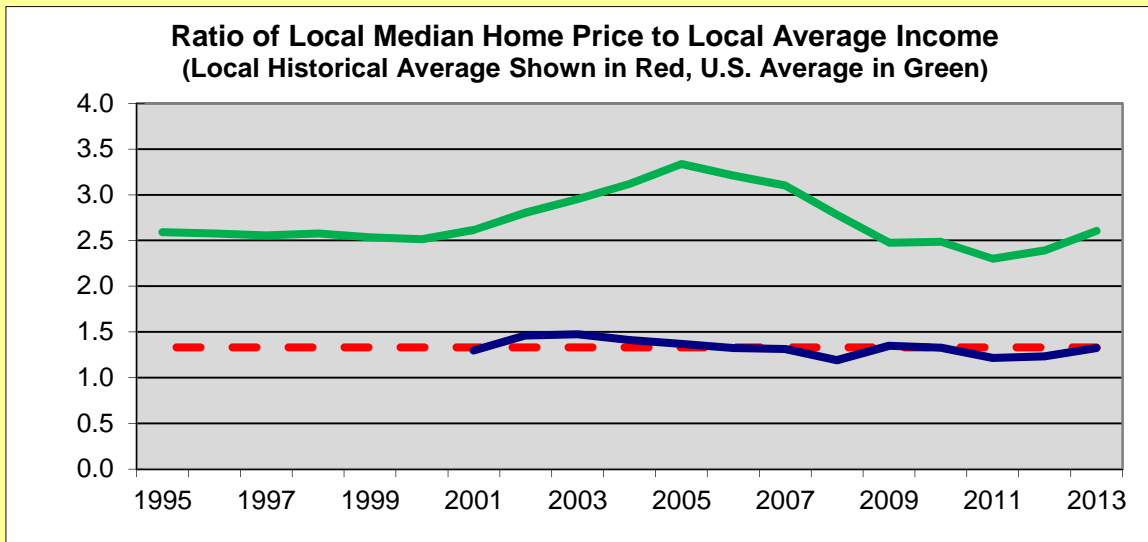
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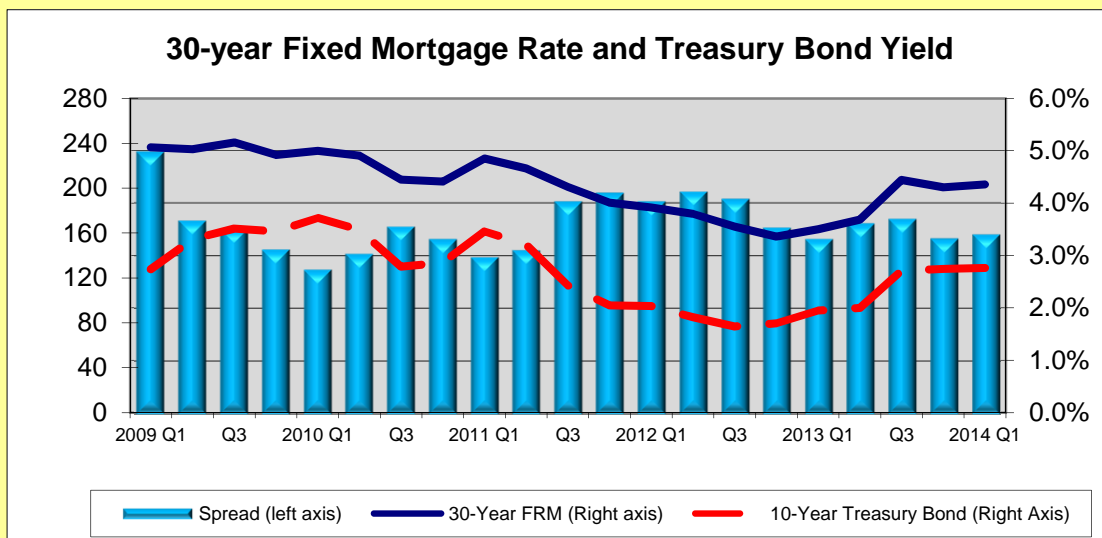
Monthly Mortgage Payment to Income	Houston	U.S.	
Ratio for 2013	7.6%	14.9%	Historically strong, but weaker than the fourth quarter of 2013
Ratio for 2014 Q1	8.1%	14.8%	
Historical Average	9.1%	20.3%	More affordable than most markets



Median Home Price to Income	Houston	U.S.	
Ratio for 2013	1.3	2.6	The price-to-income ratio is high by historic standards and getting worse
Ratio for 2014 Q1	1.4	2.5	
Historical Average	1.3	2.7	Affordable compared to most markets



## The Mortgage Market



The Federal Reserve continued to taper its support for the housing market in the first quarter of 2014 at a pace of \$5b fewer GSE MBS and Treasuries purchased each month. Over the prior year the Fed had purchased roughly \$45 billion a month of mortgage backed securities from the GSEs and Ginnie Mae as well as 10-year Treasury bonds. These purchases pushed up on MBS prices, which in turn pushed mortgage rates lower. While the taper had a modest initial upward lift on rates, negative economic news, including weak employment gains, a decline in home sales and instability in Europe, more than offset the upward drift. What's more, the Fed still remains the dominant player in the market for MBS as the total volume of MBS has fallen faster than the rate of Fed purchases due to the sharp drop in refinancing in recent quarters. As a result, mortgage rates remained stable in the first quarter. The Fed will continue to taper through the spring which will have a moderate impact on rates so long as the economy remains in low gear and investor demand for agency MBS re-emerges. Eventually, a stronger economy, be it robust or modest in nature, will reemerge and the Fed's purchases will decline to a level that truly reduces its support for the market so rates will rise later this year. NAR is forecasting an average 30-year fixed rate of 4.7% for 2014, but to be 5.1% in the 4th quarter.

## Geographic Coverage for this Report

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