Synergetic Investment Group LLC

Building Wealth Through Real Estate

Newsletter July-August 2013

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We recently returned from a two week trip to Houston and San Antonio, Texas. The two markets we visited are hot in more ways than one. Besides the temperature reaching over the 100 degree mark, the real estate market is heating up and there is growing interest in B and C class properties. Many sellers have decided that this is a good time to sell before the rising interest rates compress the selling price. We feel this is a great time to buy before the interest rates rise, but also because there is still room to raise rents and lower vacancy rates. This month's newsletter is a report from Marcus and Millichap, the largest national commercial real estate brokerage firm, and their assessment of the Houston and San Antonio markets. For the complete report click here.

Marcus & Millichap
Real Estate Investment Services

National Economy

- A congressional stalemate on fiscal issues will undermine the U.S. economic recovery and leave it vulnerable to recession. Assuming a resolution integrating tax increases and spending cuts emerges, economic productivity could surprise to the upside with solid expansion by midyear.
- Higher taxes will pressure consumers' disposable income and federal spending cuts will weigh on GDP. However, the housing sector turnaround and a robust increase in residential investment, along with international trade, will support GDP growth of about 2.0 percent in 2013.
- The U.S. has recovered half of the jobs lost since the employment trough, adding 4.5 million jobs since then. Approximately 2.1 million jobs are forecast for 2013, helping reduce the unemployment rate to 7.7 percent in November 2012.

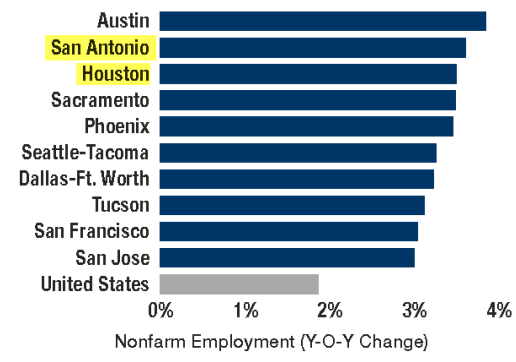
National Apartment Overview

- The alignment of powerful demographic and economic trends continues to fortify nationwide apartment performance, driving the sector into its fourth year of expansion.
- U.S. vacancy should reach 4.3 percent by the end of 2013, resulting in 4.0 to 5.0 percent effective rent growth. A new construction cycle will add nearly 150,000 units, on par with a conservative demand forecast. Completions may create a temporary supply and demand imbalance in many markets, such as Austin, Charlotte and Houston.

Echo Boomers Drive Household Formations

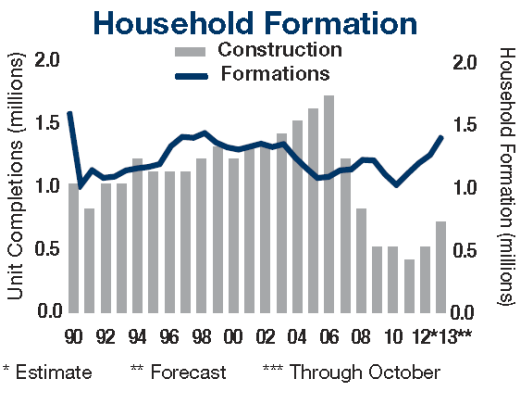
Aided by Job Gains and Higher Immigration Levels. Echo boomers number 87.3 million people and now represent the largest age cohort in the U.S. The oldest of the echo boomers turned 28 years old in 2012 and will create a significant number of new households over the next two years. Immigration, a critical source of apartment demand, has been subdued since the recession. Improved job prospects will help restore higher levels of immigration, adding between 1.2 and 1.6 million residents per year by 2017.

Markets with the Highest Expected 2013 Employment Growth



Markets with the Highest Expected 2013 Absorption

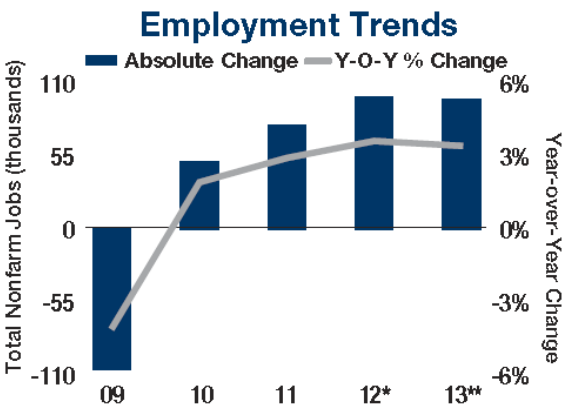
Home Construction vs. Household Formation



Houston Vacancy Retreats as Outsized Hiring Offsets Increase in Development

As a leader in job creation, Houston's apartment vacancy rate has retreated to levels last recorded in 2006. Not surprisingly, this has sparked a surge in the development pipeline. Fortunately, key economic sectors including energy and health services are thriving, which will help generate sufficient renter demand to absorb new Class A deliveries. The upturn in residential and commercial development points to another year of strong expansion in the previously hard-hit construction industry, which will boost demand for more affordable units. The leisure and hospitality, manufacturing and trade sectors will contribute a sizable number of new positions to Houston's economy as well, placing further downward pressure on Class B/C vacancy rates.

Employment Trends



Houston 2013 Market Outlook

- **2013 NAI Rank: 13, Up 5 Places.** Houston's exceptional job growth forecast more than offset its relatively high vacancy rate.
- **Employment Forecast:** Payrolls are expected to rise 3.5 percent in 2013 with the addition of 95,600 positions. Last year, employment grew 3.7 percent.
- **Construction Forecast:** Developers will complete 8,500 units in 2013, more than twice the 2012 total.

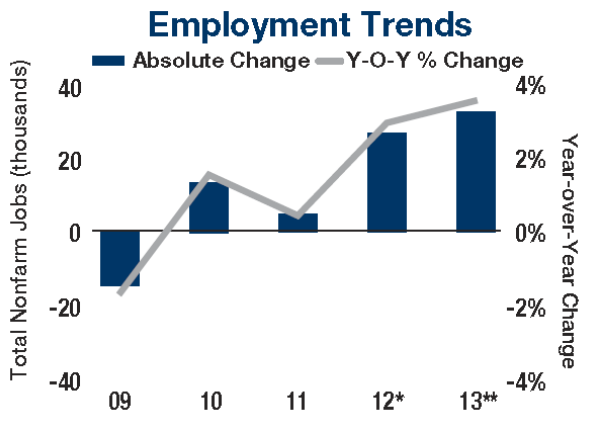
Vacancy Forecast: Vacancy in Houston will slip 30 basis points to 6.9 percent. During 2012, metro wide vacancy declined 130 basis points.

- **Rent Forecast:** In 2013, asking rents will advance 4.5 percent to $852 per month, while effective rents climb 4.8 percent to $785 per month.
- **Investment Forecast:** Class B/C demand is on the rise, but development is limited almost entirely to Class A product. As a result, smaller 1970s and early-1980s properties, which tend to trade at cap rates upwards of 9 percent, should garner stronger investor attention this year.

Booming Economy, Strong Returns Sustain San Antonio Market

San Antonio remains positioned for another year of above-average expansion. To start, major oil companies are allocating more capital to operations in the Eagle Ford Shale, which already supports an estimated 50,000 South Texas jobs. In addition, all signs point to another stellar year for San Antonio's outsized leisure and hospitality sector. Approximately 200 meetings are already booked for 2013, representing nearly 170,000 room nights, which is nearly double room demand last year. The increase in visitor volume and resulting uptick in hotel, restaurant and retail employment bodes well for San Antonio apartment operators, as these lower-paying sectors tend to be catalysts for renter household formation.

Employment Trends



San Antonio 2013 Market Outlook

- **2013 NAI Rank: 24, Down 3 Places.** Despite a decline, San Antonio vacancy will remain above the U.S. average, contributing to its slip in the NAI.
- **Employment Forecast:** San Antonio payrolls will rise 3.6 percent in 2013 with the addition of 31,800 positions. Last year, job growth hit 3 percent.
- **Construction Forecast:** Approximately 4,000 apartments will come online this year, up from 3,200 units in 2012.
- **Vacancy Forecast:** Following a 90 basis point decline in 2012, metro wide vacancy will slip 20 basis points this year to 6 percent.
- **Rent Forecast:** Asking rents will increase 4.7 percent this year to $781 per month, while effective rents advance 5 percent to $739 per month.
- **Investment Forecast:** Class C demand will rise as blue-collar job growth intensifies. Investors will follow, focusing around north/northeast of the metro.

	Employment Growth[2]				Vacancy (Year-End)[2]				Asking Rent (Year-End)[2]			
MSA Name	10	11	12*	13**	10	11	12*	13**	10	11	12*	13**
Houston	2.0%	3.0%	3.7%	3.5%	10.8%	8.5%	7.2%	6.9%	$765	$781	$815	$852
San Antonio	1.6%	0.5%	3.0%	3.6%	8.4%	7.1%	6.2%	6.0%	$705	$719	$746	$781
U.S. Metro Total	0.8%	1.4%	1.4%	1.9%	6.6%	5.2%	4.4%	4.3%	$1,032	$1,052	$1,092	$1,139

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Synergetic Investment Group, LLC acquires multi-family assets in emerging U.S. markets. We look for stabilized and distressed assets that provide our investors above average rates of return and a strong equity position. Our investment strategy provides qualified investors an opportunity to expand and diversify their investment portfolio and participate in all the benefits of owning commercial real estate without any of the acquisition, management or sale responsibilities.

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