MARKET REPORT

Multifamily

Houston Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

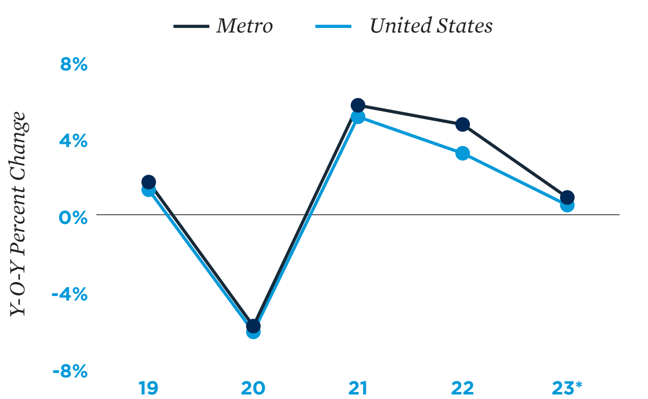
2Q/23

Homeownership Barriers Boost Outlook; Westside Suburbs Face Supply Pressure

Key renter cohort growth amid homebuying hurdles is bullish. The Houston metro contains nearly 1.6 million residents in the age 20- to 34-year-old bracket, the fifth-largest total among major U.S. markets. This demographic is projected to expand by an additional 100,000 individuals through 2027, ranking second to only Dallas-Fort Worth. That trend is particularly relevant for the multifamily sector amid barriers to homeownership. Houston's median single-family home price surged by more than 35 percent over the past three years to about $340,000. Softer buyer demand in recent quarters has done little to push down home values, due to a lack of for-sale inventory. At the same time, inflation has made it difficult for young adults to save for a down payment, while taking on long-term debt amid higher borrowing costs is unappealing. As a result, many in the expanding age 20- to 34-year-old cohort will choose to rent longer into their lives, aiding multifamily performance metrics.

Fort Bend County and surrounding areas are focal for builders. The Katy and Rosenberg-Richmond submarkets, adjacently located on the western side of Houston, combine for over 8,300 units underway. An additional 7,000 rentals are being developed in the surrounding Cypress-Waller, Bear Creek and Sugar Land-Stafford submarkets. This western concentration aligns with recent household creation trends, but the new supply may hinder local fundamentals in the near-term. Rosenberg-Richmond and Cypress-Waller, in particular, face immense competition from new apartment openings.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2023 Outlook

31,000 JOBS *will be created*

EMPLOYMENT:

Houston's net job creation will rank in the top five major U.S. markets for the third straight year. The pace of annual growth will slow to about one-fifth of 2022's expansion, however, amid tight local unemployment and national economic headwinds.

16,800 UNITS *will be completed*

CONSTRUCTION:

Developers finalize about 1,600 more rentals than last year's total, with local inventory projected to expand by 2.3 percent. The pace of supply growth in Houston nevertheless ranks as the slowest among the four major Texas markets during 2023.

50 BASIS POINT *increase in vacancy*

VACANCY:

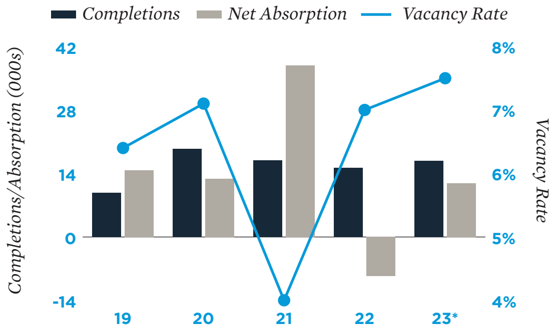
Smaller supply growth relative to other major Texas metros allows Houston to record the lowest vacancy increase in the state. Still, supply pressure is notable amid soft household creation, pushing the vacancy rate to 7.5 percent.

3.5% INCREASE *in effective rent*

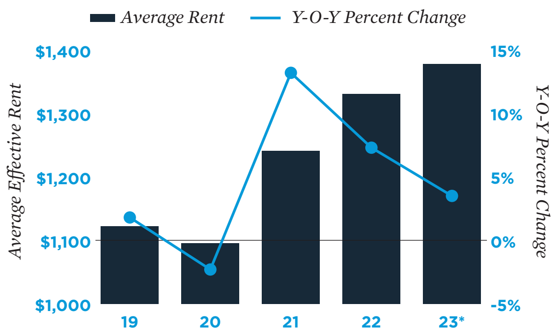
RENT:

From the end of 2019 through the start of this year, the average effective monthly rent grew by about 18.6 percent. During 2023, the elevation will align more closely with the market's long-term average, rising to $1,378 per month.

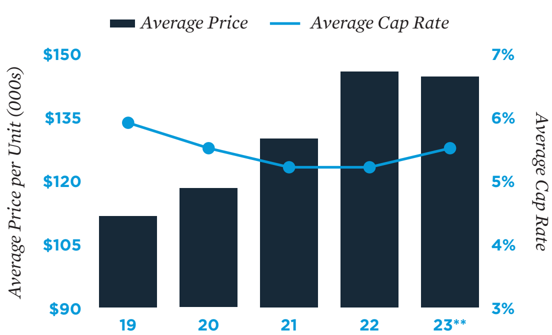
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: $250

1Q 2023 - 12-Month Period

CONSTRUCTION

14,271 units completed

- Entering the second quarter, builders had broken ground on 45,000-plus units metrowide, less than half of which finalize during 2023. Upon completion, these rentals will grow Houston's inventory by about 6 percent.
- During the past year ending in March, local supply expanded by over 8 percent in the Rosenberg-Richmond and Cypress-Waller submarkets.

VACANCY

350 basis point increase in vacancy Y-O-Y

- None of Houston's 35 submarkets registered a vacancy decline over the past 12 months, but the Class A rate fell year-over-year in Baytown, Hobby Airport, Sharpstown-Fondren Southwest and Brazoria County.
- The annual vacancy lift was the most pronounced in Cypress-Waller and Northeast Houston. Both areas now have local availability above 8 percent.

RENT

5.8% increase in the average effective rent Y-O-Y

- Unlike some other markets in the region, rents have not dropped over the past few quarters, rather they inched up. Between October 2022 and March 2023, the mean effective rent rose 0.7 percent to $1,340 per month.
- Rent growth was strongest in the Class A segment over the past four quarters, at 9.4 percent. Class B, meanwhile, had the smallest rise at 4.9 percent.

Investment Highlights

- The Federal Reserve's aggressive interest rate hikes created substantial financing hurdles and widened the buyer/seller expectations gap. Apartment deal flow fell quarter-over-quarter in each period spanning back to July of last year. Trading during the opening quarter of 2023 was down more than 50 percent relative to the same frame one year prior. The Fed has recently shown signs of easing up, however, which could assist transaction counts during the second half of 2023. Houston's robust economic growth trends should lure buyers back once conditions settle.
- Institutional-level trades have slowed substantially in Houston as investment groups take a wait-and-see approach. Transactions in the $20 million-plus price tranche during the January through March 2023 period hit the lowest count since the Global Financial Crisis. Institutions will return once interest rates stabilize, however, and Houston's substantial construction pipeline presents new investment opportunities longer-term.
- Once institutions come off the sidelines, areas with relatively low Class A/B vacancy rates and foundations for economic growth warrant attention. The Woodlands and West University-Medical Center meet this criteria.