

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **13,659**

UNITS DELIVERED (YTD) **3,754**

MARKET FUNDAMENTALS



VACANCY RATE **7.3%**

YEAR-OVER-YEAR CHANGE **+30bps**

ASKING RENTS **\$1,333**

YEAR-OVER-YEAR CHANGE **+2.0%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$136,500**

HOUSTON MULTIFAMILY 1Q 2025

MARKET INSIGHTS

After two years of heightened activity, development to slow

HIGHLIGHTS

- Property fundamentals in Houston's multifamily market softened slightly during the first quarter, with vacancy ticking up and rents edging lower. Construction activity has begun to slow in recent months.
- The vacancy rate rose modestly during the first quarter, increasing by 10 basis points to 7.3%. Year over year, vacancy rose by 30 basis points.
- Asking rents remained nearly flat in recent months after trending higher for seven consecutive quarters. Although growth tempered during the first quarter, apartment rents still advanced by 2% over the past year to \$1,333 per month.
- While sales activity remains below long-term averages, the multifamily investment market has built some momentum in recent periods. Total sales during the first quarter increased by 63% compared to the same period in 2024. For deals with disclosed pricing, the median price year to date in 2025 reached \$136,500 per unit.

HOUSTON MULTIFAMILY MARKET OVERVIEW

Multifamily deliveries slowed in Houston during the first quarter following a peak in 2024. Approximately 3,750 units came online, marking the lowest quarterly total since the fourth quarter of 2022. Additionally, the development pipeline has contracted by 57% over the past year with fewer than 13,700 units currently under construction. Despite the recent slowdown, the cumulative impact of the supply surge in 2023 and 2024 dragged on property fundamentals. Both rents and vacancies softened slightly during the first quarter. Still, renter demand remains consistently strong in Houston, with net absorption exceeding 4,100 units during the first quarter, similar to the quarterly average of the trailing two years. Although rent growth has been modest at the start of this year, gains during the past 12 months have outpaced those recorded in other major Texas markets.

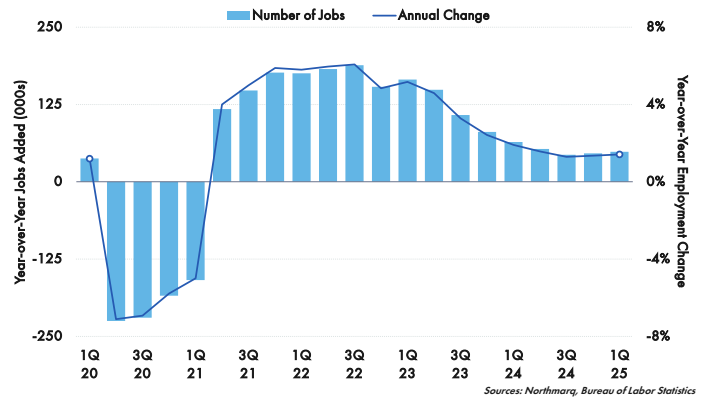
Multifamily sales activity in Houston continues to lag historical levels, but momentum is building. After a strong close to 2024, transaction volume during the first quarter increased by 63% compared to the same period last year. Multifamily sales in the Lake Houston area have surged recently. Traditionally considered a tertiary submarket, Lake Houston is leading the region in transaction volume so far in 2025, accounting for approximately 30% of all sales. This area has benefited from strong population growth and solid property fundamentals in recent periods. Additionally, investors have shifted to newer vintages, with properties built since 2010 comprising more than 40% of year-to-date transactions. By comparison, properties from the 1970s accounted for the largest share of sales last year.

EMPLOYMENT

- Houston's total employment continues to grow, with a year-over-year gain of 48,500 jobs as of the first quarter, a 1.4% increase. While the pace has moderated since the strong post-pandemic rebound, it still exceeds the average growth rate of 1.2% seen during the five years prior to 2020.
- Despite recording a brief slowdown at the start of the first quarter, the trade, transportation, and utilities sector has continued to show growth in recent months. Employment in this sector increased by 8,900 positions over the past year, representing a 1.3% gain.
- Memorial Hermann Health System recently broke ground on the North Tower at Memorial Hermann Sugar Land, marking the final phase of a \$231 million expansion project that began in 2022. The seven-story patient tower is expected to be completed in 2026 and will result approximately 150 new jobs. The healthcare sector has added 9,500 net new jobs in the past year.
- **FORECAST:** The pace of hiring is expected to ease through the end of the year. In 2025, employment growth is projected to increase by 1%, adding approximately 35,000 jobs.

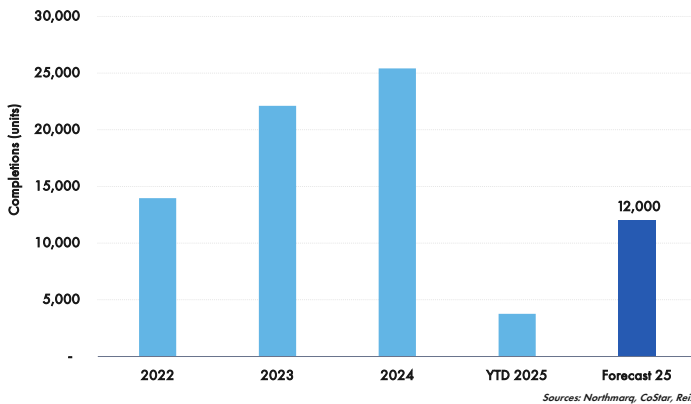
Year over year, employers added 48,500 jobs.

EMPLOYMENT OVERVIEW



Projects totaling approximately 3,750 units came online in the first quarter.

DEVELOPMENT TRENDS

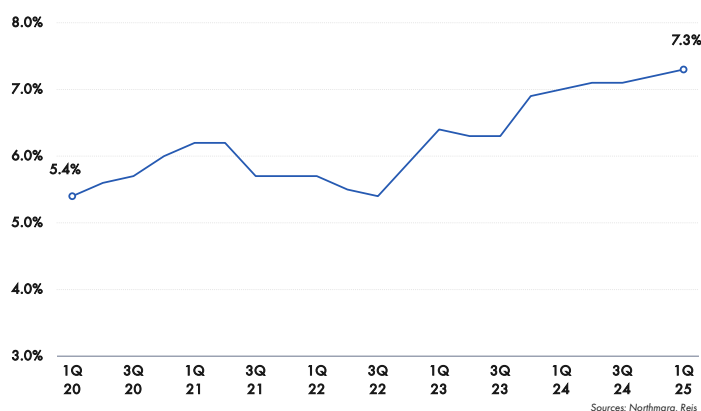


DEVELOPMENT & PERMITTING

- The pace of multifamily completions slowed at the start 2025 following peak deliveries last year. Projects totaling approximately 3,750 units came online during the first quarter, a drop of more than 40% from the volume recorded at the end of last year.
- Developers are easing the rate of new construction projects following a more active period of new supply growth in 2023 and 2024. At the end of the first quarter, projects totaling roughly 13,700 units were underway, a 57% decline from the same time last year.
- Multifamily permitting picked up a bit in early 2025, with developers pulling permits for approximately 4,100 units in the first quarter, up 7% from the fourth quarter of 2024.
- **FORECAST:** Completions are expected to continue at a modest pace throughout the rest of 2025, with roughly 12,000 units projected to come online. This follows to consecutive years where annual deliveries totaled more than 20,000 units. This year's forecast total slightly exceeds the market's long-term average of 11,000 annual deliveries from 2011 to 2022.

Area vacancy rose by 30 basis points year over year.

VACANCY TRENDS



VACANCY

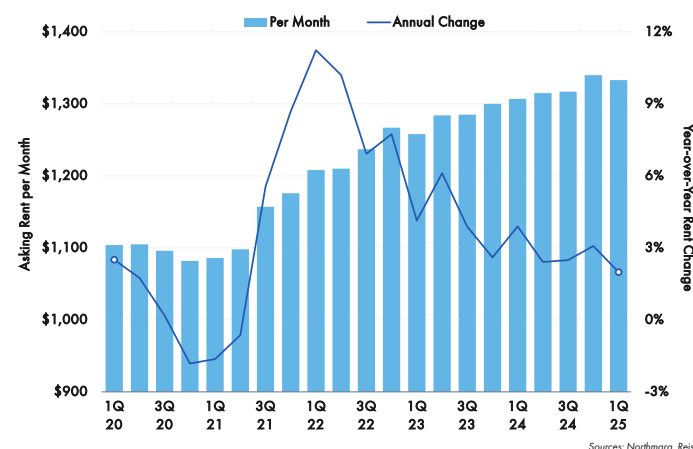
- Vacancy conditions in Houston ticked up slightly in the first quarter, rising 10 basis points to 7.3%. Compared to the same period last year, vacancy is up 30 basis points.
- The vacancy rate in the North/Northeast Houston submarket is returning to trend after a period of elevated supply growth, with nearly 35% of the existing inventory developed in the past five years. Over the last year, vacancy declined by 310 basis points, down from a peak of 13.8%.
- Despite a slowdown in new deliveries in recent months, the supply growth accumulated during 2023 and 2024 continues to apply upward pressure on Class A vacancy. Over the past year, vacancy for top-tier properties increased by 90 basis points to 8.6%. In contrast, vacancy improved for middle- and lower-tier assets, with the combined rate for Class B and Class C properties declining by 20 basis points year over year.
- FORECAST** With the pace of supply growth expected to ease, vacancy conditions should improve. Area vacancy is projected to close 2025 at 7%, marking a decline of 20 basis points from the prior year.

RENTS

- Rents in Houston lost some ground in recent months, falling 0.5% during the first quarter to \$1,333 per month after gains in the fourth quarter. Despite this short-term decline, rents have gained 2% year over year.
- Nearly every submarket posted rent growth over the past 12 months, with submarkets in East Houston posting particularly strong gains. The Cloverleaf/Channelview area recorded rent growth of 6.4% during this period, while rents in Pasadena/Deer Park increased by 4.2%. Additionally, rents in Galveston County rose by 5.9% compared to the previous year.
- Rents for top-tier properties have gained momentum over the past year. Asking rents for Class A assets rose 4.5% year over year, reaching an average of \$1,641 per month.
- FORECAST:** Rent growth is expected to resume through the remainder of 2025, though gains are likely to be modest. Asking rents are projected to increase by nearly 2% this year, reaching \$1,365 per month. In 2024, rents grew 3.1%, closely tracking average gains recorded from 2011 to 2020.

Rents have gained 2% year over year.

RENTS TRENDS

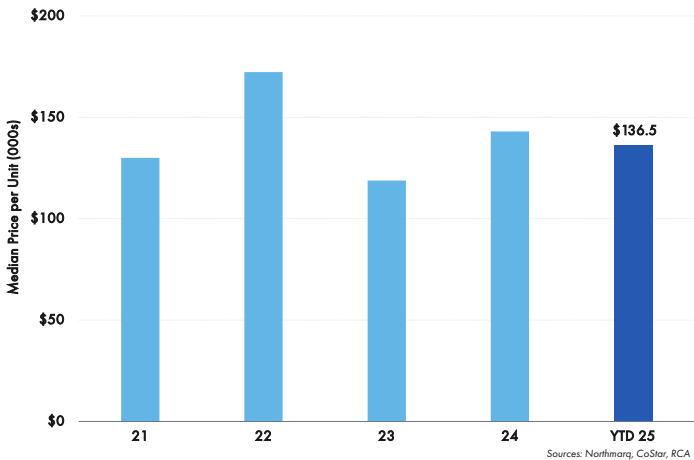


MULTIFAMILY SALES

- Transaction activity is moving closer to historical levels. Total sales activity in the first quarter of 2025 was 63% higher than the same period in 2024. However, transaction volume remains below long-term norms, trailing the region’s 10-year average for first-quarter sales by 32%.
- For transactions with available pricing data, the median price to this point in 2025 is \$136,500 per unit, reflecting a 5% decline from 2024.
- While assets across all vintages continue to change hands, investors are increasingly focused on newer properties. Year to date, 2010s-vintage assets accounted for 22% of sales, and properties built in the 2020s made up 19% of the transaction mix. Traditionally, 1970s-built properties have represented the largest share of sales.
- Cap rates across Houston remained in the mid-6% range in the first few months of 2025. Cap rates for Class A properties continue to be slightly lower than other asset classes, currently averaging 6.25%.

Cap rates across Houston remain in the mid-6% range.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

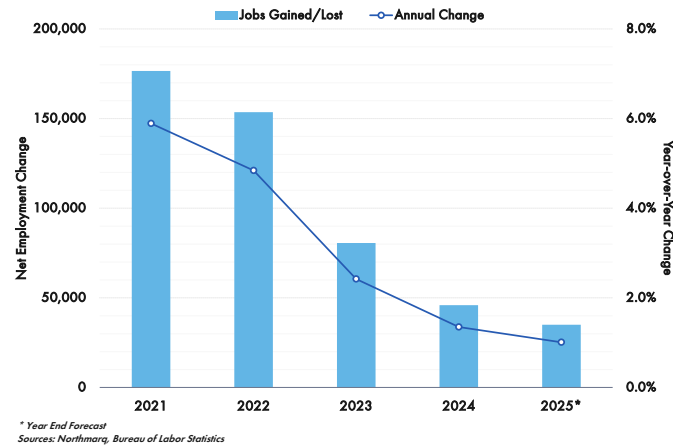
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Vista at Southwinds	1900 Kilgore Pky., Baytown	2020	265	\$41,400,000	\$156,226
The Fenwick	10373 N Sam Houston Pky E., Humble	2008	258	\$35,000,000	\$135,659
Villages of Briar Forest	14504 Briar Forest Dr., Houston	1999	241	\$33,100,000	\$137,344

LOOKING AHEAD

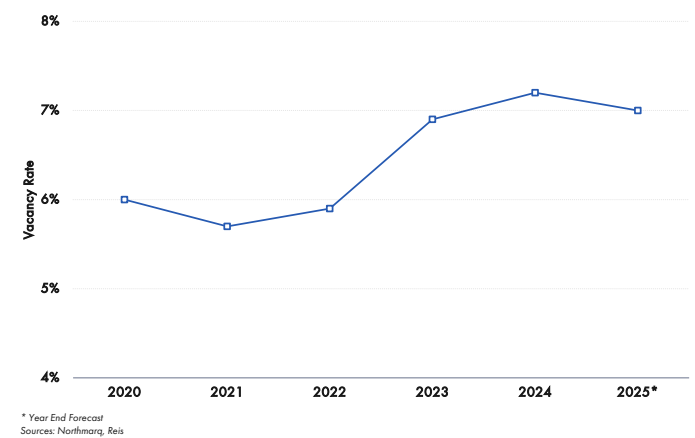
Supply-side pressures in Houston's multifamily market are expected to ease in the coming quarters, with annual completions projected to return to trend following elevated inventory growth in 2023 and 2024. Projects totaling 12,000 units are scheduled to come online this year, slightly above the long-term average delivered from 2011 to 2022. The market's recovery from the recent development surge appears to be progressing quickly. One year ago, the development pipeline stood at nearly 32,100 units under construction. By the end of the first quarter of 2025, that number had been slashed by more than half, retreating to approximately 13,700 units. Multifamily permitting activity also slowed below historical norms in 2024, a trend that will likely continue in 2025. Vacancy conditions are expected to improve as the cooling rate of inventory growth is projected to be outpaced by the region's steady renter demand.

Sales velocity in Houston's multifamily market could be mixed in the coming quarters, though the overall outlook remains positive. While sales activity may be uneven in the coming months, transaction volume is projected to rebound in the second half of 2025, and annual totals should come close to matching 2024 levels. Supply-side pressures are anticipated to continue easing, positioning Houston ahead of other major markets. Many buyers who have remained on the sidelines over the past two years are likely to return as supply growth stalls and broader acceptance of the current interest rate environment takes shape. Property fundamentals are expected to improve in the near term, which should encourage greater investor activity moving forward. The region's strong population growth and healthy labor market will continue to drive renter demand, supporting investment in the coming years.

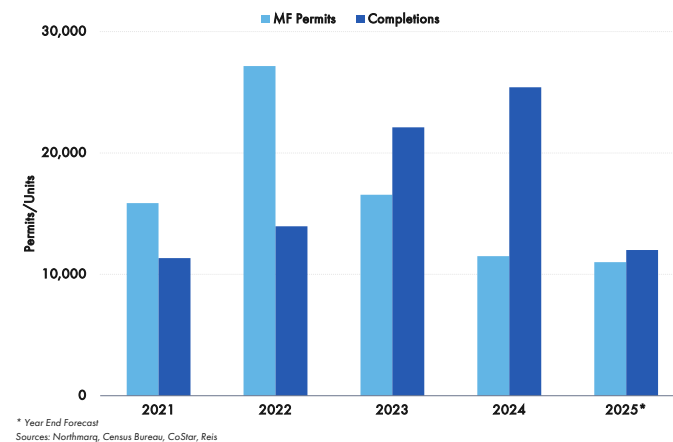
EMPLOYMENT FORECAST



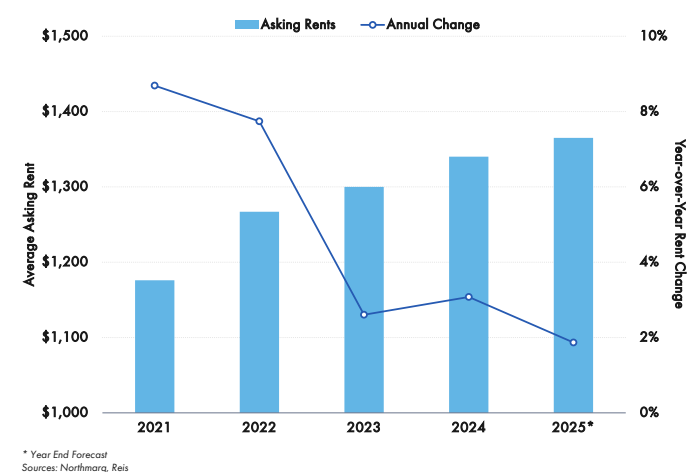
VACANCY FORECAST



CONSTRUCTION & PERMITTING FORECAST



RENTS FORECAST





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