Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	13,270
UNITS DELIVERED (YTD)	8,458

MARKET FUNDAMENTALS

VACANCY RATE	7.1%
YEAR-OVER-YEAR CHANGE	-30bps
ASKING RENTS	$1,350
YEAR-OVER-YEAR CHANGE	+1.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$107,900

HOUSTON MULTIFAMILY
Q2 2026

MARKET INSIGHTS

Vacancies trend lower at midyear

HIGHLIGHTS

- Multifamily vacancy in Houston posted a healthy improvement in the second quarter, with the rate changing course after rising throughout much of the past few years. Construction totals are expected to finish 2026 well below peak levels from 2023 and 2024.
- The vacancy rate trended lower in recent months after gradually rising for much of the past three years. Area vacancy declined 40 basis points during the second quarter to 7.1% and now sits 30 basis points below the year-ago level.
- Apartment rents were essentially flat during the second quarter following gains at the start of the year. Asking rents currently average $1,350 per month, up 1.0% annually.
- While transaction activity slowed in recent months, year-to-date sales remain 31% above the level recorded during the same period of 2025. Among transactions with available pricing, the median sale price is $107,900 per unit, while cap rates average 6.0%.

HOUSTON MULTIFAMILY MARKET OVERVIEW

After supply growth had been gradually tapering for much of the past 18 months, vacancy across the Houston multifamily market finally declined at a meaningful pace. The 40-basis-point decrease during the second quarter was the largest improvement in nearly five years. A surge in renter demand fueled the improvement; net absorption totaled more than 6,500 units during the quarter, up more than 60% from the same period last year. While absorption was elevated and the vacancy rate dipped, rents were mostly flat in the second quarter. Rents had posted steady gains at the beginning of the year, but that momentum was not sustained during the most recent quarter. Current rents are still slightly higher than they were one year ago.

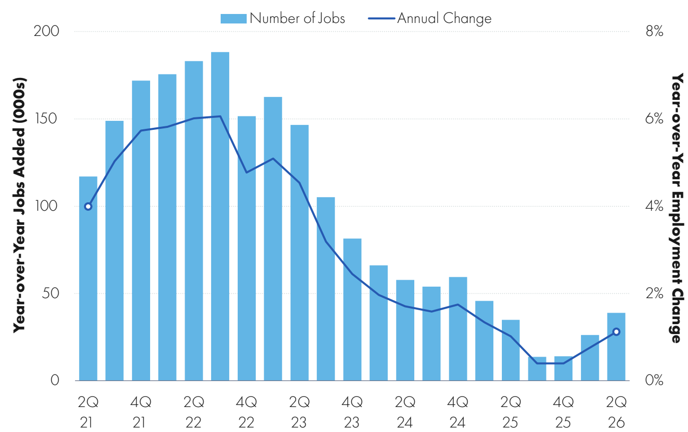
The Houston multifamily investment market got off to a strong start this year, though sales activity slowed from the first quarter to the second quarter. Despite the recent pullback, year-to-date sales remain 31% above the level recorded during the same period in 2025. Investors have been particularly active in Northwest Houston, where transaction velocity has nearly matched the submarket's full-year 2025 total and accounts for 16% of all sales, tying Southeast Houston for the regional lead. Activity has been concentrated along the FM 1960 corridor from Route 290 to Westfield, with a cluster of transactions near Westfield. Most properties changing hands in the area were built between the 1970s and 1990s, though several assets completed within the past six years have also traded.

EMPLOYMENT

- While employment growth remains below long-term levels, momentum is building. Year over year, local employers expanded payrolls by 38,900 workers, an increase of 1.1%.
- The professional and business services sector led the region in job additions during the past 12 months, rebounding from softening conditions in prior periods. During the past year, employment in this sector rose 2.2% with the hiring of 12,500 workers.
- Locally based SEG Solar continues to expand. The company recently began operating a second manufacturing facility in Tomball that totals 500,000 square feet and will create 800 jobs. In July, the company announced plans for a third facility in the region.
- **FORECAST:** Total employment is expected to grow by 35,000 workers in 2026, an increase of 1.0%. Last year, just 14,000 positions were added.

Year over year, employers added 38,900 workers.

EMPLOYMENT OVERVIEW

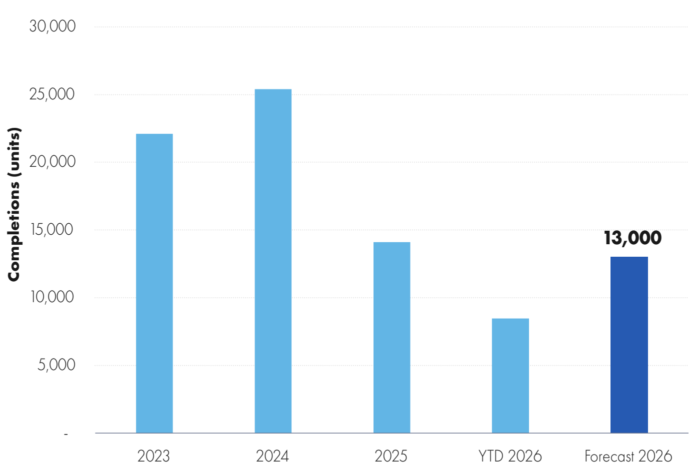


Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

Roughly 8,500 units came online during the first half.

DEVELOPMENT TRENDS



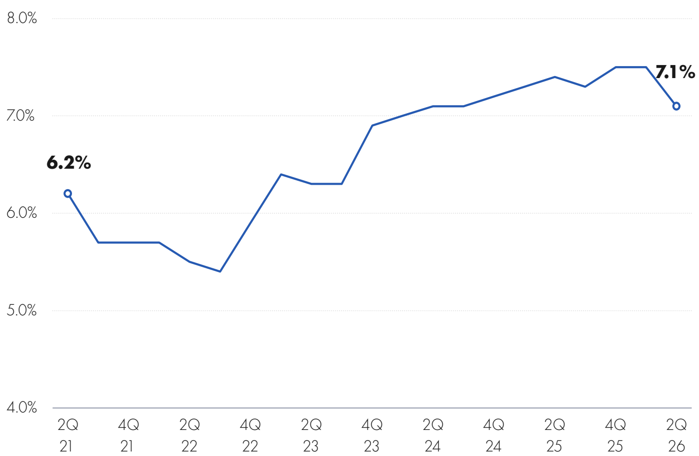
Sources: Northmarq, CoStar, Reis

- Projects totaling roughly 8,500 units came online during the first half, up 24% from the same period of last year. Year to date, deliveries have been concentrated in Bear Creek/Copperfield, Cinco Ranch, and Northwest Houston, with each submarket delivering new projects.
- Nearly 13,300 units are under construction in Houston, up 7% from one year ago. While development is up, starts have been slowing. During the first half, projects totaling roughly 3,000 units broke ground, down 19% from levels recorded in the preceding six months.
- Permitting totals have been light so far this year, with developers pulling permits for roughly 4,000 units. During the trailing five years, first-half permitting averaged more than 8,000 units.
- **FORECAST:** The pace of completions is expected to slow, as many of this year's deliveries were front-loaded. Projects totaling approximately 13,000 units are forecast to come online in 2026, down 8% from last year and 49% below the 2024 peak.

VACANCY

Year over year, vacancy improved by 30 basis points.

VACANCY TRENDS



Sources: Northmarq, Reis

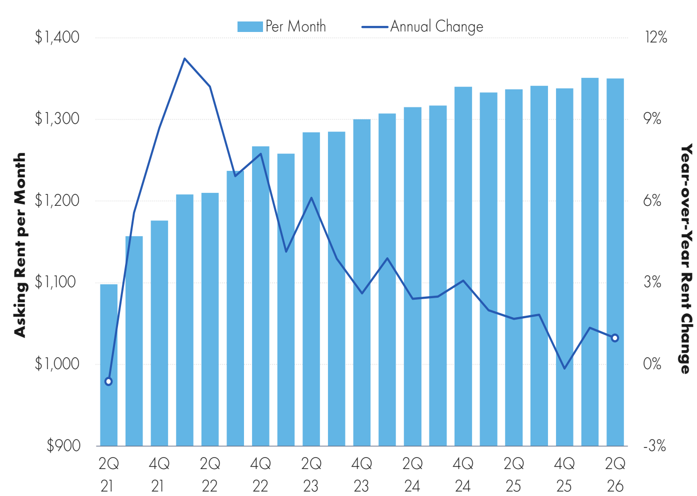
- The vacancy rate in Houston trended lower by 40 basis points during the second quarter to 7.1%, marking the steepest quarterly decline since 2021. Year over year, area vacancy improved by 30 basis points.
- Vacancy decreased across most submarkets during the past year, with some areas posting notable improvements. In the Champions/FM 1960 submarket, the vacancy rate is 9.1%, down 340 basis points from one year ago. Supply growth has been light in this area, with the submarket accounting for just 4% of new supply during the past 18 months.
- Class A vacancy declined 50 basis points during the second quarter to 8.1%. The rate has dipped 10 basis points year over year, the first annual decline in Class A vacancy since the first quarter of 2023.
- **FORECAST:** Vacancy is expected to decline modestly through the end of the year as new deliveries subside. The rate is expected to close 2026 at 6.8%, down 70 basis points year over year.

RENTS

- Despite healthy absorption levels, asking rents in Houston inched lower in recent months after posting gains at the start of the year. Area rents declined 0.1% in the second quarter to $1,350 per month. Still, asking rents increased 1.0% during the past year.
- Rent growth remained relatively consistent across most submarkets. Interloop/South Houston posted the strongest annual growth at 2.9%, with average rents reaching $1,212 per month, while Cloverleaf/Channelview and Briar Grove/Westchase recorded the largest declines at 1.2%.
- Year over year, asking rents for Class A properties advanced 1.4% to $1,629 per month.
- **FORECAST:** Asking rents are expected to rise at a modest pace through year-end. Area rents are forecast to reach $1,360 per month in 2026, representing annual growth of 1.6% following a slight decline in 2025.

Asking rents increased 1.0% during the past year.

RENTS TRENDS



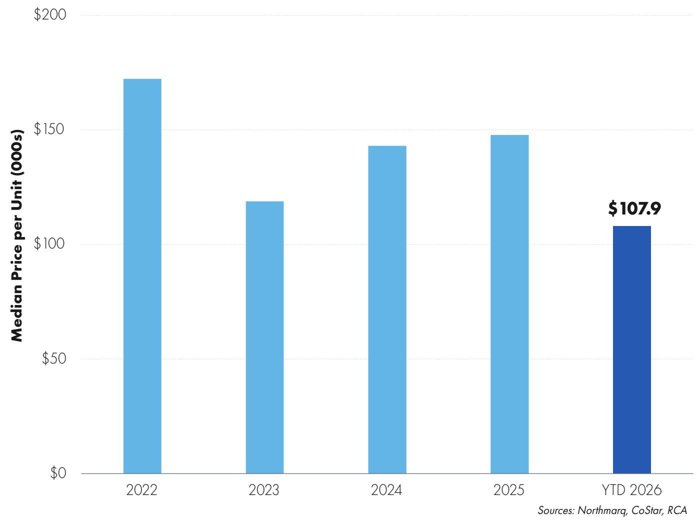
Sources: Northmarq, Reis

MULTIFAMILY SALES

- The pace of sales slowed in the second quarter after a strong start to the year. Sales activity during the second quarter lagged levels recorded in the preceding three months by 34%. Even so, year-to-date transactions are up more than 30% from activity levels recorded in the first half of 2025.
- Among transactions with available pricing, the year-to-date median sale price is $107,900 per unit, down 27% from the 2025 median price. Per-unit pricing has occurred within a wide range, highlighted by the second quarter sale of a high-rise tower that traded for more than $660,000 per unit.
- Investment activity has been distributed across a wide range of vintages. Properties built in the 1970s accounted for 23% of sales year to date, up from 16% last year. Assets completed in the 2000s followed closely, comprising 21% of transactions since the start of 2026.
- To this point in the year, cap rates are averaging 6.0%, tracking levels recorded in the closing months of 2025. During 2026, cap rates have generally ranged between 5.5% and 6.5%.

Investors are acquiring properties across vintages.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

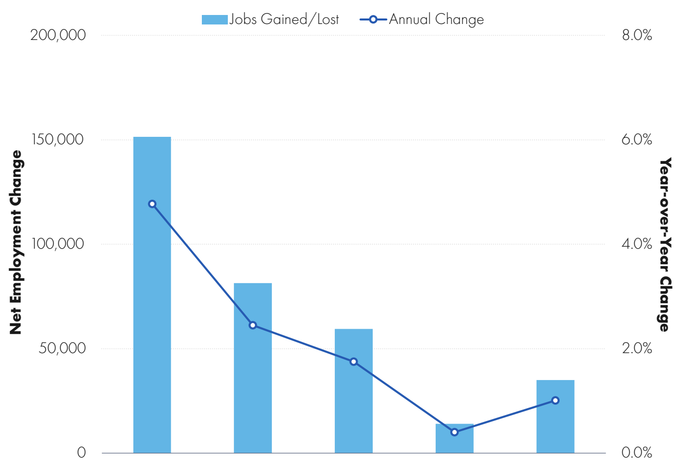
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
2929 Weslayan	2929 Weslayan St., Houston	2015	254	$168,000,000	$661,417
Siena on Westheimer	6263 Westheimer Road, Houston	1972	643	$39,000,000	$60,653
Whitney at the Heights	2424 E T C Jester Blvd., Houston	2001	186	$34,000,000	$182,796

LOOKING AHEAD

Houston multifamily fundamentals are expected to strengthen through the end of the year. Deliveries are forecast to decline, as much of this year's anticipated supply growth has already occurred. More modest completion levels are expected to extend into 2027 and potentially 2028, as multifamily permitting has remained light. Preliminary forecasts call for roughly 5,600 units to deliver in 2027, a figure that would represent the lowest annual completions total in nearly 15 years. Development activity is scheduled to decline significantly in Bear Creek/Copperfield, where the current pipeline contains no planned deliveries beyond early 2027. As supply-side pressures ease, vacancy should trend lower. Over the long term, market conditions may gradually return toward the historical vacancy average of approximately 6%.

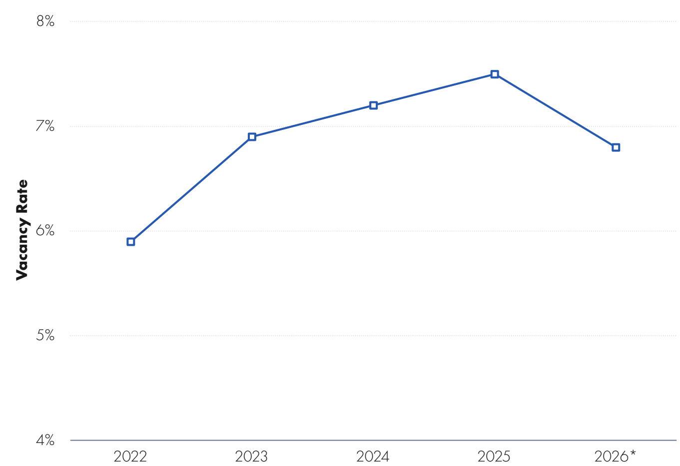
Transaction activity in Houston's multifamily investment market is expected to accelerate in the second half, with full-year sales likely to exceed the lighter levels recorded during the past two years. Investment activity should remain balanced across the metro, and while assets from a variety of vintages are expected to continue changing hands, buyer interest may increasingly shift toward newer properties. Nearly a dozen 2020s-vintage assets have sold year to date, while Class A fundamentals strengthened as vacancy declined and rent growth outpaced the market average. Even so, value-add opportunities should remain prevalent, as rents at Class B and Class C properties have been largely stagnant despite improving occupancy conditions.

EMPLOYMENT FORECAST



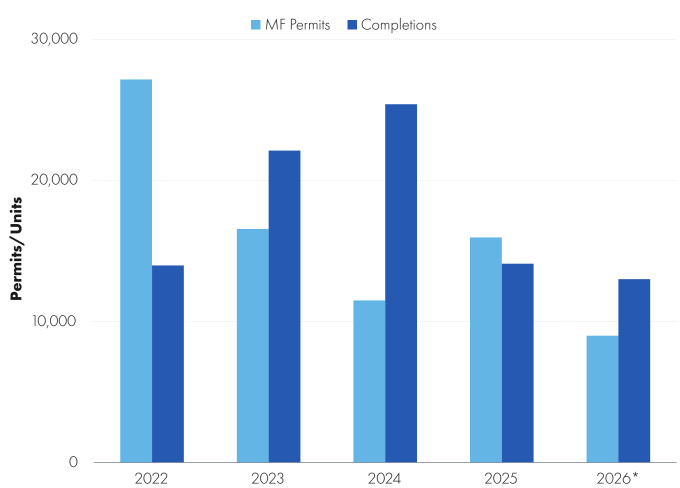
** Year-End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



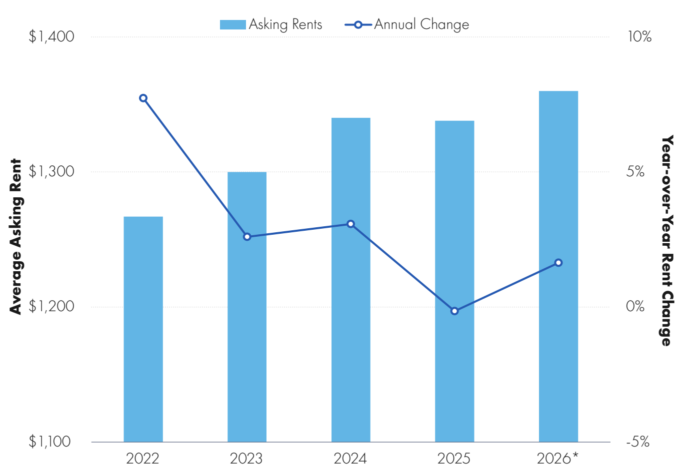
** Year-End Forecast*
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



** Year-End Forecast*
Sources: Northmarq, Census Bureau, CoStar, Reis

RENTS FORECAST



** Year-End Forecast*
Sources: Northmarq, Reis

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FOR MORE INFORMATION, **PLEASE CONTACT**

BRETT BENTON
Senior Vice President, Investment Sales
713.333.8823
bbenton@northmarq.com

TONY GRAY
Managing Director, Debt + Equity
713.333.8832
tgray@northmarq.com

SCOTT HURWITZ
Associate Broker, Investment Sales
281.916.7829
shurwitz@northmarq.com

JOHN BURKE
Managing Director, Debt + Equity
713.333.8824
jburke@northmarq.com

CONNOR COOK
Associate, Debt + Equity
713.333.8821
ccook@northmarq.com

CHAD OWENS
Managing Director, Debt + Equity
713.333.8837
cowens@northmarq.com

PETE O'NEIL, *National Director, Research* | 602.508.2212 | poneil@northmarq.com

JOHN TAGG, *Research Manager* | 972.455.4916 | jtagg@northmarq.com

SAM TIFFANY, *Senior Market Analyst* | 602.955.7102 | stiffany@northmarq.com

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