

Vacancy records first quarterly decline in over two years

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **11,310**

UNITS DELIVERED (YTD) **11,528**

MARKET FUNDAMENTALS



VACANCY RATE **7.3%**

YEAR-OVER-YEAR CHANGE **+20bps**

ASKING RENTS **\$1,341**

YEAR-OVER-YEAR CHANGE **+1.8%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$137,300**

HOUSTON MULTIFAMILY
Q3 2025

HIGHLIGHTS

- Operating conditions in the Houston multifamily market posted a solid performance during the third quarter, as vacancy ticked lower and asking rents continued to inch higher. Development continues to taper off from peaks from the past two years. Projects totaling roughly 11,500 units have come online year to date, down 20% from the same period of 2024.
- After either rising or holding steady in the preceding eight quarters, the vacancy rate declined by 10 basis points during the third quarter to 7.3%. Year over year, area vacancy is up 20 basis points.
- Rent growth has generally been on a modest upswing during the past two years. Rents advanced by 0.3% during the third quarter to \$1,341 per month. During the past year, asking rents increased by 1.8%.
- Investment activity continues to rebound from the modest levels recorded in 2023 and 2024, but total sales still lag long-term norms. Houston has posted some extremely strong years during the past decade. In transactions where pricing was available, the median price is \$137,300 per unit to this point in the year, down 4% from last year.

HOUSTON MULTIFAMILY MARKET OVERVIEW

The pace of multifamily completions in the Houston multifamily market has tapered off year to date, and vacancy conditions have stabilized. Projects totaling approximately 11,500 units came online during the first nine months of 2025, lagging last year's record-setting pace by 20%. The vacancy upswing that began in late 2022 has eased in recent periods, as renter demand remains elevated. After spiking by 100 basis points in 2023, the rate has remained between 7% and 7.4% since the beginning of 2024. Area vacancy is currently 7.3%, up 20 basis points from one year ago. In Southeast Houston, the Clear Lake/NASA submarket is performing well, posting stable vacancy conditions and some of the steepest rent growth in the region. Asking rents in Clear Lake/NASA advanced by 3.2% during the past year, while vacancy is currently 7.1%, down 10 basis points annually.

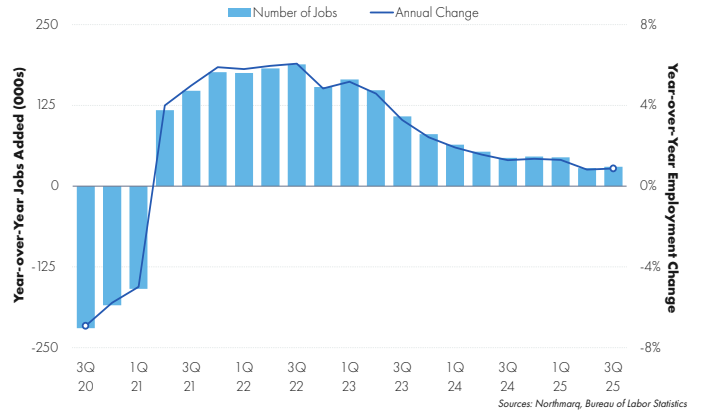
Sales velocity in the Houston multifamily market continues to accelerate, as total transactions are trending closer to traditional levels. Total sales to this point in the year are lagging the region's trailing 10-year average by 29%. While activity continues to trail traditional levels, the gap is narrowing. When applying this same comparison to the first half of 2025, transaction counts were down 37%. The Lake Houston submarket has made up 12% of transactions year to date, the greatest share in the region. Lake Houston is on track for the submarket's strongest year of the past decade. Many of the properties changing hands in the Lake Houston area are 2010s and 2020s vintage assets with a strong emphasis on upscale amenities. Cap rates averaged 5.7% during the third quarter, up 10 basis points from levels recorded in the previous three months.

EMPLOYMENT

- The pace of new hiring in Houston remains mild. During the past 12 months, local employers have added 30,200 workers, an increase of 0.9%. Employment growth has tapered off in recent years, with current levels running below historical norms.
- Employment gains have been strong in the leisure and hospitality sector over the past year. Year over year, the sector expanded by 8,100 employees, an increase of 2.3%.
- Pharmaceutical company Eli Lilly announced plans in the third quarter for a \$6.5 billion manufacturing plant in Houston. The roughly 1-million-square-foot facility, located in Generation Park near Lake Houston, is expected to create more than 600 jobs. Construction is set to begin this year.
- **FORECAST:** While job additions will be positive for the full year, the growth rate will stay below trend. Total employment in Houston is projected to increase by 35,000 workers, an increase of 1.0%. In the preceding decade, employment growth averaged 1.5% per year.

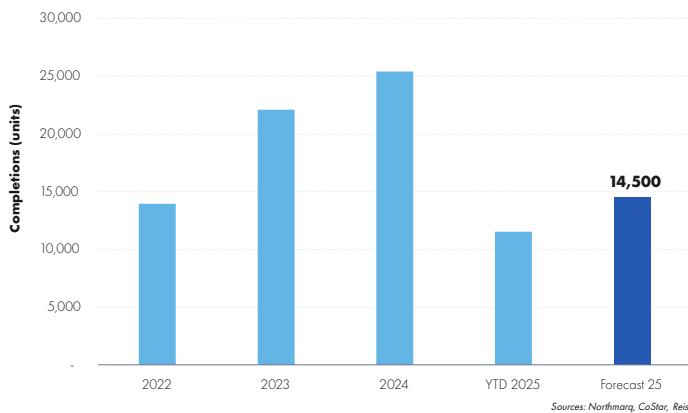
Local employers have added 30,200 jobs during the past year.

EMPLOYMENT OVERVIEW



More than 4,700 units came online during the third quarter.

DEVELOPMENT TRENDS

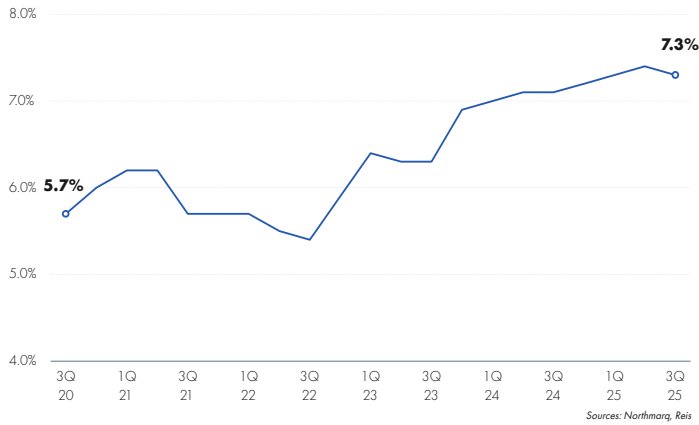


DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries accelerated in recent months after a slow start to the year, though overall completions remain below last year's peak levels. Projects totaling more than 4,700 units came online during the third quarter, bringing the year-to-date total to roughly 11,500 units. In the same period of last year, more than 18,800 units were delivered.
- The Houston development pipeline continues to contract. Projects totaling approximately 11,300 units were under construction at the end of the third quarter, down 45% from levels recorded one year ago.
- Permitting activity tapered off again during the third quarter, with developers pulling multifamily permits for approximately 2,500 units, down 32% from the second quarter.
- **FORECAST:** Approximately 14,500 units are forecast to come online for the full year, following deliveries of more than 22,000 units in both 2023 and 2024. From 2014 to 2022, developers completed an average of roughly 13,300 units per year.

Year over year, vacancy is up 20 basis points.

VACANCY TRENDS



VACANCY

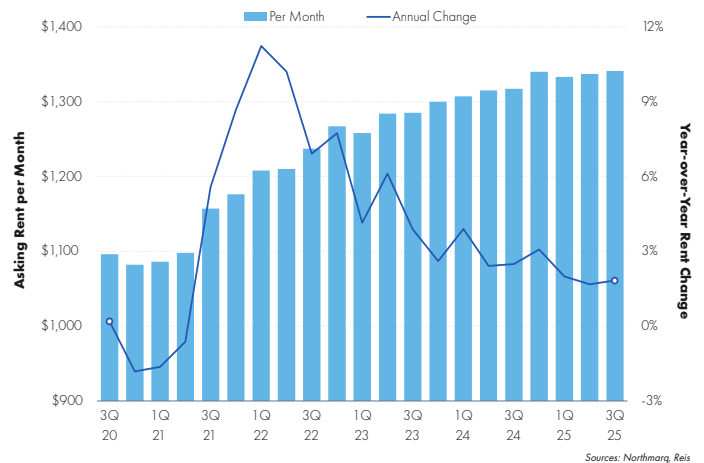
- After inching higher in the previous three quarters, the vacancy rate in Houston ticked lower during the third quarter. Area vacancy declined by 10 basis points during the past three months to 7.3%. Year over year, vacancy is up 20 basis points.
- Vacancy trends were mixed during the past year, as most of the larger submarkets recorded increases. Far Northwest/Montgomery County, Sharpstown/Westwood, and Cypress/Fairbanks were the only high-inventory areas to post stable conditions. Year over year, the rate is level in each of these submarkets.
- Vacancy continues to trend higher in Class A properties, but increases have tapered off. The vacancy rate for top-tier assets closed the third quarter at 8.2%, up 40 basis points from one year ago.
- **FORECAST:** Area vacancy is projected to hold steady in the closing months of 2025, finishing the year at 7.3%, up 10 basis points annually. Vacancy has gradually leveled off since spiking by 100 basis points in 2023.

RENTS

- Apartment rents in Houston continued to rise at a modest pace in recent months. During the third quarter, asking rents advanced by 0.3% to \$1,341 per month. Current rents are up 1.8% from one year ago.
- During the past year, rents trended higher across the region, albeit at a modest pace. Galveston County continues to record the steepest rent growth, with rents in this submarket advancing by 4.1% year over year. Spring/Humble/Far Northeast also posted strong gains. Rents in Spring/Humble/Far Northeast are \$1,370 per month, up 3.5% annually.
- Top-tier rents continue to advance at a rate similar to the overall region. During the past 12 months, Class A rents trended higher by 1.8% to \$1,618 per month.
- **FORECAST:** Rents are projected to continue to inch higher through the end of 2025, as gains for the full year will be modest. Asking rents are forecast to close the year at \$1,350 per month, up 0.7% annually. In 2024, rents rose by 3.1% and the year before that, rents increased by 2.6%.

Current rents are up 1.8% from one year ago.

RENTS TRENDS

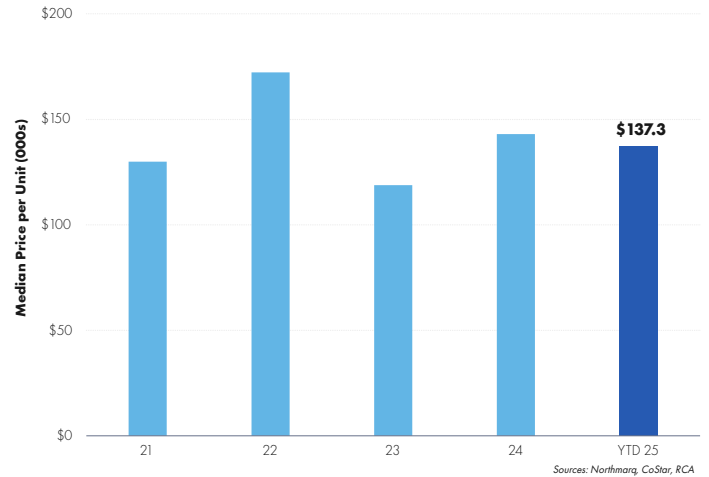


MULTIFAMILY SALES

- While the pace of multifamily sales in Houston has accelerated since the start of the year, activity is still lagging long-term norms. Year to date, total sales have exceeded the limited levels recorded in 2023 and 2024 by 42% and 29%, respectively.
- Pricing has ticked lower to this point in the year. In transactions where pricing was available, the median price is \$137,300 per unit since the beginning of the year, down 4% from 2024. Lake Houston is leading the metro in sales, accounting for 12% of the activity year to date.
- Cap rates inched higher in recent months, averaging 5.7% during the third quarter, up 10 basis points from levels recorded in the preceding three months. The range tightened, as cap rates between 5.0% and 6.3% were recorded in the past three months. During the second quarter, cap rates ranged from 4.8% to 6.6%.

Lake Houston is leading the metro in sales.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

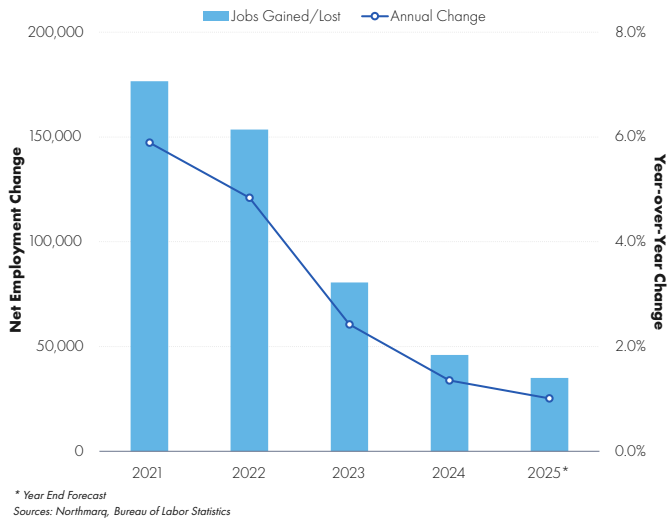
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
The Parkway on Westlake	16848 W. Lake Houston Pky., Humble	2018	318	\$55,400,000	\$174,214
Aventura on Briar Forest	14515 Briar Forest Drive, Houston	2004	396	\$53,750,000	\$135,732
Reserve at Ventana Lakes	23100 Clay Road, Katy	2024	303	\$51,150,000	\$168,812
The Oaks at Baywood	4811 E. Sam Houston Pky S., Pasadena	2017	294	\$50,500,000	\$171,769

LOOKING AHEAD

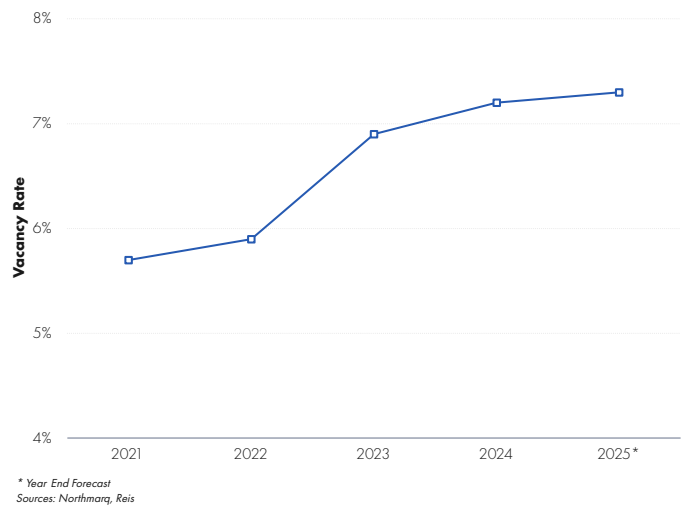
Annual completions in the Houston multifamily market are on track to return to traditional levels after a combined 47,500 units came online in 2023 and 2024. Projects totaling 14,500 units are expected to be delivered in 2025; in the trailing decade, developers completed an average of roughly 15,500 units per year. With inventory growth tapering off, vacancy conditions should remain stable in the short term before trending lower in 2026. Prior to the heightened supply growth recorded in recent years, the vacancy rate ranged between roughly 5.5% and 6.5% from 2013 to 2022. Consistent renter demand has helped to keep rent growth generally positive despite the supply growth of the past few years. Asking rents should continue to inch higher through the end of the year. Rent growth should be more robust in 2026 as the market adjusts to the supply spike of the past few years.

Investment activity should continue to accelerate through the end of the year, as total sales for the full year will exceed the light levels recorded in each of the past two years. Houston has outperformed the other major Texas metros as the market has posted a gradual increase in rental rates during the past few years. Additionally, supply growth immediately returned to trend in 2025, and the current development pipeline is light. Between solid rent growth and limited new inventory being projected for 2026, Houston is positioned for a quick rebound after below-trend sales activity in recent years. The local market has demonstrated an ability to generate substantial transaction counts across all vintages during the past five years. While assets across the quality spectrum should continue to change hands, sales velocity for recently built properties should pick up as new developments lease-up.

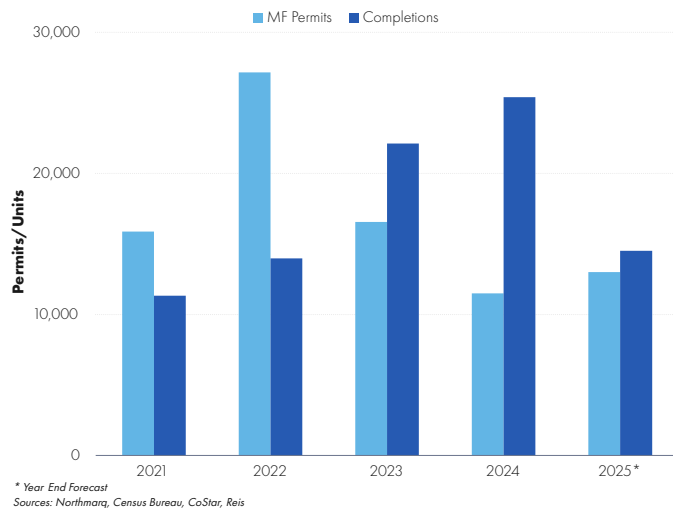
EMPLOYMENT FORECAST



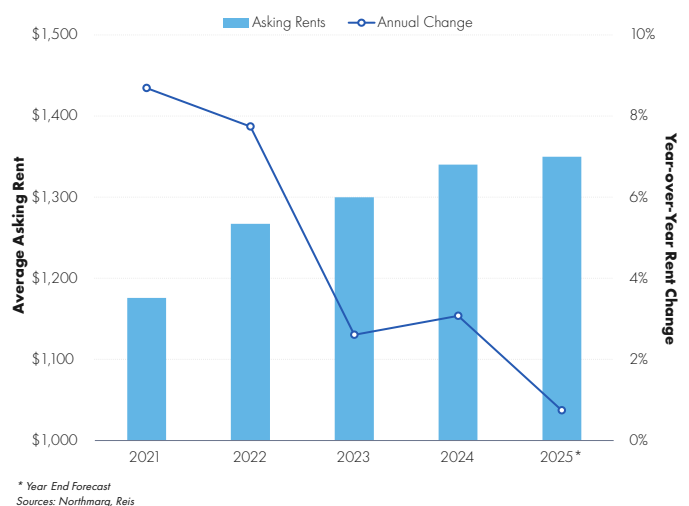
VACANCY FORECAST



CONSTRUCTION & PERMITTING FORECAST



RENTS FORECAST





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