Northmarq

MARKET INSIGHTS

Renter demand elevated, supporting rent increases

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	20,569
UNITS DELIVERED (YTD)	18,825

MARKET FUNDAMENTALS

VACANCY RATE	7.1%
YEAR-OVER-YEAR CHANGE	+80bps
ASKING RENTS	$1,317
YEAR-OVER-YEAR CHANGE	+2.5%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$128,300

HOUSTON MULTIFAMILY
3Q 2024

HIGHLIGHTS

- Property fundamentals in the Houston multifamily market have steadied in recent months, with the vacancy rate going unchanged and asking rents continuing to tick higher.
- The vacancy rate held at 7.1 percent during the third quarter after trending higher in earlier periods. Year over year, area vacancy increased by 80 basis points.
- Asking rents have trended higher, rising 2.5 percent in the past 12 months to $1,317 per month at the end of the third quarter.
- While properties continue to change hands, transaction volume since the end of 2022 has been lagging long-term averages. Class A assets are trading with cap rates between 5 and 6 percent while middle-tier and lower-tier properties are selling in the 6 to 7 percent range.

HOUSTON MULTIFAMILY MARKET OVERVIEW

Healthy absorption levels in the Houston multifamily market have helped to stabilize vacancy conditions in the face of elevated construction during the past two years. Apartments in Houston recorded net move-ins of nearly 8,000 units through the first three quarters of 2024, nearly doubling levels recorded in the prior 12-month period. Still, record levels of inventory growth since early 2023 have resulted in supply-side pressures. That trend is expected to reverse course, as the construction pipeline has contracted significantly during the past year as new units have come online and starts have slowed. Projects totaling roughly 20,600 units are under construction in Houston, down 25 percent from levels recorded 12 months ago. Strong demand allowed apartment operators to continue to push rents higher, with rents rising by 2.5 percent during the past year, making Houston the only major market in Texas to post annual rent gains through the third quarter. Inner-Loop Houston continues to record strong property fundamentals despite inventory in the area expanding by 24 percent since the beginning of 2019. Asking rents in the area are elevated compared to the overall market, averaging $1,878 per month.

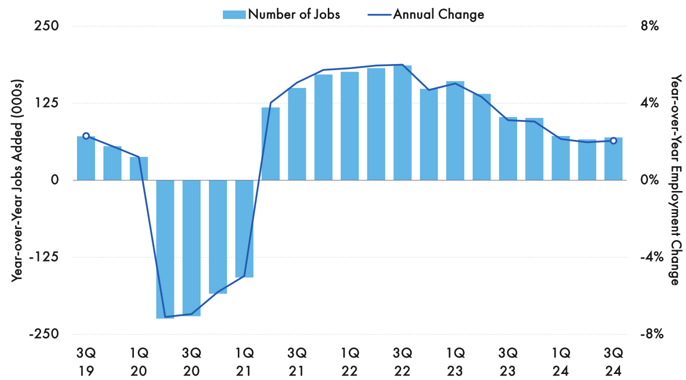
Although sales continue to occur in the Houston multifamily investment market, transaction volume in the region has been limited since the closing months of 2022 as financing costs have been elevated. Sales velocity as of the third quarter was nearly identical to levels recorded in the same period in 2023. Still, recent sales volumes are less than half the region's historical average from 2014 to 2022. The Northwest Houston submarket has been among the most active submarkets in the region for sales, continuing trends recorded in the past decade. While most of the areas leading in transactions are historically strong submarkets, activity in the up-and-coming Neartown/River Oaks submarket has been elevated to this point in the year. This submarket lags only Northwest Houston for sales activity, accounting for 12 percent of the total sales to this point in the year and roughly 60 percent of the trades involving top-tier assets. During this past decade, Neartown/River Oaks had not topped 10 percent of sales in a single year while making up just 4 percent of the transaction mix, but an influx of new product has prompted transaction activity, with the submarket's inventory expanding by 40 percent during the past five years.

EMPLOYMENT

- Employers in Houston continued to add jobs in recent quarters, but the pace of growth has leveled off. Year over year through the third quarter, total employment expanded by 2.1 percent with the addition of 69,600 new positions.
- Job additions in the construction sector have been elevated in recent periods. More than 16,500 construction jobs have been added during the past year, an annual employment surge that topped 7 percent.
- Liberty Development Partners recently acquired roughly 1,150 acres in Dayton, Texas to expand the Gulf Inland Logistics Park. The park is currently in the second phase of a three-phase expansion. The Gulf Inland Logistics Park is located 30 minutes from the Port of Houston and Downtown and 45 minutes from the Woodlands and Hobby Airport.
- **FORECAST:** The local labor market is projected to continue to expand at a steady pace through the end of the year, with annual employment growth closely tracking historic levels. Employers in the Houston metro area are forecast to add 65,000 employees in 2024, an increase of 1.9 percent for the full year.

Year over year, total employment expanded by 2.1 percent.

EMPLOYMENT OVERVIEW

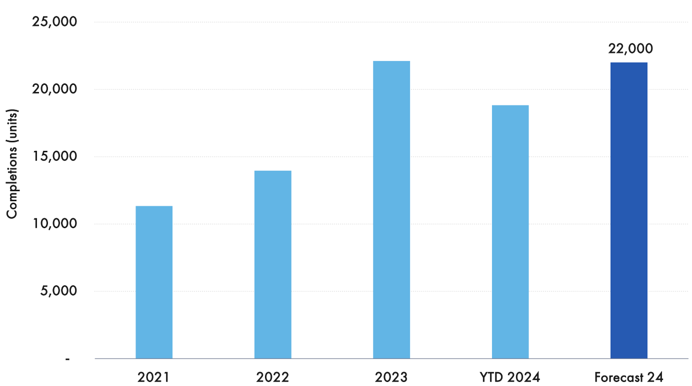


Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

Projects totaling more than 18,800 units have been delivered.

DEVELOPMENT TRENDS

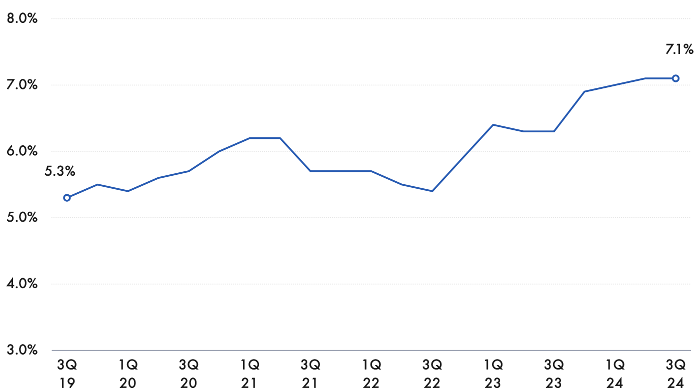


Sources: Northmarq, CoStar, Reis

- The pace of multifamily deliveries slowed in recent months following elevated completions during the first half. Roughly 4,450 units came online during the third quarter, down 45 percent from the preceding quarter. Projects totaling more than 18,800 units have been delivered to this point in the year.
- Nearly 20,600 units are currently under construction in Houston, down 25 percent from one year ago. Construction activity is dispersed throughout the region, with the Neartown/River Oaks submarket accounting for 12 percent of the properties under construction while areas such as Cinco Ranch, Heights, and Sugar Land/Missouri City each have roughly a half dozen projects under construction.
- Multifamily permitting has been light to this point in 2024. Developers pulled permits for nearly 7,600 units in the last nine months. On average, permits for roughly 13,050 units were pulled in the first nine months of the year since 2017.
- **FORECAST:** Projects totaling roughly 22,000 units are forecast to come online in 2024, before the pace of completions slows beginning in 2025. Annual completions averaged 13,800 units per year in the trailing 5 years.

Absorption totaled nearly 8,000 units during the first nine months 2024.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

- The vacancy rate held steady at 7.1 percent in the third quarter after three consecutive quarterly increases. Renter demand has been solid to this point in the year, with absorption totaling nearly 8,000 units during the first nine months of the year, nearly doubling the same period of 2023.

- During the past year, vacancy across the Houston market is up 80 basis points, but trends have been mixed across the region. The Inwood/Near Northwest area has recorded the greatest improvement and now posts one of the lowest vacancy rates in Houston. Year over year, vacancy in this submarket declined by 130 basis points to 3.8 percent.

- Vacancy rose across asset classes during the past year. Class A vacancies have increased by 100 basis points, ending the third quarter at 8.1 percent. The combined rate in Class B and Class C properties has risen more slowly, ticking up 40 basis points to 7.2 percent.

- **FORECAST:** Area vacancy is forecast to remain steady through the end of the year, with the rate forecast to close 2024 at 7 percent. Vacancy conditions have trended higher during the past two years due to elevated supply growth. From 2013 to 2022, local vacancy ranged between roughly 5.5 percent and 6.5 percent.

RENTS

- Asking rents continued to trend higher in recent months. Apartment rents in Houston rose 2.5 percent year over year to end the third quarter at $1,317 per month. Rents for Class A properties are currently $1,587 per month, up 2.1 percent from one year ago.

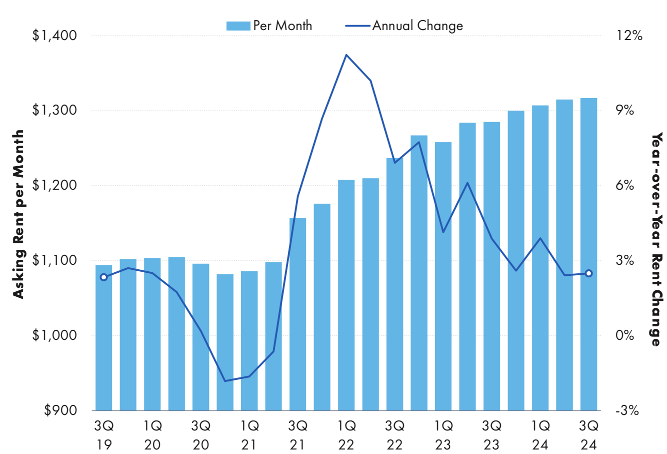
- Healthy gains were posted in the Inwood/Near Northwest submarket during the past 12 months, with asking rents in this submarket advancing by 4.1 percent to $1,090 per month.

- Located further west of Inwood/Near Northwest, the Bear Creek/Katy submarket posted some of the strongest rent growth in Houston's outlying areas. During the 12-month period ending in the third quarter, average rents in the submarket rose 4 percent to $1,543 per month.

- **FORECAST:** Area rents are expected to continue to trend higher through the end of 2024, but annual rent growth will likely be modest. Apartment rents are projected to close the year at $1,330 per month, up 2.3 percent annually.

Rents in Houston rose 2.5 percent year over year.

RENTS TRENDS



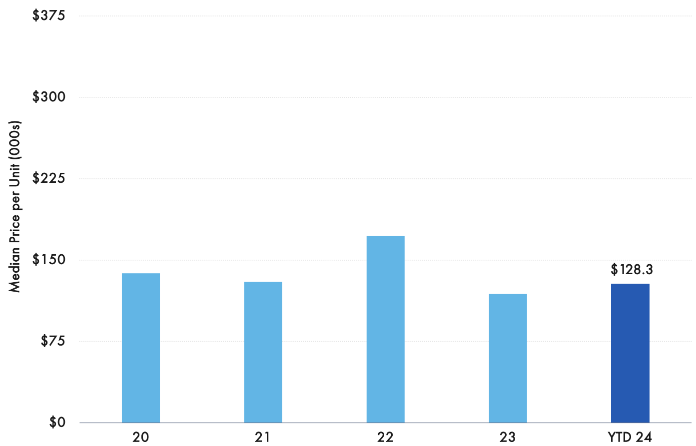
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Sales velocity in the Houston multifamily investment market continued to lag long-term activity levels. Total sales during the past nine months are less than half of the average levels recorded in the same period from 2014 to 2022, despite an increase in transaction counts during the third quarter.
- In transactions where pricing was available, the median price to this point in the year is $128,300 per unit up 8 percent from the 2023 median price. Class B assets continue to account for the greatest share of the transaction mix. Middle-tier properties accounted for roughly 45 percent of sales to this point in the year, closely tracking levels recorded in the preceding decade.
- Cap rates remained steady in recent months, as rates have leveled off in 2024 after increases in the previous two years. Cap rates averaged in the mid-6 percent range during the third quarter.

The median price to this point in the year is $128,300 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

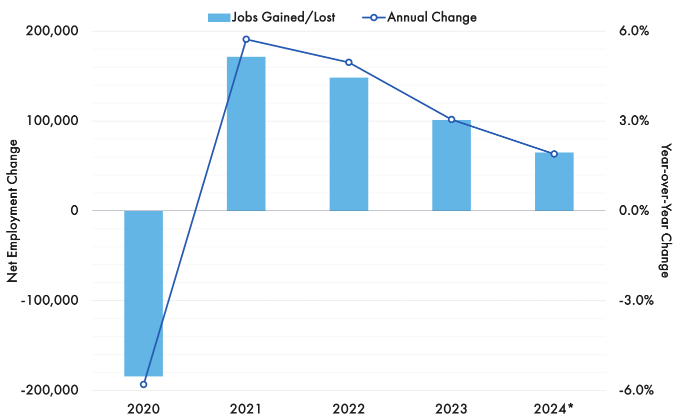
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Duo West Champions	12330 N Gessner Rd., Houston	2005	710	$112,000,000	$157,746
Remy on the Trails	10421 Deerwood Rd., Houston	2023	330	$77,600,000	$235,152
Stone Creek at Old Farm	8585 Woodway Dr., Houston	1999	190	$24,500,000	$128,947
Oaks of Kingwood	3415 Havenbrook Dr., Kingwood	1984	152	$15,785,000	$103,849

LOOKING AHEAD

Operating conditions in the Houston multifamily market are expected to remain stable through the end of 2024, with some improvement likely in 2025 as completions slow. Multifamily deliveries are forecast to remain on their recent pace to close the year, pushing annual completions in 2024 up to 22,000 units, nearly identical to levels from the prior year. Although 2024 will mark the second consecutive year of heightened inventory growth, completion levels in the second half of the year were mild compared to the first half, a trend that should continue into 2025. Lighter levels of deliveries in future quarters will likely keep vacancy conditions steady going forward.

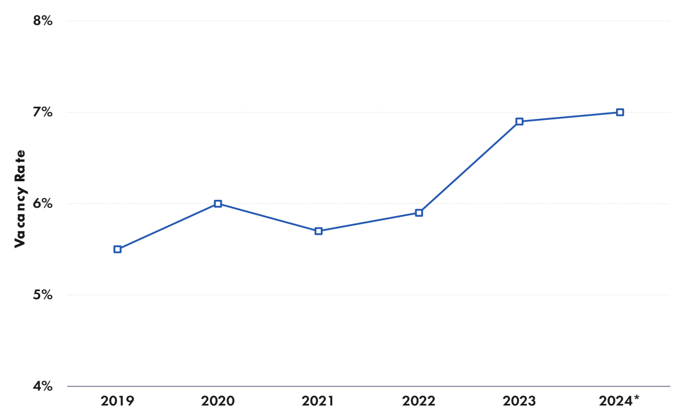
Transaction volume in the Houston multifamily investment market was showing signs of gaining momentum leading into the end of 2024. Sales activity may continue to ramp up into 2025, although total sales are not expected to return to long-term historical levels. There are areas of the Houston market that will likely generate heightened investor interest, however, including Neartown/River Oaks, which features solid property fundamentals, a strong local labor pool, and elevated development, all factors that should bode well for this submarket. Additionally, investors have gained momentum in this submarket in recent quarters which will likely carry over into the coming periods.

EMPLOYMENT FORECAST



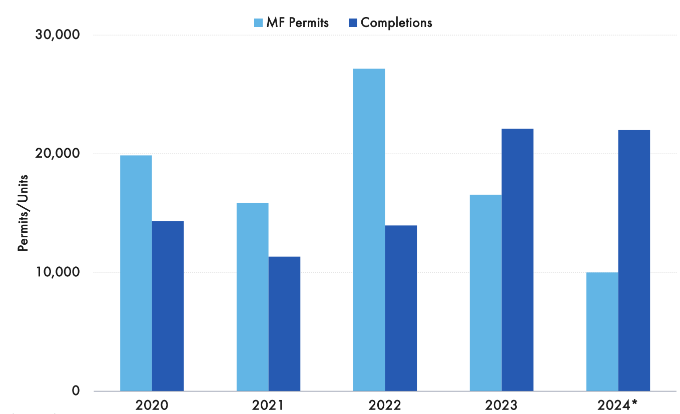
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



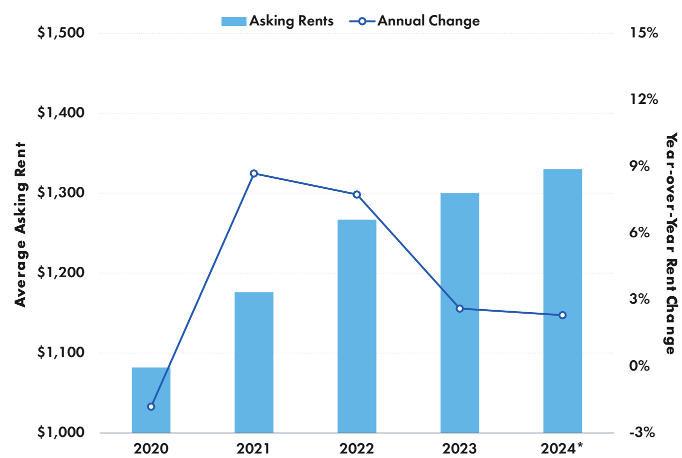
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast

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