Market Insights

Greater Houston Multifamily 1Q 2022

Northmarq

Construction Activity

10,282

Units under construction

3,488

Units delivered (YTD)

Market Fundamentals

5.7%

Vacancy

-50bps | Year over year change

$1,210

Asking Rent

+11.4% | Year over year change

Transaction Activity*

$184,000

Median sales price per unit (YTD)

* In transactions where pricing is available

Houston Economy Likely to Post Strong Growth in 2022

Highlights

- The Houston multifamily market posted healthy growth during the first quarter. Renter demand is being fueled by an expanding economy, which has pushed rents higher and kept vacancies below the five-year average.
- Vacancy in Houston remained stable at 5.7 percent for the third consecutive quarter. Despite no recent change in the rate, vacancies have still improved 50 basis points in the past year.
- Asking rents continued to grow at a rapid pace as momentum carried over from the end of 2021. Rents rose 2.9 percent to $1,210 per month in the first quarter; year-over-year rents are up 11.4 percent.
- In transactions where pricing was available, the median price in the first quarter was $184,000 per unit. Despite a rise in pricing, cap rates trended higher at 5 percent, an increase of 20 basis points compared to the average rate in 2021.

Houston Multifamily Market Overview

The Houston multifamily market strengthened during the first quarter with rents rising and vacancies remaining below the historical average. The local economy made a full recovery after adding back all the jobs lost during the pandemic. The Houston area economy is being supported both by organic growth in the region's core industries as well as relocations from other markets. This demand is reflected through accelerating rent increases and healthy absorption levels. Absorption remained positive in the first quarter, and vacancies have tightened in the past year.

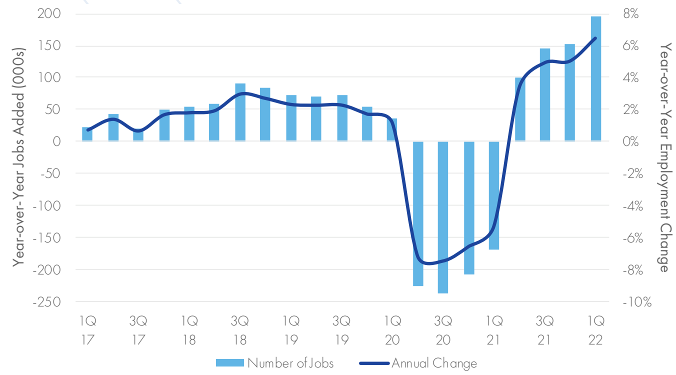
The momentum that was present in the Houston market throughout 2021 was sustained in the first quarter of this year. Total sales activity increased by 14 percent compared to levels from the same period one year ago. Transactions were dominated by newer, Class A and Class B properties, which drove prices higher. The median sales price year to date is up 35 percent compared to the 2021 year-end price. Despite a competitive investment climate and a steady rise in pricing, cap rates ticked higher in recent months.

Employment

- Houston employment levels made a full recovery in the first quarter as employers have surpassed pre-pandemic levels by adding back all the jobs lost as a result of COVID-19. Year over year, the local labor market has grown by 5.3 percent, adding nearly 160,000 jobs to area payrolls.
- High-wage professional employment in Houston has been growing at a rapid pace. Employment in the professional and business services sector has expanded by 26,200 jobs in the past year, an increase of 5.3 percent.
- Healthcare employment in Houston has expanded by 3.8 percent in the past year with the addition of approximately 13,000 jobs. Further gains are likely in the coming years as the 53-acre Levit Green life sciences and research hub is being developed by Hines adjacent to the Texas Medical Center. The first building is expected to be delivered by the end of this year.
- **Forecast:** Area employment is forecast to expand by 3.2 percent in 2022 with the addition of 100,000 jobs.

“ Year over year, the local labor market has grown by 5.3 percent.

Employment Overview



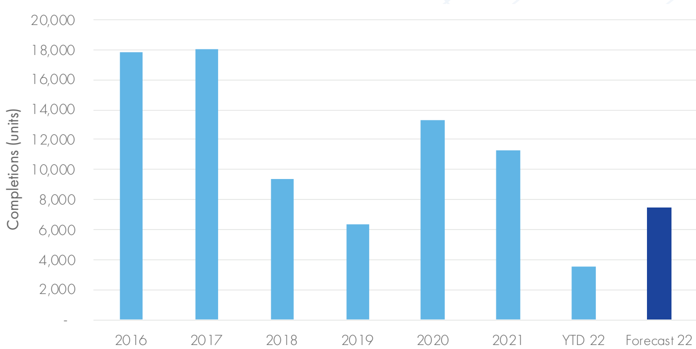
Sources: Northmarq, Bureau of Labor Statistics

“ Projects totaling nearly 10,300 units are currently under construction.

Development and Permitting

- The pace of deliveries has accelerated as developers attempt to satisfy demand. Nearly 3,500 units came online in the first quarter, an increase of 53 percent compared to first-quarter deliveries in 2021.
- Projects totaling nearly 10,300 units are currently under construction, down 70 percent from construction levels one year ago.
- Permitting in Houston has increased in 2022. Year to date, approximately 4,500 multifamily permits have been issued, more than double the number of permits pulled in the first quarter of 2021.
- **Forecast:** Developers are forecast to deliver over 7,400 units to the market in 2022, after more than 11,300 units came online in the preceding year.

Development Trends



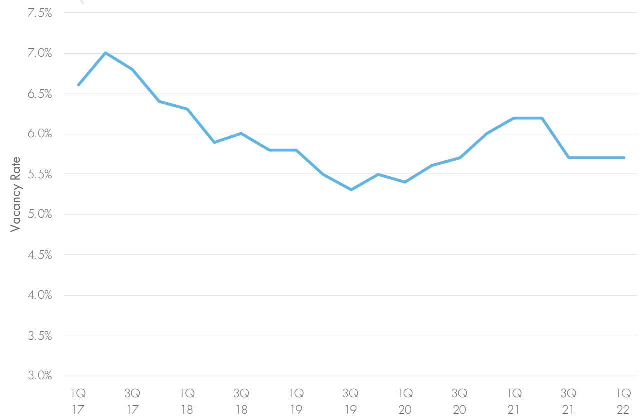
Sources: Northmarq, Reis

Vacancy

- Vacancy rates among Houston apartment properties remained stable at 5.7 percent during the first quarter. The current rate is still below the five-year historical average of 6 percent.
- Despite remaining stable in recent months, vacancies in Houston have improved compared to one year ago. The vacancy rate has dropped 50 basis points year over year.
- Net absorption has remained positive through the first quarter of 2022, reflecting the ongoing demand for apartments in the region. Year to date, nearly 2,000 units have been absorbed, down less than 10 percent from levels during the same period one year ago.
- **Forecast:** With construction activity slowing and demand remaining elevated, vacancies are expected to decrease in the coming quarters. Vacancies are forecast to fall 30 basis points in 2022, ending the year at 5.4 percent.

> “ The vacancy rate has dropped 50 basis points year over year.

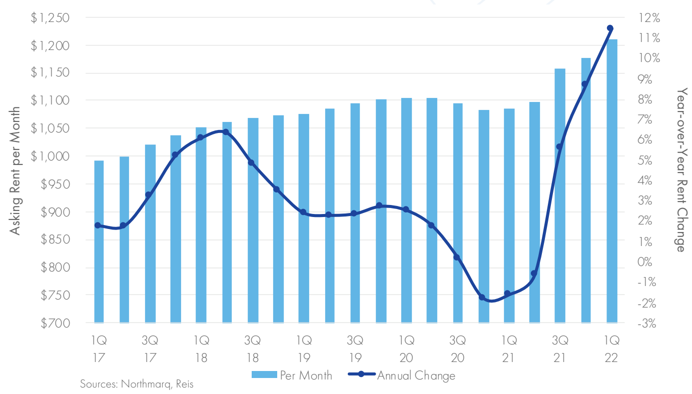
Vacancy Trends



Sources: Northmarq, Reis

> “ Asking rents have jumped 11.4 percent since the first quarter of 2021.

Rent Trends



Sources: Northmarq, Reis

Rents

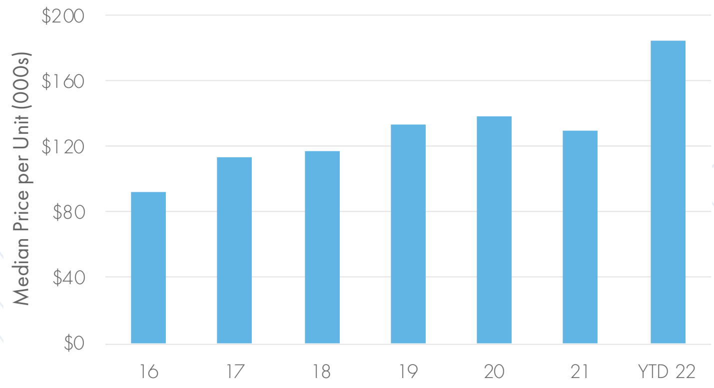
- Rapid rent gains continued through the first quarter of 2022. Asking rents in Houston increased 2.9 percent through the first three months of the year, rising to $1,210 per month.
- Local asking rents have advanced 11.4 percent since the first quarter of 2021, marking the largest year-over-year growth in the past 20 years. The latest year of growth was well above trend; the market has averaged a growth rate of 3.2 percent in the past decade.
- The accelerated pace of growth is occurring in submarkets across the region. The Montrose/River Oaks submarket, the largest submarket by inventory, recorded a 12 percent increase in rents over the past year. The average asking rent in this submarket is $1,700 per month.
- **Forecast:** Further rent increases are anticipated, although it will likely slow from the recent pace. Asking rents in Houston are forecast to advance 7 percent in 2022, ending the year at $1,258 per month.

Multifamily Sales

- Sales activity got off to a hot start in 2022. Total transaction volume during the first quarter was up approximately 15 percent when compared to the same period one year ago.
- With sales velocity on the rise, pricing has pushed higher. In transactions where pricing is available, the median price rose to $184,000 per unit. The median price of sales in 2022 is 35 percent higher than the median price in 2021.
- Despite an increasingly competitive investment climate, cap rates have been trending higher in recent months. The average cap rate was 5 percent in the first quarter, 20 basis points higher than the average cap rate in 2021.

> The median price rose to $184,000 per unit in the first quarter of 2022.

Investment Trends



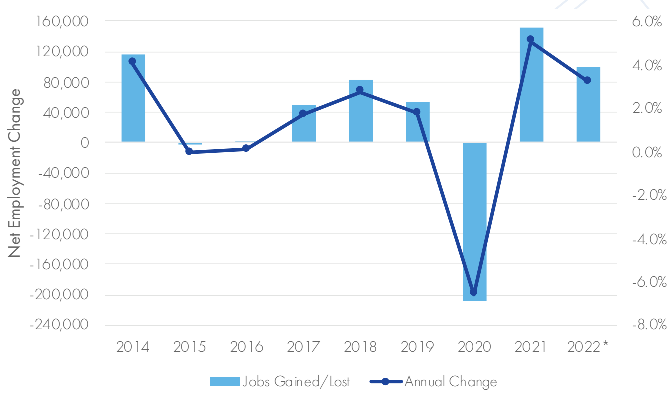
Sources: NorthMarq, CoStar

Looking Ahead

The positive start in 2022 has set the stage for a healthy year of multifamily property performance in Houston. The job market is fully recovered, and employers are continuing to add back workers at a rapid pace. Recent global events have strengthened the economic outlook for Houston. Sharp increases in energy prices should add momentum to an already strong local economy. During the first quarter, oil prices topped $120 per barrel, the highest price since the recession in 2008. While oil prices will likely come down from the elevated figures recorded during the first few months of the year, energy prices are expected to end the year high enough to support profitability in one of the region's core industries. Further, the recent geopolitical developments suggest greater onshoring of jobs across sectors including energy.

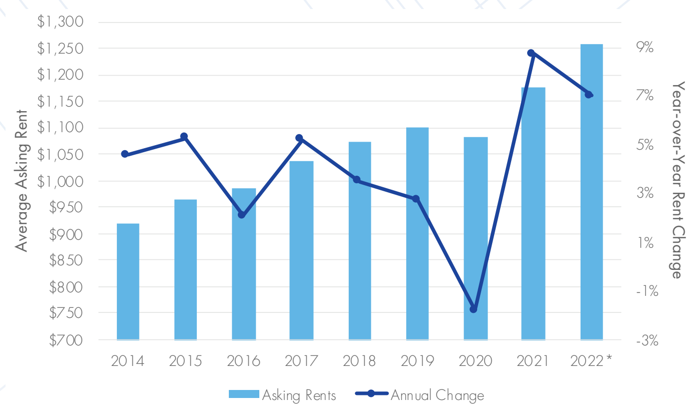
With the economy trending higher and the competitive threat from new apartment construction minimal, operators are expected to ramp up activity in the Houston multifamily investment market. Property performance is forecast to record strong gains throughout the year, attracting investor attention. Sales velocity is already ahead of last year's pace, and prices are pushing higher. Investors will likely monitor the pace of rent growth in existing properties and the lease-up of newer projects to evaluate the ongoing strength of the market. Cap rates have started the year higher than in some of the other major markets in Texas and the Southwest and will likely remain fairly consistent in the low-5 percent range.

Employment Forecast



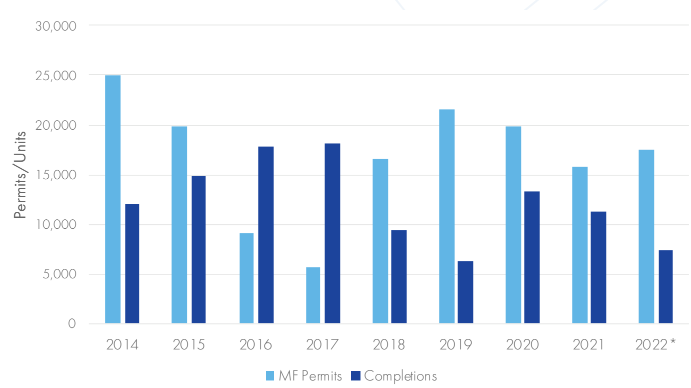
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



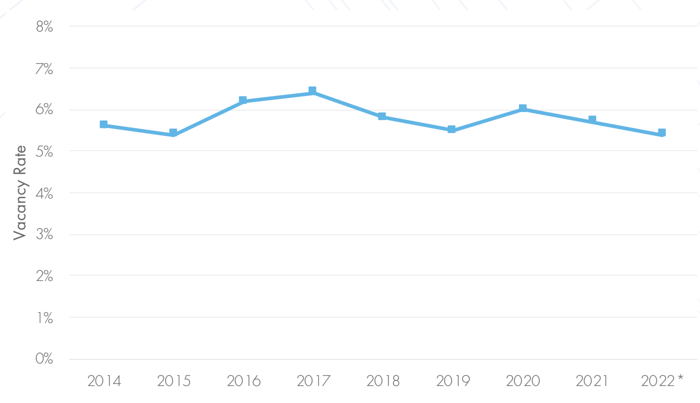
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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