Market Insights

Greater Houston Multifamily 3Q 2022

Northmarq

Construction Activity

12,667

Units under construction

10,665

Units delivered (YTD)

Market Fundamentals

5.4%

Vacancy

-30bps | Year over year change

$1,237

Asking Rent

+6.9% | Year over year change

Transaction Activity*

$168,400

Median sales price per unit (YTD)

* In transactions where pricing is available

Rapid Job Growth Fuels Tightening Vacancy

Highlights

- The Houston multifamily market made sound improvements during the third quarter, fueled by a fully recovered local economy and the region's growing population. Absorption levels have been elevated for the past two years, driving developers to accelerate the pace of apartment deliveries.
- Vacancy continued to trend lower in recent months, falling 10 basis points during the third quarter to 5.4 percent. Year over year, the rate has dropped 30 basis points.
- Rents continued to advance at a rapid rate in recent months. Asking rents reached $1,237 per month, up 2.2 percent for the quarter and 6.9 percent higher than one year ago.
- The pace of multifamily transactions slowed during the third quarter, but sales velocity in 2022 is ahead of the year-earlier pace. In transactions where pricing was available, the median sales price thus far in 2022 is $168,400 per unit. Cap rates have ticked higher in recent months, averaging about 5 percent.

Houston Multifamily Market Overview

The Houston multifamily market continued to improve during the third quarter as the vacancy rate inched lower and asking rents climbed. The strong operating conditions throughout the region are being supported by a robust local economy that continues to add workers at one of the fastest rates of any major market in the country. Area employers added 46,200 jobs in the last three months, and growth in the past year has exceeded 6 percent. New apartment construction remains active but consistent with levels recorded in recent years. Apartment developers delivered more than 10,660 units to this point in 2022, and the pace of completions is expected to accelerate in the coming months as developers try to meet renter demand.

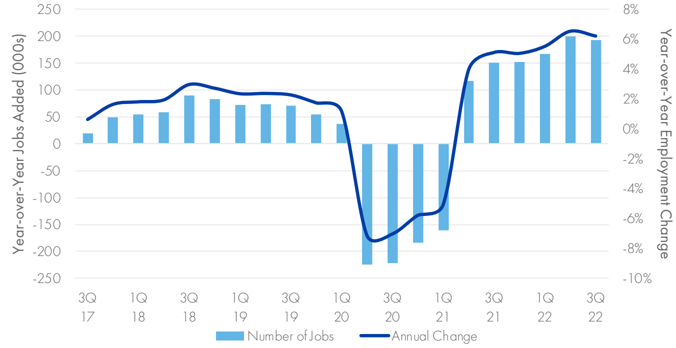
Houston's multifamily investment market cooled in the last three months after recording a strong second quarter. While sales velocity slowed from the second quarter to the third quarter, total transactions thus far in 2022 have outpaced levels recorded during the same period one year ago. While quarterly investment volumes are volatile, pricing trends have shown a clear upward trajectory in 2022. The median sales price to this point in the year is $168,400 per unit, up nearly 30 percent from the 2021 figure. Most of the recent deals occurred on the west side of town, specifically in the Uptown Houston, Alief, and Energy Corridor submarkets. Cap rates have trended higher, averaging around 5 percent.

Employment

- Following a strong first half of the year, the Houston labor market continued to swell during the third quarter as more than 46,000 jobs were created. In the past 12 months, employers added 192,900 workers, an annual increase of 6.2 percent.
- The Houston economy is recording rapid growth in industrial and trade-related occupations. During the past 12 months, transportation, warehousing, and logistics employment has expanded by 7 percent, nearly identical to growth in manufacturing employment. These industries have combined to add more than 37,000 jobs in the past year.
- Spirit Airlines will be expanding its presence in Houston with the addition of an aircraft maintenance facility and a new flight crew base at George Bush Intercontinental Airport. The two investments will bring approximately 500 jobs to the area in the coming quarters including mechanics, engineers, flight attendants, and pilots.
- **Forecast:** The local employment market is expected to continue growing during the final quarter of the year. Employers are projected to add nearly 175,000 workers in 2022, expanding the local labor market by 5.5 percent.

> “ Year over year, employers added 192,900 workers.

Employment Overview



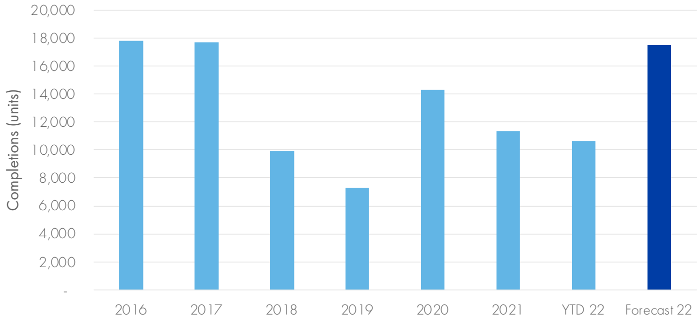
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

> “ To this point in 2022, 10,665 units have been completed.

- Apartment deliveries accelerated as projects totaling roughly 4,350 units have come online in the last three months. To this point in 2022, 10,665 units have been completed, an increase of 25 percent from total deliveries through the first three quarters of last year.
- Multifamily developers remain active throughout the Houston area. Projects totaling more than 12,600 units were under construction at the end of the third quarter, up slightly from one year ago.
- Multifamily permitting surged to start the second half of the year as developers pulled permits for nearly 8,750 units in the third quarter. Year-to-date, permits for roughly 20,500 units have been issued, surpassing the full-year totals for each of the last two years.
- **Forecast:** Deliveries are projected to accelerate in the remaining months of the year as developers are forecast to bring roughly 17,500 new units online in 2022. This would mark the highest annual completions total since 2016 and 2017.

Development Trends



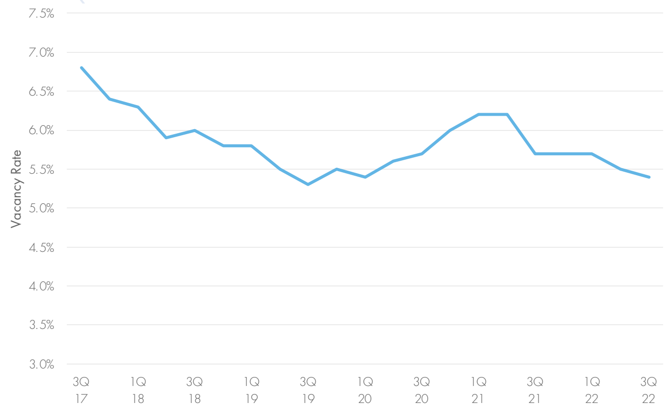
Sources: Northmarq, Reis

Vacancy

- Vacancy continued to trend lower during the third quarter, dropping 10 basis points to 5.4 percent. Recent quarterly trends have highlighted some gradual improvement; the rate has declined or held steady in each of the past six quarters.
- Year over year, vacancy has fallen 30 basis points. Top-tier properties have recorded the greatest improvement, as the vacancy rate in Class A units dropped 100 basis points in the past year to 5.4 percent.
- The Sharpstown/Westwood submarket is recording the lowest vacancy in the metro area. The vacancy rate in the submarket fell 100 basis points in the past 12 months to 2.3 percent.
- **Forecast:** Local vacancy is forecast to inch lower through the end of the year. The rate is projected to finish 2022 at 5.3 percent, down 40 basis points for the full year.

> Year over year, vacancy has fallen 30 basis points.

Vacancy Trends



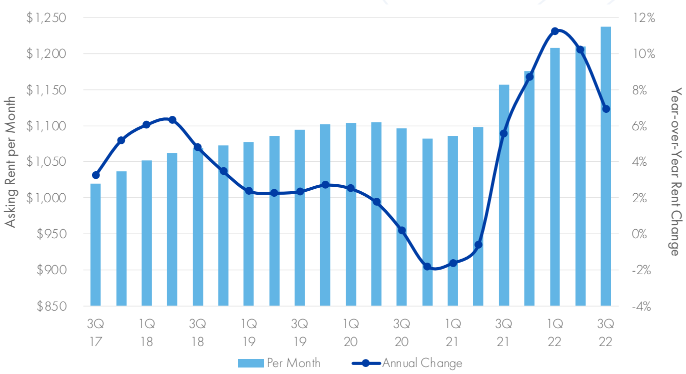
Sources: Northmarq, Reis

Rents

- After slowing in the previous period, rent growth accelerated during the third quarter. Asking rents rose 2.2 percent in the last three months, reaching $1,237 per month.
- During the past 12 months, the average asking rent in the metro area has grown by 6.9 percent. Rents in Houston's most expensive submarket, Montrose/River Oaks, have risen 10.3 percent in the past year, reaching $1,770 per month.
- While rents have risen across all asset classes during the past 12 months, Class A properties have posted the most rapid average gains. Asking rents in the top-tier units are 7.5 percent higher than they were one year ago, closing the third quarter at $1,492 per month.
- **Forecast:** Asking rents are expected to tick higher in the final months of the year. Local rents are forecast to reach $1,244 per month by the end of 2022, an annual increase of 5.8 percent.

> During the past 12 months, rents have grown by 6.9 percent.

Rent Trends



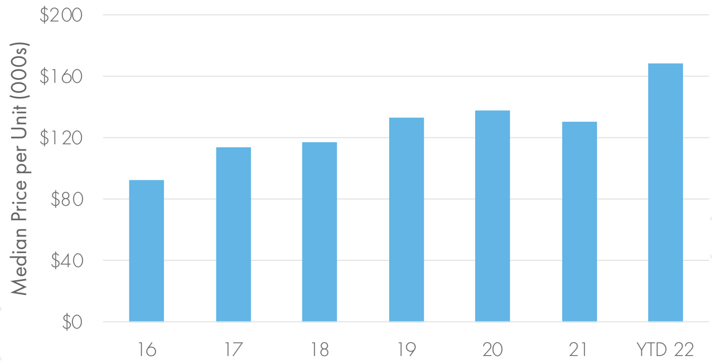
Sources: Northmarq, Reis

Multifamily Sales

- Sales velocity slowed by roughly 35 percent from the second quarter to the third quarter. Despite the recent slowing, transaction volume year to date is up about 15 percent from levels posted during the same period in 2021.
- In transactions where pricing is available, the median sales price to this point in 2022 is $168,400 per unit, 30 percent higher than last year's median price. During the third quarter, approximately one-third of the total properties that sold were Class A buildings. Nearly a dozen apartment assets built in the last three years sold in the third quarter.
- Cap rates have begun to push higher, but the concentration of sales of newer properties has kept the average cap rate fairly low. Cap rates averaged about 5 percent in the third quarter, although some of the newer, Class A properties traded at lower cap rates.

> Transaction volume year to date is up about 15 percent.

Investment Trends



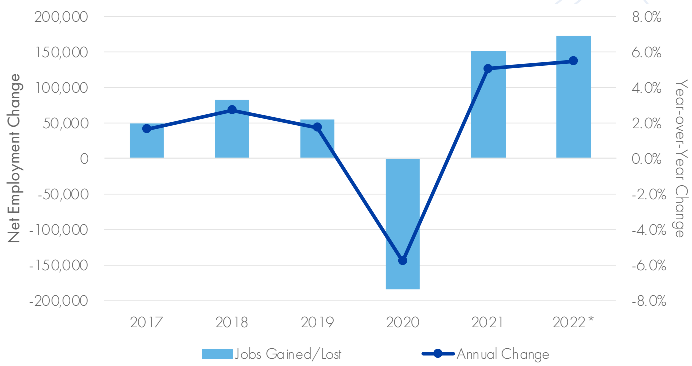
Sources: NorthMarq, CoStar

Looking Ahead

The Houston multifamily market is expected to remain in growth mode through the end of the year, maintaining the strong property fundamentals recorded throughout this year. After a significant expansion of the local economy in recent quarters, employment growth is expected to continue at a more modest pace in the final few months of the year and into 2023. Renter demand may begin to taper off but asking rents will continue to climb. Annual rent growth should average around 3 percent to 5 percent in the coming years. Houston is a market where the pace of supply growth can accelerate rapidly during expansions, but multifamily construction starts to this point in the cycle have been modest. In the next year, deliveries and absorption levels are projected to closely track each other, allowing for fairly steady vacancy conditions.

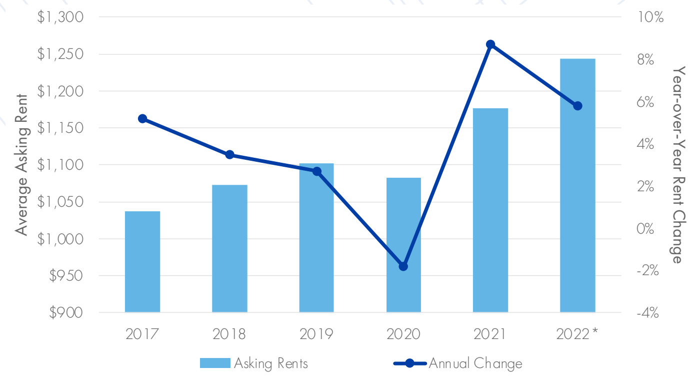
Investor demand for Houston's multifamily properties is expected to remain healthy through the remainder of this year and into 2023. With economic growth cooling across several markets, the Houston area's rapid expansion should drive above-average performance in the coming years. Properties are expected to continue to transact, particularly newer assets within the city limits. Transaction volume in the fourth quarter may lag levels recorded in previous years when the capital markets were more accommodative. Per-unit pricing could remain elevated through the end of the year, reflecting the healthy property performance metrics throughout the region. Cap rates have shown signs of creeping higher, particularly outside of the Class A segment. Some additional incremental increases are possible in the coming months.

Employment Forecast



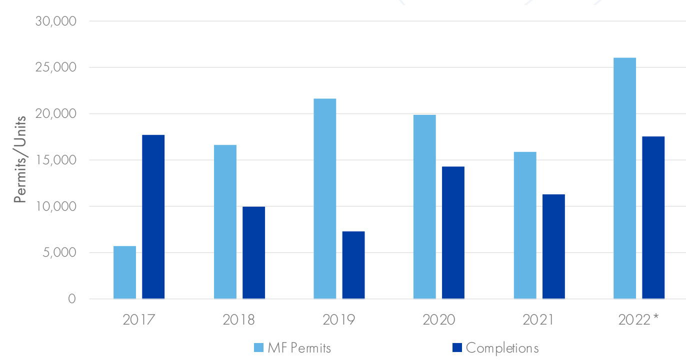
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



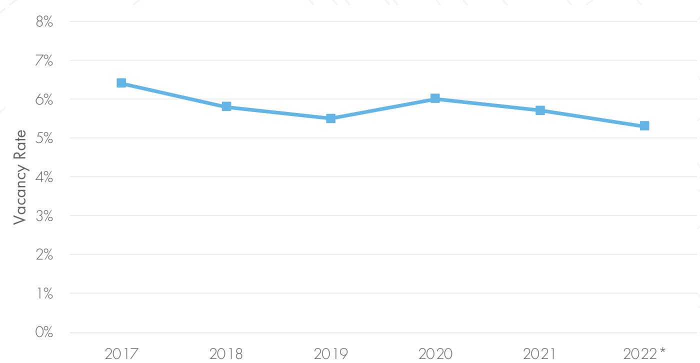
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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