Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	30,706
UNITS DELIVERED	3,883

MARKET FUNDAMENTALS

VACANCY RATE	6.4%
YEAR-OVER-YEAR CHANGE	+70bps
ASKING RENTS	$1,258
YEAR-OVER-YEAR CHANGE	+4.1%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$163,000*

** Transactions where pricing is available*

Houston Multifamily

1Q 2023

MARKET INSIGHTS

Economy still in growth mode, developers active

HIGHLIGHTS

- Property fundamentals in the Houston multifamily market lost some traction during the first quarter, as asking rents dipped and the vacancy rate increased. Multifamily development trends are mixed, with deliveries picking up while starts slowed.
- Vacancy in Houston rose 50 basis points for the second consecutive quarter. The rate reached 6.4 percent in the first quarter and is up 70 basis points from one year ago.
- After posting significant gains for two straight years, asking rents fell 0.7 percent during the first quarter to $1,258 per month. Despite the recent dip, area rents advanced by 4.1 percent year over year.
- Sales activity in the Houston multifamily market continued to slow during the first quarter, falling roughly 40 percent from levels at the end of last year. In transactions where pricing was available, the median price was $163,000 per unit, while cap rates averaged 5.25 percent.

HOUSTON MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Houston multifamily market softened marginally at the start of the year, as asking rents dipped and vacancy trended higher. While economic growth in the region remains strong, the pace of new construction deliveries has accelerated in recent periods, resulting in two consecutive quarters of rising vacancy. The recent increases followed a gradual decline in the vacancy rate that had been underway since the second half of 2021. Asking rents inched lower at the beginning of this year, following an extended run of healthy gains.

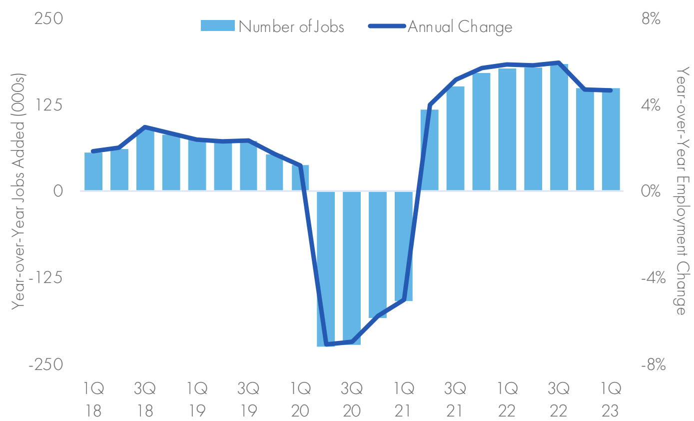
The momentum in the Houston multifamily investment market has cooled in recent quarters, a trend that continued at the beginning of this year. Much of the slowing pace of transaction activity is associated with the steep upward direction in financing costs, which is being felt most significantly in high-growth markets such as Houston. In the transactions that did occur in the first quarter, investors continued to show a strong preference for mid-tier and upper-tier properties. Pricing held fairly steady in recent months, while cap rates continued to tick higher, averaging 5.25 percent.

EMPLOYMENT

- The Houston labor market continues to record strong, steady growth as area employers added more than 30,000 workers during the first quarter. Year over year, total employment expanded by 148,700 positions, increasing by 4.7 percent.
- Employment growth was healthy across all sectors in the local labor market in recent quarters, with professional and business services posting the largest gains. Year over year, this sector has added 29,500 jobs, increasing 5.6 percent.
- Developers recently began construction on a new 12,000-seat concert venue in La Marque. The arena will come from a conversion of the Gulf Greyhound Park. Upon completion later this year, the venue is projected to spur additional commercial development and bring jobs to the region.
- **FORECAST:** The local labor market is expected to expand at a modest pace in the coming periods, following robust growth in recent years. Area employers are forecast to expand payrolls by 60,000 workers in 2023, increasing total employment by 1.8 percent.

Year over year, employment expanded by 148,700 positions.

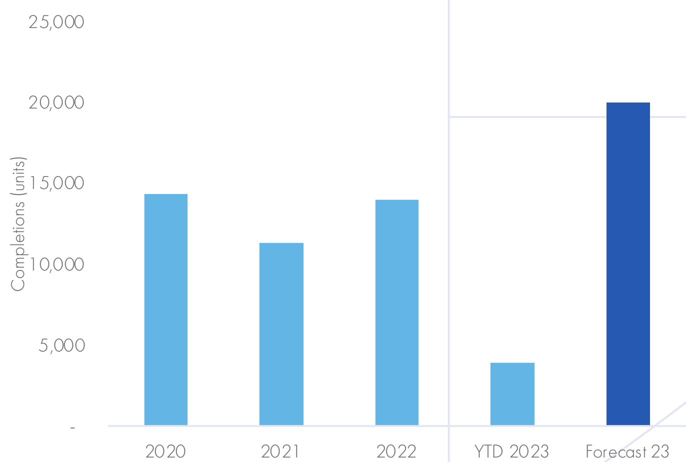
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling nearly 3,900 units came online in the last three months.

DEVELOPMENT TRENDS



Sources: Northmarq, Reis, CoStar

DEVELOPMENT & PERMITTING

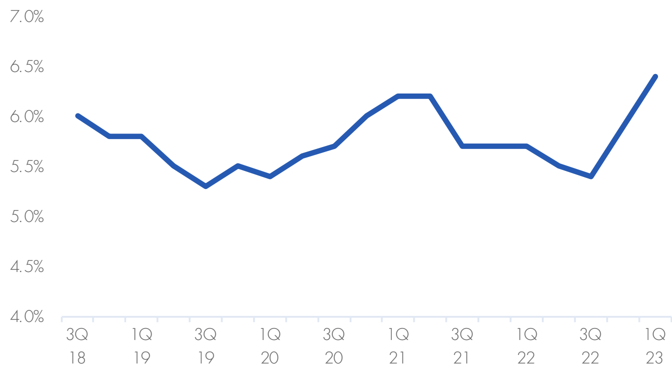
- The pace of multifamily deliveries accelerated during the first quarter, as projects totaling nearly 3,900 units came online. Recent deliveries were scattered throughout the Houston region, with the Neartown/River Oaks submarket receiving the heaviest concentration of new projects.
- Projects totaling approximately 30,700 units are currently under construction in Houston. Fewer projects are moving into the construction pipeline; starts slowed considerably in the first quarter.
- While multifamily permitting remains active, the pace of issuance has slowed somewhat since the end of last year. Developers pulled permits for roughly 5,800 units during the first quarter, down 13 percent from the final three months of 2022.
- **FORECAST:** Multifamily completions are expected to accelerate in the coming periods. Projects totaling 20,000 units are forecast to be delivered in 2023, after nearly 14,000 units came online last year.

Vacancy has increased 70 basis points year over year.

VACANCY

- Vacancy rose 50 basis points in the first quarter, mirroring the increase recorded during the final three months of last year. The rate had been steadily trending lower since the second half of 2021 before rising in each of the past two quarters. At 6.4 percent, vacancy has increased 70 basis points year over year.
- Although overall vacancy rose, the rate in Class A assets improved during the past 12 months. The vacancy rate in the top tier declined by 60 basis points in the past year to 6.5 percent.
- The Sharpstown/Westwood submarket is currently recording the tightest vacancy conditions in Houston. The rate in this submarket declined by 50 basis points during the past year to 2.6 percent.
- **FORECAST:** After remaining in a fairly tight range for nearly a decade, the local vacancy rate is projected to continue to inch higher in the coming quarters. The rate is forecast to end 2023 at 6.9 percent, up 100 basis points for the full year.

VACANCY TRENDS



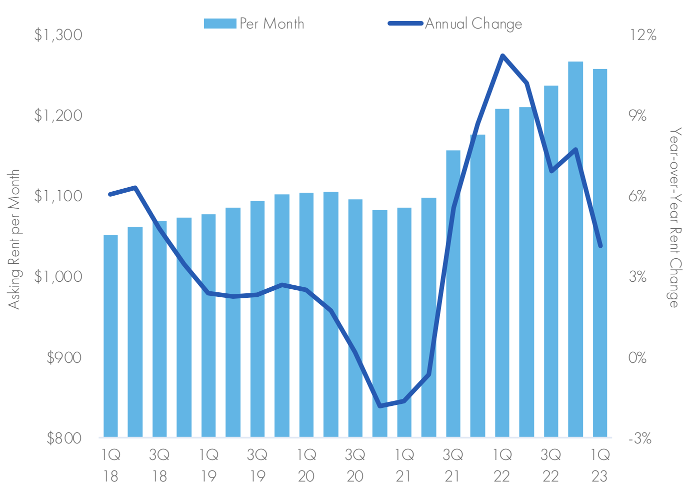
Sources: Northmarq, Reis

RENTS

- Asking rents fell slightly in the first quarter, after rising at a rapid pace throughout much of 2021 and 2022. Area rents dipped by 0.7 percent in the first three months of the year to $1,258 per month.
- Local rents rose 4.1 percent year over year. The recent increase closely tracks the market's long-term trajectory; since 2010, rent growth in Houston has averaged 4 percent per year.
- Asking rents trended higher across nearly all of Houston's submarkets during the past year. Average rents in Houston's largest and most expensive submarket, Montrose/River Oaks, rose 2.7 percent year over year to $1,758 per month.
- **FORECAST:** Apartment operators are expected to raise rents modestly through the remainder of the year. Asking rents are forecast to close 2023 at $1,295 per month, a 2.2 percent annual advance.

Local rents rose 4.1 percent year over year.

RENT TRENDS



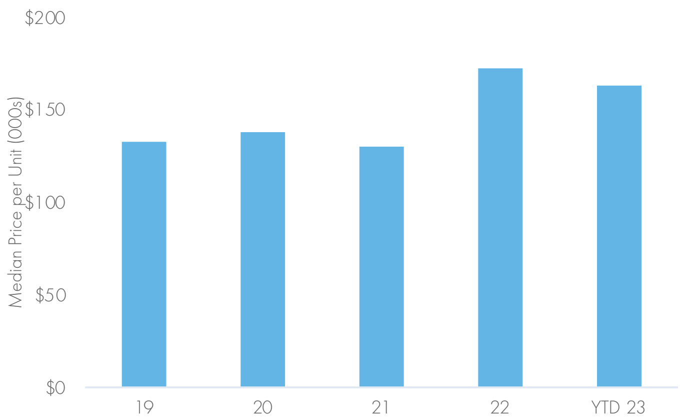
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily transaction velocity continued to slow during the first quarter, as sales volume declined by approximately 40 percent from the end of last year. Total sales volume has now trended lower in each of the past three quarters.
- In transactions where pricing was available, the median sales price was $163,000 per unit during the first quarter, down 5 percent from the median price in 2022. Upper-tier and mid-tier properties continued to account for the bulk of the transaction mix in recent months.
- Cap rates ticked higher in the first quarter, averaging around 5.25 percent. Cap rates are up roughly 25 basis points from the end of 2022.

The median sales price in the first quarter was $163,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

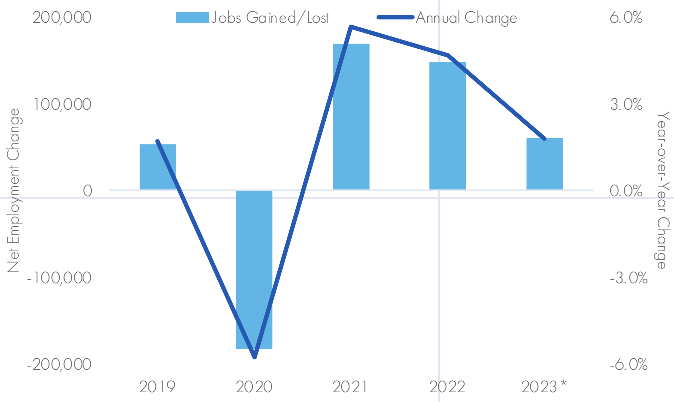
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Waterview	19525 W Bellfort Blvd., Houston	295	$63,425,000	$215,000
Metro Greenway	4100 Southwest Fwy., Houston	309	$58,000,000	$187,702
Cortland Spring Cypress	2539 Spring Cypress Rd, Spring	253	$50,500,000	$199,605
The 910 Apartment Homes	910 Cypress Station Dr., Houston	465	$39,807,000	$85,606
Hollister Place	6565 Hollister St., Houston	260	$36,800,000	$141,538
Derby at Steeplechase	11220 West Rd., Houston	260	$31,390,496	$120,733
Costa Rialto	5015 Aldine Bender Rd., Houston	216	$22,200,000	$102,778

LOOKING AHEAD

The Houston multifamily market will likely face some supply-side pressures in 2023, as developers are set to deliver about 20,000 units, and net absorption is likely to come in closer to 60 percent of that total. While deliveries will be elevated through the remainder of this year, the construction pipeline will likely thin in the coming quarters, and permitting of new projects will slow in response to a more restrictive capital climate. Still, local vacancy is forecast to trend higher in the coming quarters, with the rate forecast to finish the year at nearly 7 percent—a level that has not been reached in nearly a decade. Despite the expected vacancy increase, there should be sufficient economic growth and new renter household formation to support asking rent growth, although operators will likely offer greater concessions than in recent years.

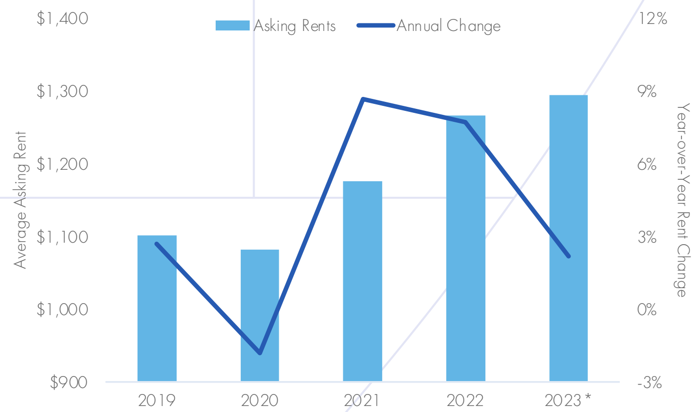
Multifamily investment activity in Houston may require a few more quarters of cooling before resuming a more traditional pace of sales velocity. Investors are generally drawn to the region for its rapid demand growth potential, but the market is generally perceived to be more economically volatile than some of its high-growth peers and is prone to periods of accelerated competition from new supply. Investor sentiment of the market will likely be influenced by two primary factors in 2023: the strength of the energy market and the pace of lease-up as new projects come online. With fewer projects changing hands, pricing will increasingly be a function of which properties are listed and ultimately sold. Cap rates reached 5.25 percent at the beginning of this year and could rise another 25 to 50 basis points by midyear.

EMPLOYMENT FORECAST



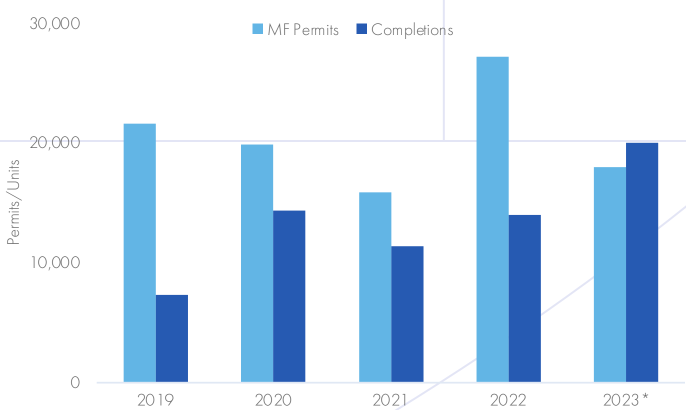
* *Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



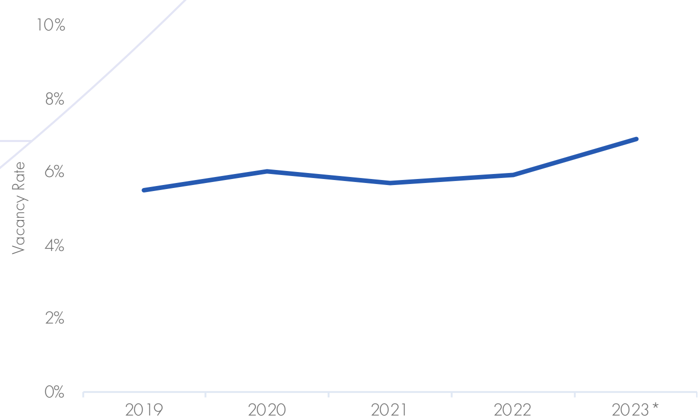
* *Year End Forecast*
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* *Year End Forecast*
Sources: Northmarq, Reis

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ABOUT NORTHMARQ

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 1,000 employees, loan servicing volume approaching $80 billion, and $40+ billion in transaction volume.

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