MARKET REPORT

MULTIFAMILY

Houston Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

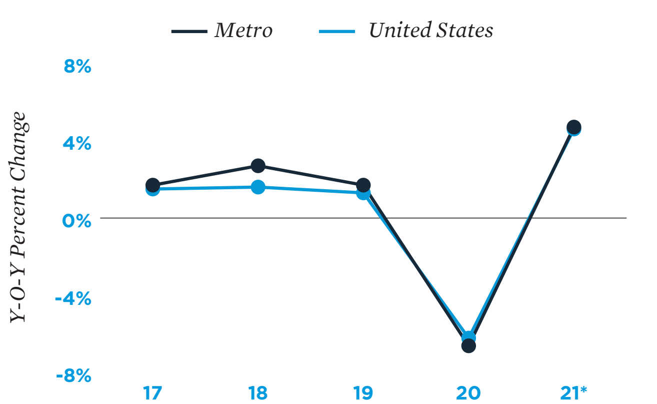
3Q/21

High-Quality Suburban Rentals Attracting Residents Priced Out of Homeownership

Affordability gap doubles that of the U.S. The metro's median single-family home price surged 19 percent during the past year as migration to the market accelerated. This widened Houston's affordability gap, or the difference between an average rental rate and a mortgage payment on a median priced home. The margin is now $890 per month in the metro, compared with the U.S. average of $451 per month. Upper-tier apartments serve as an appealing alternative to homeownership, while also offering greater flexibility and lower maintenance. Suburbs like the Woodlands and Katy have been top choices for residents seeking rentals higher on the quality spectrum. Class A vacancy fell by at least 250 basis points and Class B availability decreased by 200 basis points or more in both of these submarkets over the past year.

Northwest portion of Inner Loop to be tested by supply influx. The Greater Heights/Washington Avenue submarket is an area of active development, which could apply pressure to fundamentals. In the first half roughly 1,585 rentals reached completion here and an additional 1,540 units are expected to finalize in the second half. By year-end, inventory in the submarket will have expanded by more than 18 percent annually. Nevertheless, deliveries in the first six months of 2021 were well received. Net absorption outpaced supply additions by 11 percent during that span, dropping the vacancy rate 170 basis points. The average rent here is down 2.4 percent year over year, though, as competition for tenants elevated the magnitude of concessions being used in the locale.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook

139,000 JOBS
will be created

EMPLOYMENT:

Total employment will grow by 4.7 percent in 2021 as the metro takes a big step toward recovering the 209,200 jobs released last year. Houston's personnel count will be roughly 2.2 percent below the level recorded in 2019 prior to the pandemic.

18,700 UNITS
will be completed

CONSTRUCTION:

For the second consecutive year completions will surpass 18,000 units, with 2021's addition anticipated to be the heftiest since 2017. Metrowide inventory growth will be 2.6 percent with significantly faster expansion rates in the Katy and Spring/Tomball submarkets.

20 BASIS POINT
decrease in vacancy

VACANCY:

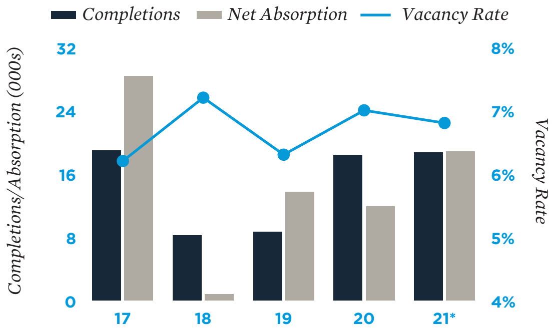
Employment growth and barriers to homeownership will support greater apartment demand in 2021. The vacancy rate will fall to 6.8 percent, which is 10 basis points below the trailing-five-year average.

4.9% INCREASE
in effective rent

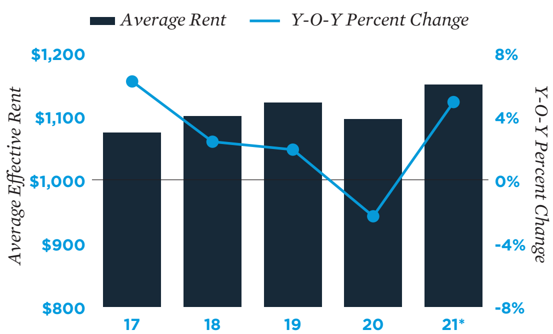
RENT:

Completions and strengthening demand will boost rental rates in 2021. The average effective rent in Houston will move up to $1,150 per month at year-end, recuperating lost ground after rates fell by 2.3 percent in 2020.

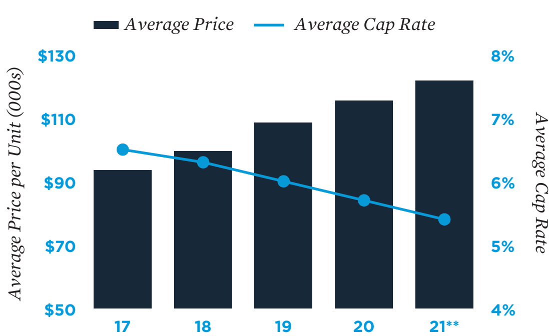
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

IPA Multifamily

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Price: $250

2Q21 — 12-Month Period

CONSTRUCTION

20,207 units completed

- Over the past 12 months completions jumped significantly from the previous year's 13,820-unit addition. Stock grew by 2.9 percent, cracking the top 10 list for fastest expansions among major markets in the U.S.
- As of July roughly 25,115 rentals were in the pipeline with expected completion dates extending into 2024.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- Net absorption of 22,355 units during the past four quarters compressed vacancy to 6.6 percent in June, the lowest rate since the end of 2019.
- The Class A tier posted a 140-basis-point reduction in availability. Conversely, Class C recorded a vacancy increase, mostly attributed to Inner Loop submarkets. Losses in service sector jobs here depleted demand.

RENT

2.0% increase in the average effective rent Y-O-Y

- The average effective rent moved up to $1,137 per month in the second quarter, surpassing the previous high set in 2019. Rates in the central business district, however, fell by 5.0 percent year over year.
- West suburbs had outsized gains with Rosenberg/Richmond, Katy and Sugar Land/Stafford each posting rent growth of at least 7 percent.

Investment Highlights

- The number of trades during the past 12 months ended in June was about the same as the previous year, though the average sale price advanced 9 percent to roughly $122,000 per unit. A competitive bidding market pushed the average cap rate down 40 basis points to 5.4 percent.
- North Houston near the George Bush Intercontinental Airport and the Greenspoint area recorded stronger deal flow over the past four quarters. Buyers are frequently targeting Class B/C complexes that could present value-add opportunities through upgrades or redevelopment. Properties that traded here were built nearly 50 years ago on average.
- Upper-tier apartments have been changing hands most frequently in north and northwest suburbs including Cypress and Spring, where average pricing on Class A/B properties has been $140,000 per unit. Here, cap rates typically range from high-4 percent to 6 percent.
- Within the Inner Loop investors are focusing on Class C apartments, favoring neighborhoods that appeal to young adults. Montrose, Upper Kirby and the Medical Center corridor are focal points for buyers.