MARKET REPORT

Multifamily

Houston Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

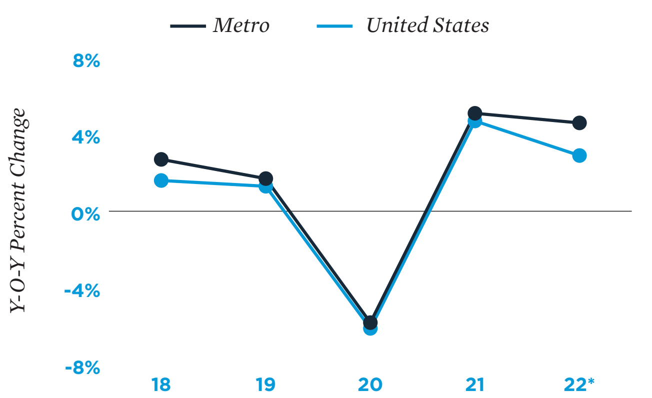
3Q/22

Energy Sector Tailwinds Fuel Economy; New Supply Aligns with High Demand Areas

Labor growth signals continued rental demand brawn. Houston's central industry, oil and gas production, quickly went into expansion mode as the Ukraine invasion prompted countries across the world to sanction trade with Russia. As the global price per barrel of oil shot above $100 during the majority of the second quarter, the rig count in Texas climbed from 277 at the start of 2022 to 371 at the end of July. Increased downstream operations greatly benefit the Houston economy. The natural resource and mining employment sector was the fastest growing on a percentage basis during the first half, followed by leisure and hospitality, and then construction. Hiring in these industries supports demand for mid-tier garden-style rentals across the market. Additionally, an improved oil and gas sector should bolster staff counts at the various firms with offices in the Energy Corridor, lifting demand for high-quality rentals in adjacent areas like Katy.

Select locations excel, despite a deluge of new supply. The three submarkets that recorded the fastest growth in local inventory during the past year also registered vacancy declines. Apartment supply in Greater Heights-Washington Avenue, a preferred urban corridor for young professionals, grew 11 percent annually, yet availability fell by 170 basis points. Similarly, vacancy plummeted by 180 basis points in the fast-growing suburbs of Spring-Tomball, despite a local stock expansion exceeding 6 percent. Further north, Conroe-Montgomery County noted a drop in availability, even with the number of local rentals jumping by more than 8 percent annually.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

145,000 JOBS
will be created

EMPLOYMENT:

The recovering leisure and hospitality sector, coupled with an expanding trade and transportation segment, combined for over half of the 88,000 jobs added during the first six months. Gains in these industries will help lift the total count by 4.6 percent in 2022.

16,400 UNITS
will be completed

CONSTRUCTION:

Metrowide inventory growth will mirror last year's 2.3 percent rise, as roughly 400 fewer rentals come online than in 2021. The Downtown-Montrose-River Oaks submarket is scheduled to receive the largest share of second half deliveries.

90 BASIS POINT
increase in vacancy

VACANCY:

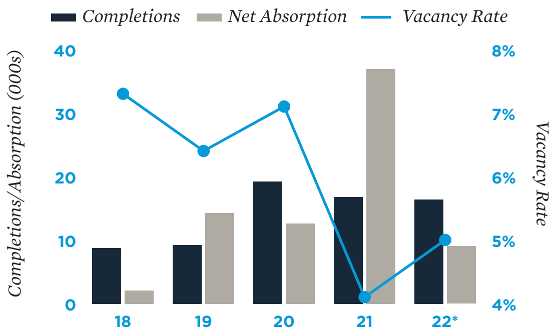
After a historic low of 3.7 percent was achieved in the first quarter, slower household creation amid economic headwinds are lifting vacancy. The rate is expected to settle at 5.0 percent by the end of this year.

7.3% INCREASE
in effective rent

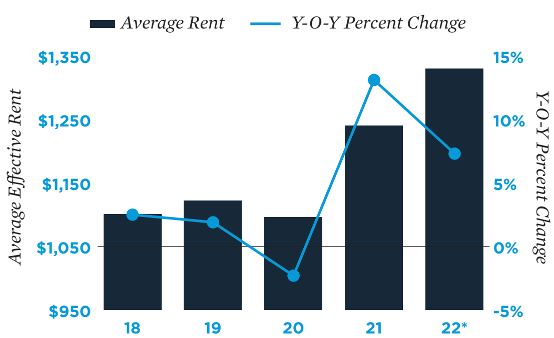
RENT:

Houston endured an uneventful period from 2016-2020, with rents rising 8 percent in that five-year span. By contrast, the expected surge in 2022, paired with last year's increase, results in a two-year, 21 percent escalation to $1,330 per month.

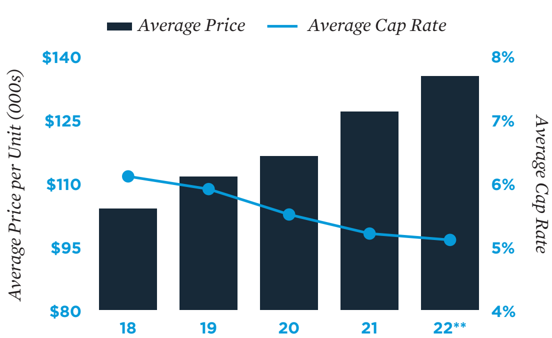
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

16,399 units completed

- Houston's apartment tally increased 2.2 percent during the yearlong interval ended in June, compared to a 3.0 percent expansion in the prior period.
- Seven submarkets had stock enlargements of at least 5.0 percent. Three of these —Greater Heights-Washington Avenue, Rosenberg-Richmond and Spring-Tomball — surpassed 10.0 percent growth in the previous year.

VACANCY

160 basis point decrease in vacancy Y-O-Y

- Vacancy is down more than 200 basis points year-over-year in two of the three submarkets that comprise the CBD: West University-Medical Center-Third Ward and Downtown-Montrose-River Oaks.
- Elevated construction in Rosenberg-Richmond created a slight supply overhang. Vacancy rose the most among submarkets at 110 basis points.

RENT

14.0% increase in the average effective rent Y-O-Y

- Class A and B effective rents rose by at least 16 percent on average during the yearlong frame ended in the second quarter to $1,746 and $1,283 per month, respectively. Meanwhile, the Class C rate grew about 7 percent.
- All 35 submarkets recorded rent growth during the 12-month period, with the annual gain exceeding 20 percent in one — The Woodlands.

Investment Highlights

- The average price per unit grew 9 percent in 2021. That trajectory has further improved with an 11 percent climb during the yearlong period ended in June 2022, moving the average price per unit to $135,200. This boost is driven by economic growth, demographic trends and an attractive investment outlook. Rising interest rates have the potential to hinder deal flow in the second half as underwriting and financing become more challenging. Still, trading is expected to remain strong, as institutional buyers pursue comparatively higher yields and adjust their regional portfolios.
- Yield potential is a major draw to Houston multifamily assets, with an average cap rate of 5.1 percent during the 12-month period ended in June 2022. The mean first-year return is at least 50 basis points higher than a handful of Sun Belt markets reporting similar in-migration and population growth trends. That list includes Dallas-Fort Worth, Austin, Las Vegas, Phoenix, Nashville, Charlotte, Raleigh-Durham and Jacksonville.
- Institutions are frequently seeking high-end and mid-tier assets in Northwest and Southeast Houston locales. In the case of Northwest Houston, the Class A and B vacancy rates each fell by at least 100 basis points year-over-year, fueling annual rent gains larger than 19 percent in both segments.