Market Report

IPA INSTITUTIONAL PROPERTY ADVISORS

MULTIFAMILY 2Q/26

Houston Metro Area

2026 FORECAST

EMPLOYMENT

30,000 — Jobs will be created

0.9% — Increase Y-O-Y

CONSTRUCTION

12,000 — Units will be added

1.5% — Inventory increase Y-O-Y

VACANCY

7.0% — Vacancy rate

20 — BPS increase Y-O-Y

RENT

$1,380 — Average effective rent by year-end

1.5% — Increase Y-O-Y

Vacancy Edges Up as Infrastructure and Investment Anchor Metro Growth

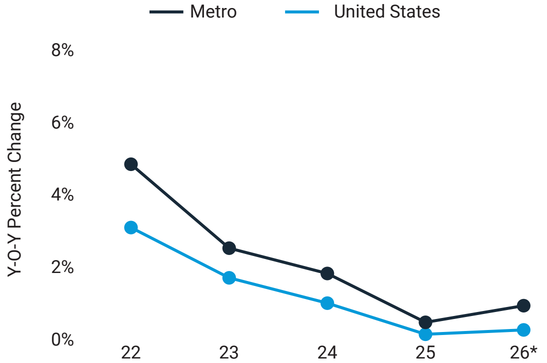
Oil and gas demand fuels economic growth. Energy companies are continuing to invest more in Houston. Devon and Expand Energy are moving offices in the metro, while Siemens is investing in local manufacturing for liquid and gas service equipment used to transport liquids and gas through pipes. Alongside this, Japan is backing the $2.1 billion Texas GulfLink project, which will help move oil to global markets faster and at a lower cost. Smaller companies are also participating, as startups raised $532 million in the first quarter of 2026 alone, up 49 percent year-over-year, led largely by supersized energy and decarbonization deals. Of the startup venture funding, 40 percent of it was in energy. These investments should boost energy-driven job growth, as renewed institutional investment helps underpin the metro's long-term outlook.

Population gains continue but moderate as absorption softens. Houston's demographic tailwinds remain intact but have moderated from their post-pandemic peak. The metro ranked among the top major markets for net in-migration in 2025 and is positioned to hold that standing in 2026. Coinciding with this slowdown, net absorption fell to its lowest level since 2022, with negative readings in the back half of 2025, signaling that supply has begun outpacing demand at the margin.

EMPLOYMENT

Health services, construction, and professional and business services accounted for a substantial share of job growth, resulting in the metro gaining over 26,000 jobs year-over-year as of March 2026. For professional and business services, significant job growth occurred in early 2026, with a net of 10,000 new roles year-to-date in April. Meanwhile, trade, transportation, and warehousing saw a resurgence in job creation in the same period, with the sector now accounting for 20 percent of the employment base.

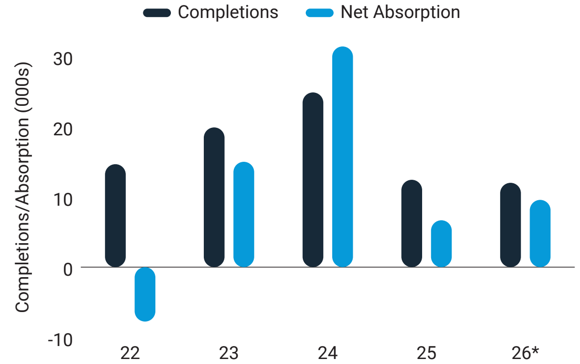
EMPLOYMENT TRENDS



CONSTRUCTION

Development in the metro should remain comparable to the previous year. Construction is set to surge in Katy and Spring-Tomball, as they account for roughly 28 percent of the 2026 construction pipeline. Meanwhile, Greater Heights-Washington and Cypress-Waller, which were among the most developed areas in 2025, make up a marginal share of the current 2026 pipeline. This deceleration should support vacant units, as these submarkets recorded some of the highest net absorption in 2025.

CONSTRUCTION TRENDS



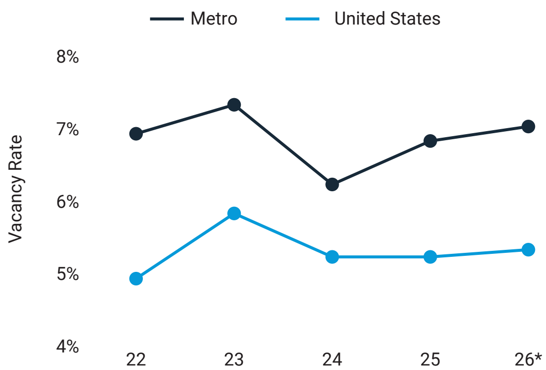
* Forecast

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

VACANCY

Following negative net absorption in the second half of 2025 and a slow start to the first quarter of 2026, the metro's vacancy rate is expected to tick up as inventory growth holds a pace similar to last year. As of March 2026, the Hobby Airport area posted the tightest vacancy after a 320-basis-point year-over-year decline, largely driven by a 490-basis-point drop for Class C units. Despite carrying the largest inventory, Sharpstown-Fondren Southwest also held a sub-6 percent vacancy rate, even as it logged a marginal uptick.

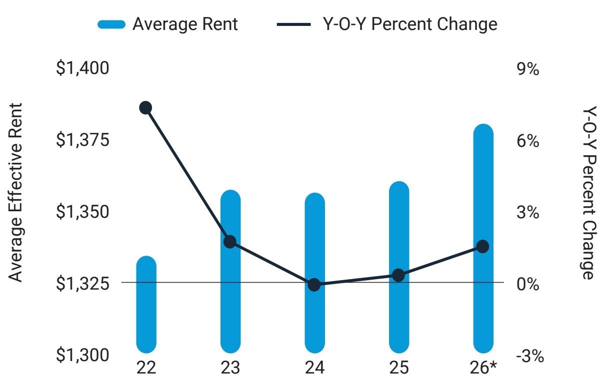
VACANCY TRENDS



RENT

Rent growth continued to moderate over the past four quarters, pressured by rising vacancy despite construction levels falling to roughly half of 2024 volumes. Amid a drop in renter demand, property owners increasingly relied on concessions, especially in Class C, as the share of Class C units offering concessions rose to 48 percent. In contrast, the Greater Heights-Washington Avenue area is poised for rent growth, given its relatively strong net absorption, smaller pipeline, and low concession usage.

RENT TRENDS



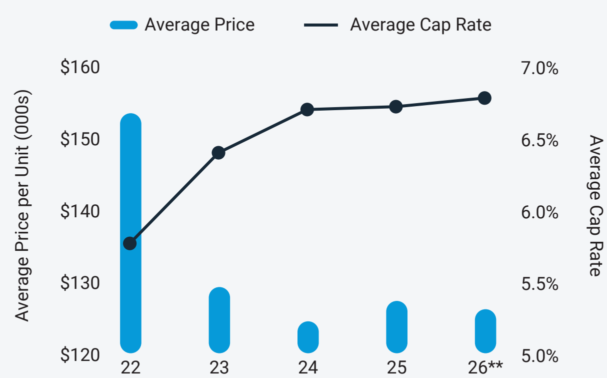
* Forecast ** Through 1Q

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

INVESTMENT HIGHLIGHTS

- Transaction activity rose 30 percent over the past four quarters, largely driven by a 47 percent increase in deals exceeding $20 million, which helped lift the overall dollar volume by 62 percent. This marked the highest level of activity in this price tranche since 2022, signaling renewed institutional confidence in the metro. Despite the uptick in volume, the average price per unit and mean cap rate remained largely unchanged, indicating stable pricing conditions amid improving liquidity.
- Private investors continued to account for most transactions, with activity concentrated on Class C assets, which comprised roughly 48 percent of trading. Meanwhile, institutional buyers focused primarily on Inner Loop submarkets west of downtown, targeting Class A properties for their proximity to major employment hubs and high-end retail nodes. Looking ahead, this divergence is likely to remain, as borrowing costs stay elevated and rent growth continues its upward trajectory.
- Manufacturing and infrastructure investments are anchoring longer-term demand. Investors interested in higher-tier assets may turn their eyes to northwest Harris County, as Apple's facility expansion and Foxconn's new plant are expected to generate thousands of advanced manufacturing jobs. Elsewhere, billions of dollars flowing into regional port infrastructure, alongside Eli Lilly's $6.5 billion project in northeast Houston, are set to bring jobs in logistics, energy, and manufacturing — bolstering the tenant base for Class B and C assets in eastern submarkets.

SALES TRENDS



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