TRANSWESTERN

HOUSTON MULTIFAMILY MARKET

Q3 2022

TRENDLINES

	Q3 2022	Q3 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (%)	4.6	7.0	↓	5.6	↓
NET ABSORPTION (Units)	743	11,814	↓	3,933	↔
OCCUPANCY RATE (%)	91.0%	91.6%	↓	89.8%	↔
UNITS (Total)	718,780	701,909	↑	675,672	↑
EFFECTIVE RENT (Unit)	$1,261	$1,165	↑	$1,083	↔
SALES VOLUME (Millions)	$1,392	$2,903	↓	$1,914.2	↓

Source: Bureau of Labor Statistics, Apartment Data Services, Real Capital Analytics, Transwestern

SEASONAL LEASING COOLS IN LATE-SUMMER/EARLY FALL

Rental demand in Houston slowed this quarter, reflected on a wider basis by softened demand at the U.S. level. According to RealPage's recent analysis, leasing traffic pushed net apartment demand moderately in the red during the third quarter to a negative growth of more than 82,000 units nationwide. Houston bucked this trend, though, by carving out positive absorption of 743 units. However, as with the U.S. trend overall, this figure was down from the 11,800 units in the same period last year even during the season of late-summer and early-fall when more relocations occur. Houston's construction pipeline is robust, with 16,750 units currently underway and nearly 3,300 units completed during the third quarter, helping to keep the overall demand on the positive side.

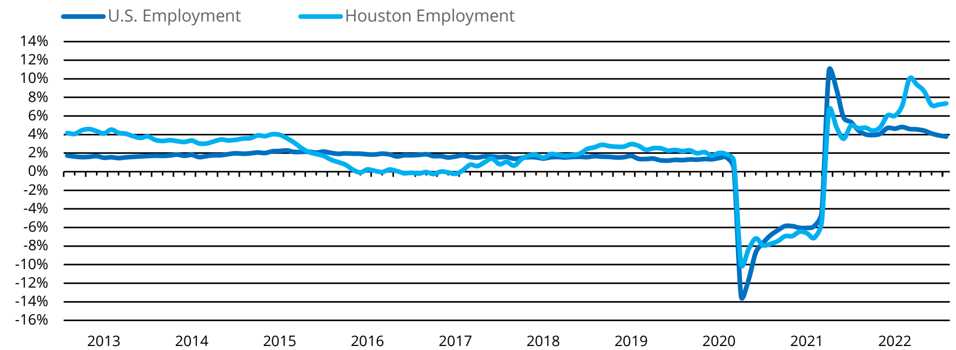
The area economy showed slowing job growth with 5,400 new jobs added to area payrolls in August, also lagging seasonal expectations according to the most recent data released from the Greater Houston Partnership. On the other hand, the Houston Public Works Department reports that commercial permits jumped 28.6 percent to $4.3 billion and residential permits jumped 21.9 percent to $3.4 billion, a sign that Houston's near-term housing market remains relatively buoyant despite rising interest rates and inflation. Likewise, Houston's multifamily market remains on firm footing with overall occupancy at 91 percent, and 87.9 percent for Class A properties while asking rents rose 1.4 percent this quarter.

ECONOMY

Job Growth Slows While Building Permits, Airport Cargo Activity Rise

- Metro Houston added 5,400 new jobs in August 2022, according to data released during September by the Texas Workforce Commission (TWC). This falls behind seasonal expectations for the month when the region normally creates 7,000 to 10,000 jobs in August. In a boom year, which has been the recent situation, the region creates 10,000 to 18,000 jobs, according to the latest jobs update from Greater Houston Partnership.
- U.S. employers created 263,000 jobs in September according to the Labor Department, which is down from 315,000 in August. Unemployment fell 20 basis points to 3.5 percent and is now at a 50-year low even as labor participation – at 62.3 percent – was little changed. As a result, additional interest rate hikes are likely as consumer prices will continue to be elevated.
- Meanwhile, City of Houston building permits totaled $7.7 billion for the 12 months ending August 2022, up $1.6 billion (25.6 percent) from $6.1 billion issued over the same period last year, according to the latest data from the Houston Public Works Department. Commercial permits jumped 28.6 percent to $4.3 billion and residential permits jumped 21.9 percent to $3.4 billion, a sign that Houston's housing market is buoyant in the face of rising mortgage rates, mainly in the mid-priced single-family category. The highest number of housing starts are in the fast-growing suburbs to the north, northwest and southwest.
- Houston's consumer prices rose 9.5 percent last month, still elevated, but an improvement over the 10.2 percent recorded previously. Additional news is that in its annual report released in the early days of Q4 2022, the Houston Airport System (HAS) had substantial improvement in its air cargo handling which came to more than a half million tons in the past year, eclipsing pre-pandemic levels and pointing towards a full recovery in HAS cargo levels.

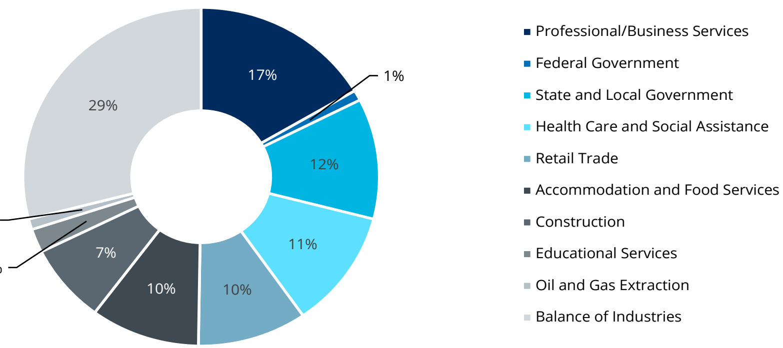
Y-O-Y CHANGE IN JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

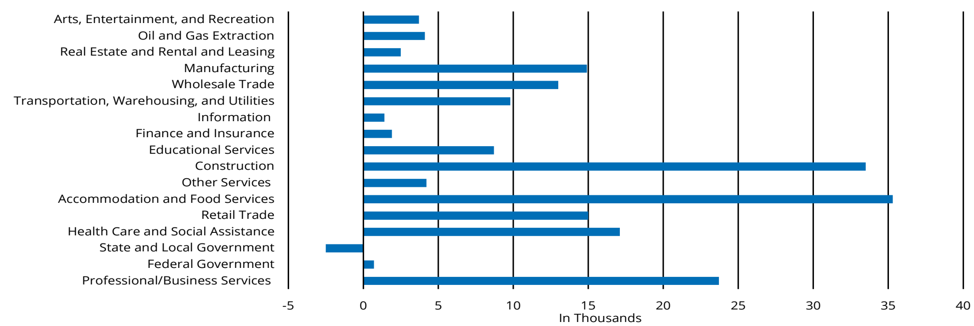
Houston | August 2022



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Houston | August 2022



Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

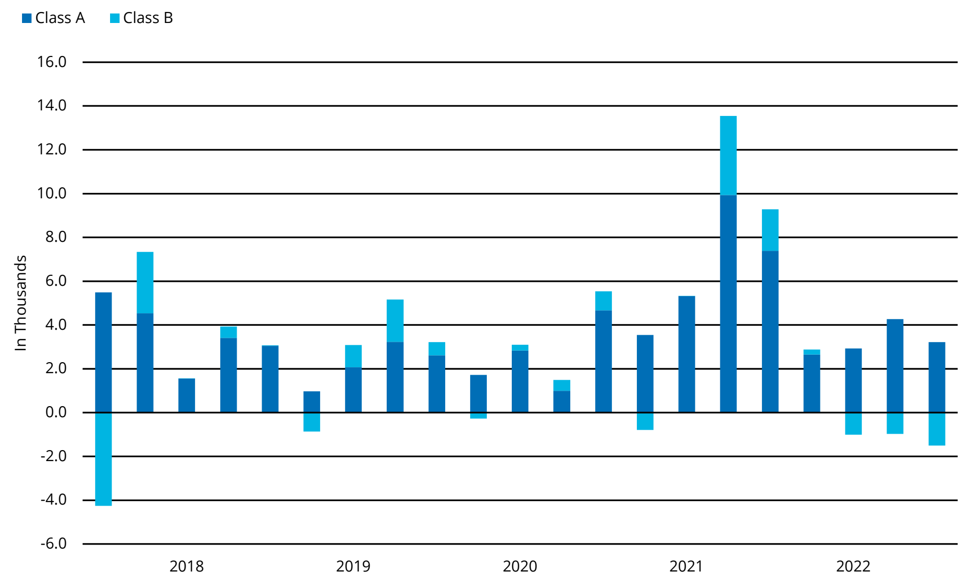
Newly Built Class A Units Drawing Greater Share of Demand

- Rounding out the third period of the year, overall market absorption remained positive with a net total of 743 units occupied by new tenants, but down noticeably Q2 2022 when tenants took keys to 3,185 apartment homes. The weakened demand is even more telling when looking at the same period last year: more than 11,800 units were absorbed in Q3 2021, or a shrinkage of nearly 94 percent.

- Focusing on the top two classifications of space, Class A and Class B, respectively, there were repeated trends that have been seen throughout the metro during 2022. Class A showed strong net absorption this quarter totaling 3,213 units. This figure was off by just over 4K units this time last year even as tenant demand consistently scored in the black during the past 12 months. Class B properties yielded a third consecutive quarter in a row of negative absorption as tenants moved out of more than 1,500units for the quarter and -nearly 3,500 year-to-date. Throughout Houston, Class B occupiers are showing a tendency to trade up to newly completed Class A properties, mainly in the suburbs, despite the increased costs. Property amenities are the main draw, especially as the work-from-home trend is here to stay.

- Four submarkets posted positive net absorption greater 300 units over the 90-day period. These include Montrose/ Museum/ Midtown (475 units), Conroe North/ Montgomery (358 units), Heights/ Washington Ave (321 units) and Katy/ Cinco Ranch/ Waterside (321 units). All four submarkets should look familiar as the respective submarkets posted the largest gains during the second reporting period 2022 as well.

NET ABSORPTION BY CLASS



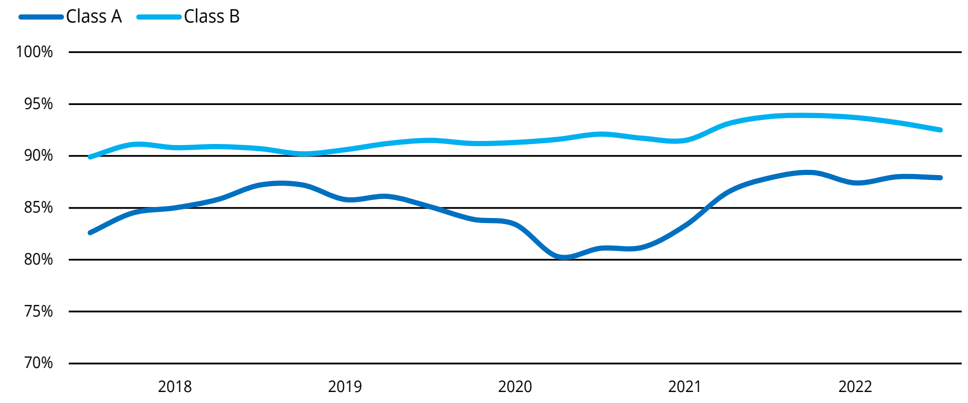
Source: Apartment Data Services, Transwestern

OCCUPANCY

Rates Step Back, Primarily in the Suburbs

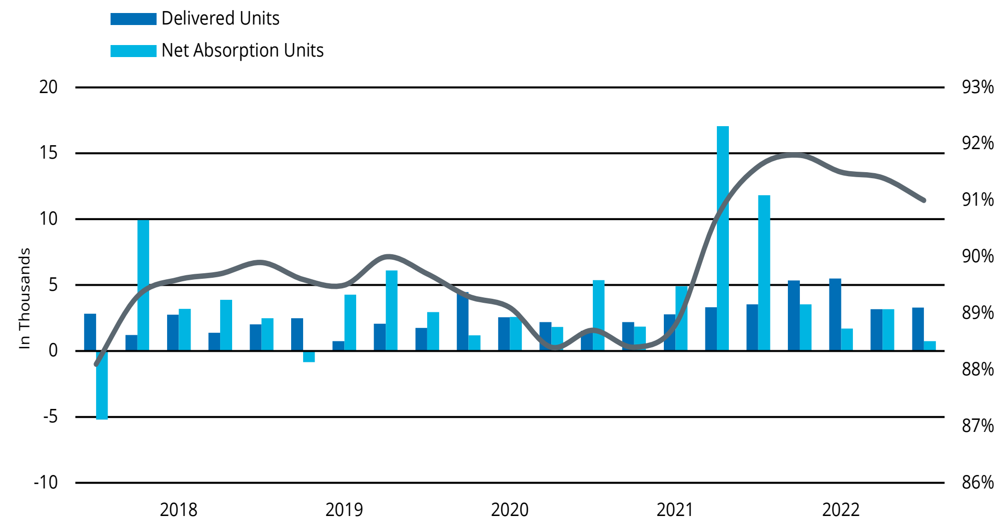
- Overall metro occupancy this period was 91 percent, a stutter downward for both quarter-over-quarter and year-over-year rates which registered 91.4 percent and 91.6 percent, respectively.
- Both Class A and Class B properties showed decreased occupancy at the end of the 90-day period with Class A occupancy being marked at 87.9 percent, a decrease of 10 basis points from previous quarter, and Class B occupancy registering at 92.5 percent, a decrease of 70 basis points over the previous quarter.
- The lowered occupancy for all space can be attributed to the increased rate of new construction starts coupled with quarterly projects deliveries. Multifamily Real Estate News recently ranked Houston as fifth for new project deliveries throughout the U.S. with an estimated 17.7K units slated for 2022.
- Four submarkets showed increases in occupancy greater than 10 percent quarter-over-quarter: Conroe North/ Montgomery (12.5%), Montrose/ Museum/ Midtown (12.0%), Almeda/ South Main (12.0%) and Richmond/ Rosenberg (10.3%), mostly driven by move-ins in newly delivered properties.
- On the other side of the spectrum, five submarkets posted negative occupancy growth of more than 5 percent quarter-over-quarter: Downtown (-12.1%), Beltway 8 / I-45 South (-10.1%), Woodlake/ Westheimer (-8.5%), Bear Creek/ Copperfield/ Fairfield (-8.5%), Clear Lake/ Webster/ League City (-7.8%). The spot market softness is tied to seasonal activity which normally occurs in the second half of the third quarter more prominent in suburban submarkets.

OVERALL OCCUPANCY RATE BY CLASS



Source: Apartment Data Services, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



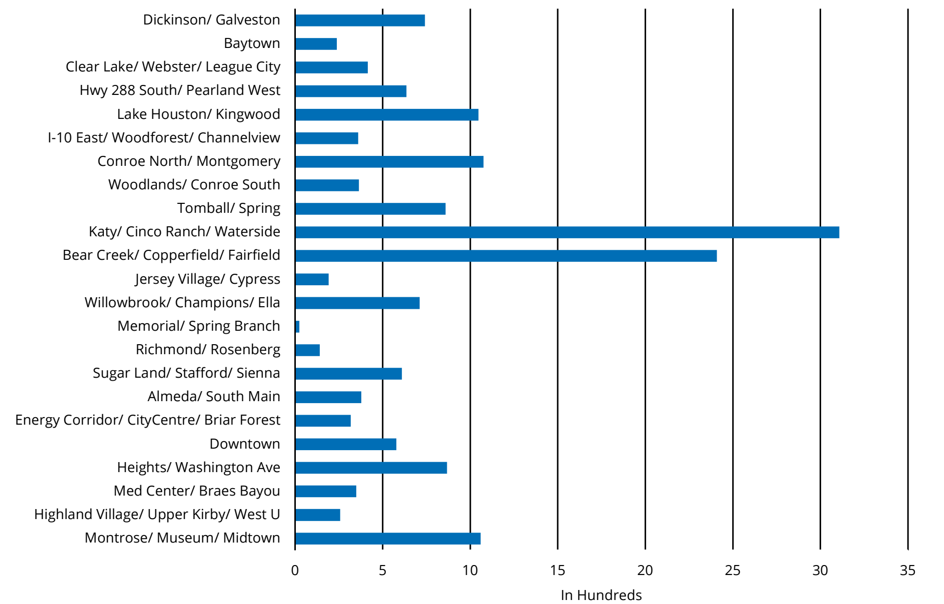
Source: Apartment Data Services, Transwestern

UNDER CONSTRUCTION

Urban High Rises To Commence Move-Ins Next Year

- Construction completions spanned across the metro during the third quarter, totaling 3,296 units with large project deliveries in Woodlands/ Conroe South (513 units), Katy/ Cinco Ranch/ Waterside (439 units), Conroe North/ Montgomery (365 units). Projects currently underway now total an approximate 16.7K units.
- Occupancy for recently opened properties measured an average of 10.7 percent, or 352 units of total Q3 2022 completions. Currently, Houston metro has nearly 16,750 units in the construction pipeline.
- Houston had three prominent Class A project deliveries this period: Modera Six Pines, containing 429 units in Woodlands/ Conroe South which had move-ins begin in July 2022, Starling At Bridgeland featuring 358 units in Bear Creek/ Copperfield/ Fairfield submarket and had move-ins beginning in September 2022, and the Remy On The Trails delivering to market with 330 units in Energy Corridor/ CityCentre/ Briar Forest submarket.
- The three largest properties under construction include the Resia Ten Oaks (576 units), a high rise in Northwest Houston in Katy/ Cinco Ranch/ Waterside with move-ins scheduled for January 2024, Second, Modera Waugh (395 units), a high rise in Montrose/ Museum/ Midtown with move-ins scheduled for August 2023, and lastly, The Vic at Park Row, a 382-unit project in Katy/ Cinco/ Waterside which has an estimated move-in date of May 2023.

UNDER CONSTRUCTION



Source: Apartment Data Services, Transwestern

UPCOMING CLASS A PROPERTY DELIVERIES

PROJECT NAME	SUBMARKET	# OF UNITS	EST. COMPLETION
Resia Ten Oaks	Katy/ Cinco Ranch/ Waterside	576	Q1 2024
Birchway Perry Road	Willowbrook/ Champions/ Ella	462	Q2 2023
Birchway Spring Cypress	Memorial/ Spring Branch	420	Q2 2023
Modera Waugh	Bear Creek/ Copperfield/ Fairfield	395	Q3 2023
Vic At Park Row	Energy Corridor/ CityCentre/ Briar Forest	382	Q2 2023

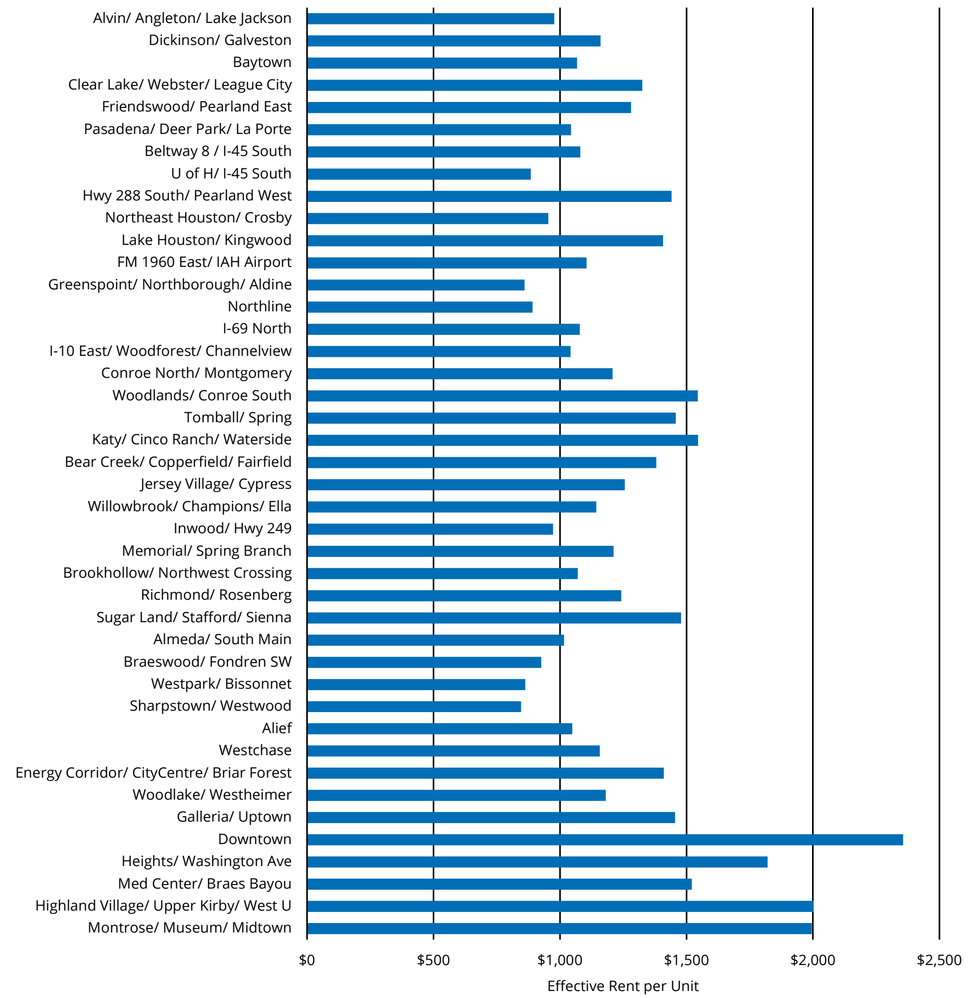
Source: Apartment Data Services, Transwestern

RENTAL RATES

Rents Gains Seen in 81% of Metro Area During Q3 2022

- Annual apartment metro-wide rents averaged $1,261 per month at the end of the third quarter, rising from $1.40/PSF/MO to $1.42/PSF/MO, 1.4 percent increase quarter-over-quarter, and an 8.8 percent leap from the same period last year.
- Rents grew in 34 out of the 42 submarkets throughout Houston. Five submarkets displayed higher rents by more than five percent: I-69 North (5.8%), U of H/ I-45 South (5.7%), Downtown (5.5%), Northeast Houston/ Crosby (5.0%) and Friendswood/ Pearland East (5.0%).
- On the flip side, the remaining eight submarkets showing negative rent growth over the 90-day period: Galleria/ Uptown (-2.9%), Alvin/ Angleton/ Lake Jackson (-1.8%), Heights/ Washington Ave (-1.0%), Sugar Land/ Stafford/ Sienna (-0.7%), Energy Corridor/ CityCentre/ Briar Forest (-0.3%), Highland Village/ Upper Kirby/ West U (-0.2%), Jersey Village/ Cypress (-0.2%) and Woodlands/ Conroe South (-0.2%). One thing to note about the group, all eight submarkets have experienced annual rental rate increases over five percent with two of the submarkets, Alvin/ Angleton/ Lake Jackson and Woodlands/ Conroe, having overall annual increases above ten percent.
- Houston's Inner Loop submarkets continue to command some of the highest per unit rates with Downtown's being the highest at $2,356/ MO and is followed closely by Highland Village/ Upper Kirby/ West U ($2,002/MO), Montrose/ Museum/ Midtown ($1,995/MO) and Heights/ Washington Ave ($1,821/MO). While Highland Village/ Upper Kirby / West U and Heights/ Washington sputtered slightly over the past 90-day period, marking their first signs of rental rate softening since 2020.

ASKING RENT



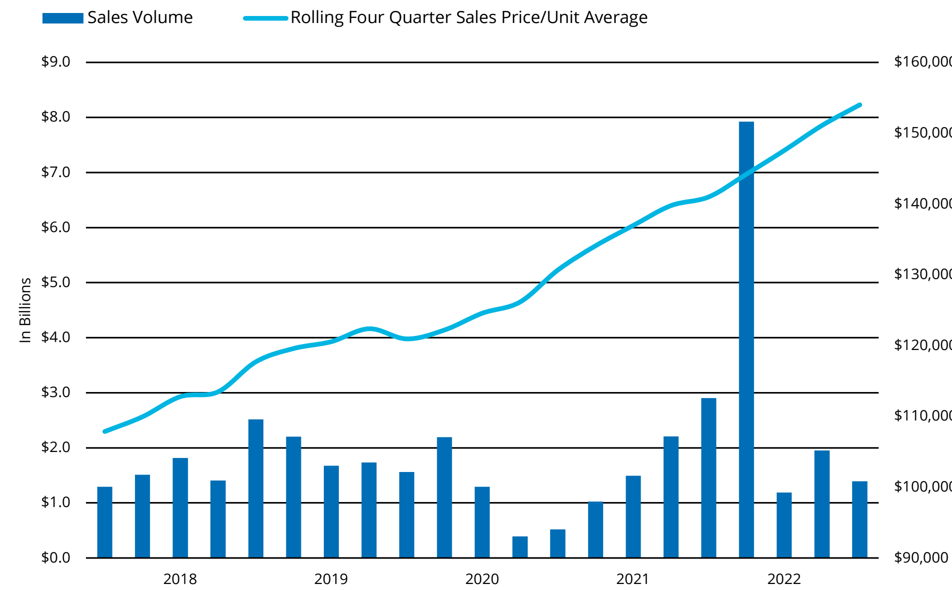
Source: Apartment Data Services, Transwestern

SALES

Investors Mainly Selling in Q3 2022

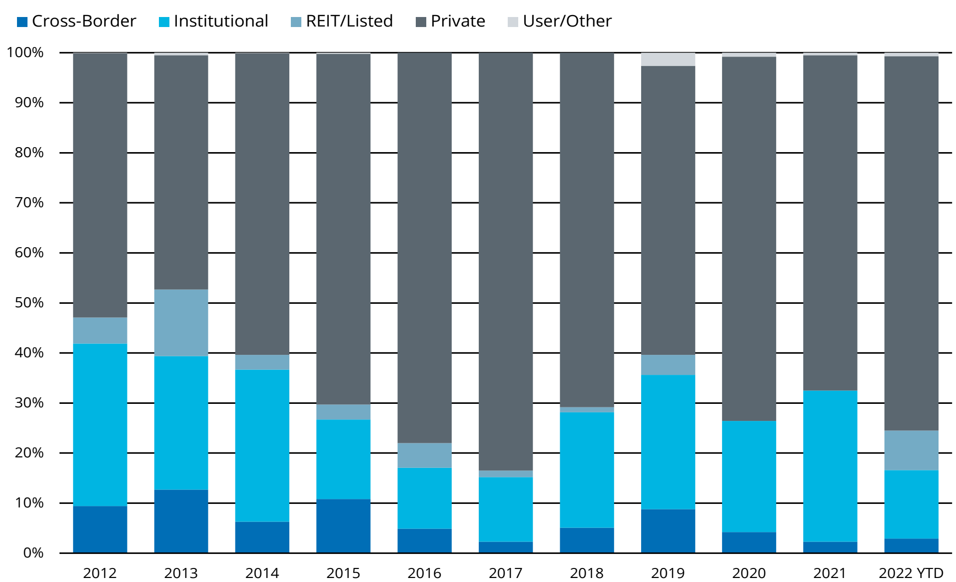
- Investors completed 37 Houston area multifamily property trades during the third quarter with acquisitions averaging $154,790 per unit, a fractional decrease of roughly 20 basis points from the previous period of $155,140 in Q2 2022.
- Dispositions in Q2 2022 were once again dominated during the third period with institutional, private investors and REITs finishing net negative. Institutional investors disposed a net total of $502.9 million worth of assets and currently sit at well over $1 billion in net sales for the year. The private sector had the second highest total for net dispositions of $149 million for the quarter and nearly $200 million of net dispositions for the year. REITs rounded the period with a total of $81.1 million in net sales and marking a quarter-over-quarter strategy change from the second period when REITs showed to be the only net purchasers of assets.
- The one net purchaser of assets for the quarter, international investors, shifted their focus on portfolio strategy and finished the third period with total net gains of $93.9 million. This investor group remains in the red overall for the year, though, and still has a year-to-date total net sales of $216.5 million.
- Two noteworthy property trades were announced during the quarter, S2 Capital, a value-add multifamily investment firm, acquired Pearce on the Lake (formally, Hidden Lake Apartments) in the Clear Lake/ Webster/ League City submarket. The Class-B, 440-unit property, renovated in 2015, is located at the corner of Egret Bay Blvd. and Henderson Ave., and had a 94 percent occupancy at the close of the third quarter. A second property trade worth mentioning was by Civicap Partners, a private investment and development firm, purchased Metro Midtown in the Montrose/ Museum/ Midtown submarket. The Class-A, 419-unit property, completed in 1998 and renovated in 2019, is located at the corner of Baby St. and Webster St., and also reported a 94 percent occupancy at the end of third quarter.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern

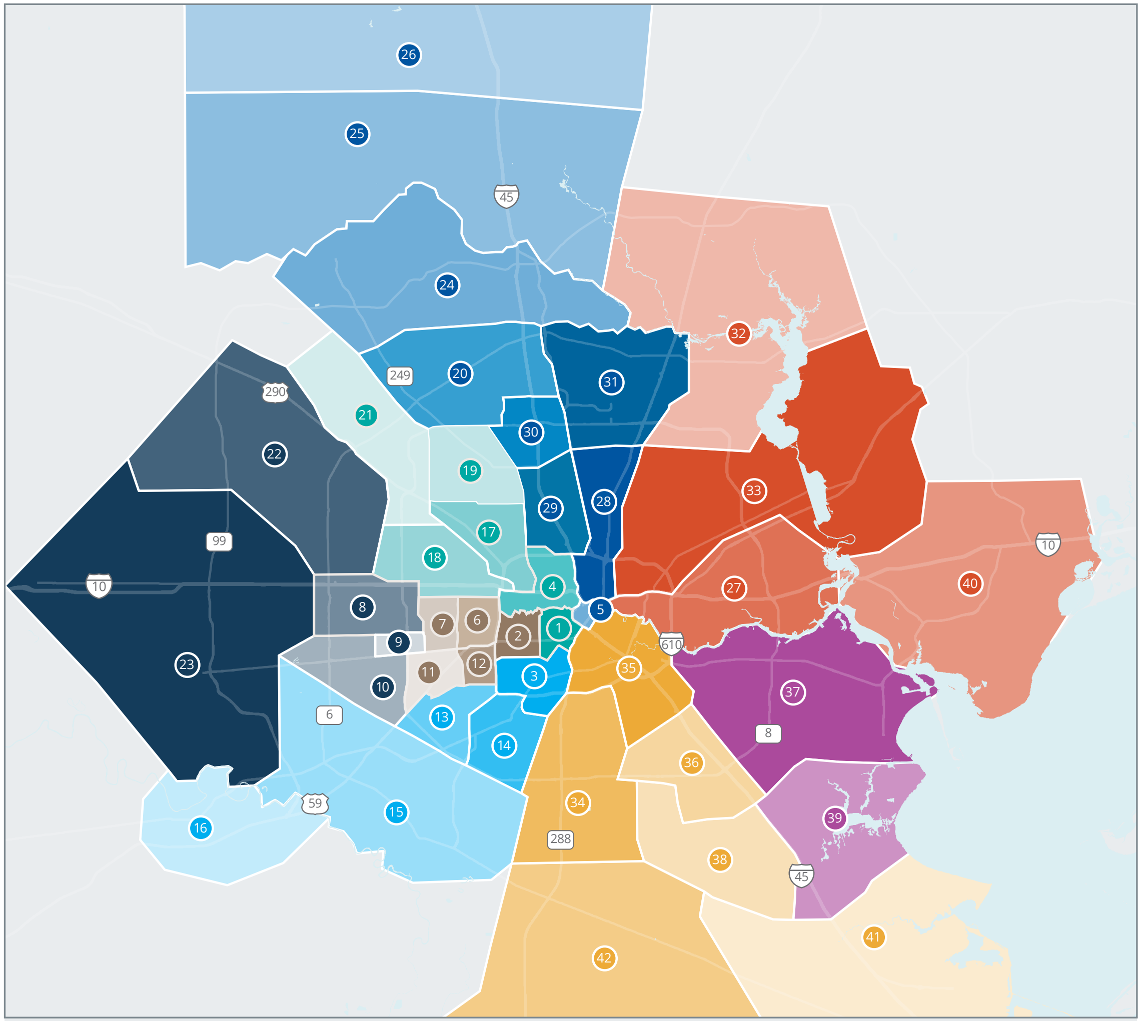
HOUSTON MULTIFAMILY MARKET INDICATORS

SUBMARKET (# CORRESPONDS TO MAP, PG 10)	# OF APT. COMMUNITIES	# OF APT. UNITS	OCCUPANCY	NET ABSORPTION UNITS	AVERAGE EFFECTIVE RENT	% CHANGE YOY	UNITS UNDER CONSTRUCTION
1. MONTROSE/ MUSEUM/ MIDTOWN	73	18,024	90.8%	475	$1,997	5.8%	1,060
2. HIGHLAND VILLAGE/ UPPER KIRBY/ WEST U	67	18,909	92.2%	84	$1,974	7.2%	257
3. MED CENTER/ BRAES BAYOU	85	25,261	91.5%	-108	$1,477	7.9%	350
4. HEIGHTS/ WASHINGTON AVE	72	17,730	89.0%	321	$1,821	6.6%	867
5. DOWNTOWN	28	7,230	79.7%	99	$2,304	10.1%	578
6. GALLERIA/ UPTOWN	104	24,791	91.2%	-181	$1,466	7.3%	-
7. WOODLAKE/ WESTHEIMER	38	12,526	90.6%	-263	$1,164	6.0%	-
8. ENERGY CORRIDOR/ CITYCENTRE/ BRIAR FOREST	108	33,697	91.2%	-159	$1,386	7.9%	318
9. WESTCHASE	48	14,927	90.4%	-118	$1,139	7.8%	-
10. ALIEF	113	27,569	92.3%	-111	$1,034	11.4%	-
11. SHARPSTOWN/ WESTWOOD	106	25,538	93.9%	4	$836	10.2%	-
12. WESTPARK/ BISSONNET	56	16,766	94.0%	59	$869	8.3%	-
13. BRAESWOOD/ FONDREN SW	83	21,975	90.7%	-111	$923	9.2%	-
14. ALMEDA/ SOUTH MAIN	26	4,973	92.9%	140	$1,012	6.3%	378
15. SUGAR LAND/ STAFFORD/ SIENNA	66	15,732	92.7%	70	$1,450	6.5%	610
16. RICHMOND/ ROSENBERG	33	5,731	91.8%	126	$1,229	7.6%	141
17. BROOKHOLLOW/ NORTHWEST CROSSING	98	21,892	90.7%	-89	$1,063	7.8%	-
18. MEMORIAL/ SPRING BRANCH	119	24,610	90.6%	295	$1,202	9.8%	25
19. INWOOD/ HWY 249	30	5,730	93.4%	-53	$952	11.5%	-
20. WILLOWBROOK/ CHAMPIONS/ ELLA	162	40,882	91.7%	-136	$1,127	9.0%	712
21. JERSEY VILLAGE/ CYPRESS	67	16,284	92.0%	70	$1,248	8.4%	192
22. BEAR CREEK/ COPPERFIELD/ FAIRFIELD	69	18,762	91.1%	-83	$1,353	9.5%	2408

HOUSTON MULTIFAMILY MARKET INDICATORS

SUBMARKET (# CORRESPONDS TO MAP, PG 10)	# OF APT. COMMUNITIES	# OF APT. UNITS	OCCUPANCY	NET ABSORPTION UNITS	AVERAGE EFFECTIVE RENT	% CHANGE YOY	UNITS UNDER CONSTRUCTION
23. KATY/ CINCO RANCH/ WATERSIDE	128	36,105	89.7%	321	$1,519	7.5%	3,108
24. TOMBALL/ SPRING	76	18,916	92.8%	-61	$1,417	9.2%	859
25. WOODLANDS/ CONROE SOUTH	79	22,246	91.7%	-37	$1,526	10.4%	365
26. CONROE NORTH/ MONTGOMERY	60	11,417	90.7%	358	$1,261	8.3%	1,076
27. I-10 EAST/ WOODFOREST/ CHANNELVIEW	61	12,526	88.9%	-35	$1,023	9.1%	360
28. I-69 NORTH	30	4,711	87.5%	-5	$1,033	14.5%	-
29. NORTHLINE	51	6,693	91.9%	61	$882	7.0%	-
30. GREENSPOINT/ NORTHBOROUGH/ ALDINE	68	17,567	89.6%	89	$861	7.8%	-
31. FM 1960 EAST/ IAH AIRPORT	48	9,274	94.3%	-52	$1,099	10.4%	-
32. LAKE HOUSTON/ KINGWOOD	72	17,567	91.9%	-28	$1,377	9.7%	1,047
33. NORTHEAST HOUSTON/ CROSBY	22	3,392	90.3%	-14	$935	8.6%	-
34. HWY 288 SOUTH/ PEARLAND WEST	53	13,419	90.5%	136	$1,440	6.4%	636
35. U OF H/ I-45 SOUTH	118	18,989	92.6%	-4	$883	9.7%	-
36. BELTWAY 8 / I-45 SOUTH	49	13,714	89.0%	-313	$1,060	9.2%	-
37. PASADENA/ DEER PARK/ LA PORTE	127	24,201	91.1%	-157	$1,031	10.6%	-
38. FRIENDSWOOD/ PEARLAND EAST	33	6,405	90.1%	57	$1,258	12.1%	-
39. CLEAR LAKE/ WEBSTER/ LEAGUE CITY	102	25,803	90.2%	-144	$1,291	7.6%	415
40. BAYTOWN	59	11,207	90.2%	-38	$1,061	8.8%	238
41. DICKINSON/ GALVESTON	81	12,741	91.8%	60	$1,157	8.3%	742
42. ALVIN/ ANGLETON/ LAKE JACKSON	74	12,348	81.8%	218	$1,044	10.8%	-
GREATER HOUSTON TOTALS	**3,042**	**718,780**	**91.0%**	**743**	**$1,261**	**8.8%**	**16,742**

Source: Apartment Data Services, Transwestern



- 1 Montrose/Museum/Midtown
- 2 Highland Vlg/Upper Kirby/West U
- 3 Med Center/Braes Bayou
- 4 Heights/Washington Ave
- 5 Downtown
- 6 Galleria/Uptown
- 7 Woodlake/Westheimer
- 8 Energy Corridor/CityCentre/Briar Forest
- 9 Westchase
- 10 Alief
- 11 Sharpstown/Westwood
- 12 Westpark/Bissonnet
- 13 Braeswood/Fondren SW
- 14 Almeda/South Main
- 15 Sugar Land/Stafford/Sienna
- 16 Richmond/Rosenberg
- 17 Brookhollow/Northwest Crossing
- 18 Memorial/Spring Branch
- 19 Inwood/Hwy 249
- 20 Willowbrook/Champions/Ella
- 21 Jersey Village/Cypress
- 22 Bear Creek/Copperfield/Fairfield
- 23 Katy/Cinco Ranch/Waterside
- 24 Tomball/Spring
- 25 Woodlands/Conroe South
- 26 Conroe North/Montgomery
- 27 I-10 East/ Woodforest/Channelview
- 28 I-69 North
- 29 Northline
- 30 Greenspoint/Northborough/Aldine
- 31 FM 1960 East/IAH Airport
- 32 Lake Houston/Kingwood
- 33 Northeast Houston/Crosby
- 34 Hwy 288 South/Pearland West
- 35 U of H/I-45 South
- 36 Beltway 8/I-45 South
- 37 Pasadena/Deer Park/La Porte
- 38 Friendswood/Pearland East
- 39 Clear Lake/ Webster/League City
- 40 Baytown
- 41 Dickinson/Galveston
- 42 Alvin/ Angleton/Lake Jackson

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Houston metropolitan area. This report includes Class A and Class B multifamly properties and analyzes all leasing and representative investment sales activity.

FOR MORE INFORMATION

Robert Kramp

Vice President
Research & Investment Analytics
Robert.Kramp@transwestern.com
713.270.3346

Harrison Owens

Analyst
Research & Investment Analytics
Harrison.Owens@transwestern.com
713.270.3338

Chris Trimble

Analyst
Research & Investment Analytics
Chris.Trimble@transwestern.com
713.270.4331

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