



TRANSWESTERN

HOUSTON MULTIFAMILY MARKET

Q4 2022



TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (%)	4.3	5.7	↓	5.6	↑
NET ABSORPTION (Units)	(767)	3,548	↓	4,144	↔
OCCUPANCY RATE (%)	90.6%	91.8%	↓	89.9%	↔
UNITS (Total)	720,599	704,812	↑	679,485	↑
EFFECTIVE RENT (Unit)	\$1,250	\$1,184	↑	\$1,095	↔
SALES VOLUME (Millions)	\$655	\$7,924	↓	\$1,883.9	↓

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

NET ABSORPTION SLIPS INTO THE RED DURING FINAL QUARTER

Overall multifamily market absorption slumped for the first time since 2018. The negative growth totaled 767 units, off from the increase of occupied units in Q3 2022 which was a net rise of 743 apartment homes at the time. Likewise, occupancy stepped by 40 basis points during the closing quarter of 2022. Softening areawide demand combined with an influx of new supply pushed most submarket vacancies higher, and total rent growth slowed in turn by 90 basis points this quarter.

The sluggish final quarter of the year is expected to be a temporary setback as the local population growth and new jobs outlook for 2023 are both forecasted to be steady even in the light of an uncertain U.S. economy. Likewise, the longer-term projections for the U.S. multifamily market mirror Houston's. In the Winter 2022-2023 Linneman Letter released in December, industry analysts noted that U.S. multifamily demand growth to be 1.3 million units through 2026 in aggregate and that nation will have a shortage of approximately 760,000 vacant units (below normal vacancy levels) by year-end 2023.

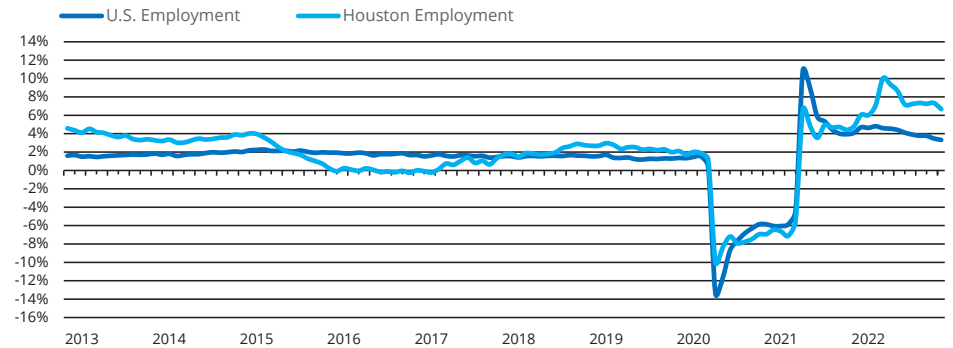


ECONOMY

Sizeable Growth Foreseen in 2023 Despite Headwinds

- Metro Houston added 14,500 new jobs in November 2022, according to data released during December by the Texas Workforce Commission (TWC). This falls behind seasonal expectations for the month when the region normally creates 15,000 or more in November, hinting that a slowdown in job growth is gradually on the way. As a result, Houston created approximately 158,400 jobs through the first 11 months of this year, however, expectations are the employment data will be noticeably revised downward in January with the year-end total. Even with substantial revisions, though, 2022 should finish with near-record job growth and employment at an all-time high topping 3.3 million.
- The Greater Houston Partnership (GHP) forecasts the Houston region will see significant job growth in the year ahead, but just how much growth and in what sectors is heavily dependent on whether the U.S. slips into a recession in 2023 and the subsequent depth and longevity of that downturn. In its baseline forecast, Houston experiences a short and shallow recession in the first half of 2023, with growth resuming in the third quarter. The resulting outlook for the new year, then, is that it would likely mean a net gain of approximately 60,800 jobs - a bit shy of the region's long-term average of 65,000 to 70,000 new payrolls annually, but still significant growth.
- The labor market proved to be a resilient stabilizer in 2022 for a U.S. economy facing the highest inflation in four decades. On a local level, Houston's metro unemployment was 4.1 percent in November, down from 5.4 percent over a year ago and declined steadily since peaking in April 2020. In its most recent full release, Houston's core inflation rate was 7.6 percent over the year according to the U.S. Bureau of Labor Statistics, outpaced by the U.S. November 2022 figure of 6.0 percent. Houston's core rate continues to track above that of the U.S. mainly due to higher local prices for everyday items, such as groceries and restaurant meals, with smaller prices for housing, apparel, and vehicles.

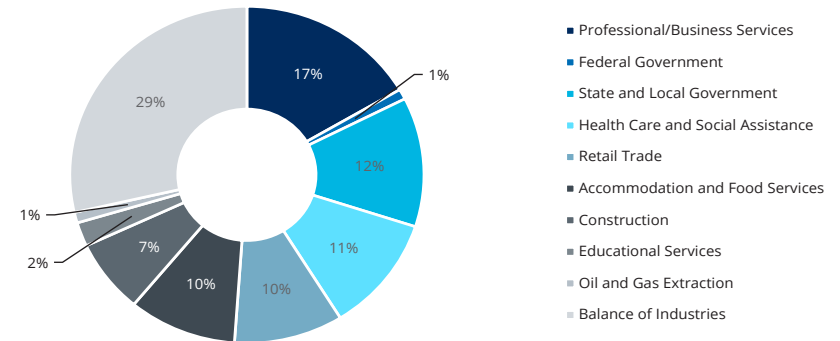
Y-O-Y CHANGE IN JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

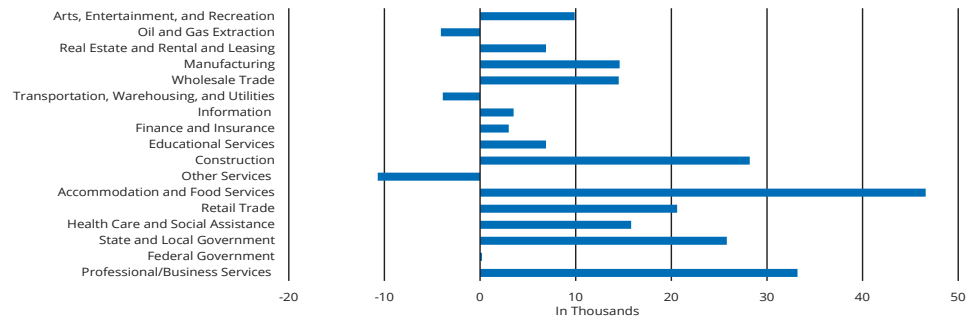
Houston | November 2022



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Houston | November 2022



Source: Bureau of Labor Statistics, Transwestern

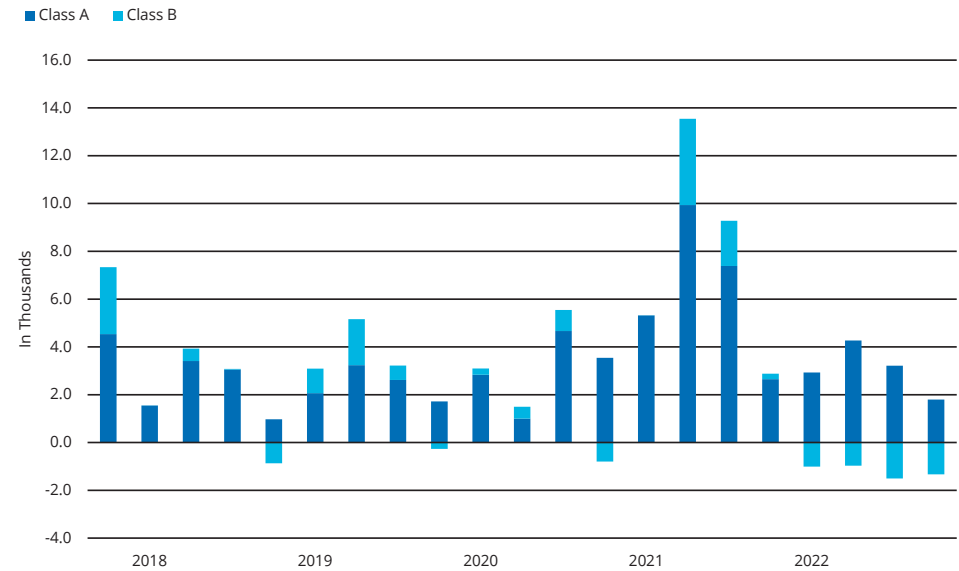


NET ABSORPTION

Cooler Demand, New Supply Damper Total Absorption in Q4 2022

- Rounding out the final period of the year, overall market absorption slumped for the first time since 2018. The negative growth totaled 767 units, off from the increase of occupied units in Q3 2022 which was a net rise of 743 apartment homes at the time. Likewise, occupancy stepped down by 40 basis points during the closing quarter of 2022.
- Five submarkets, though, experienced notable comparative growth this quarter with absorption exceeding more than 100 units in the past 90 days. These include urban and suburban communities. In descending order these submarkets are Alvin/ Angleton/ Lake Jackson (190 units), Katy/ Cinco Ranch/ Waterside (174 units), Montrose/ Museum/ Midtown (131 units), Sharpstown/ Westwood (102 units) and
- Seven submarkets posted significant net absorption losses of 100 units or higher this quarter. The largest were near a 200-unit level or higher and include: Willowbrook/ Champions/ Ella (retreating by 461 units), Pasadena/ Deer Park/ La Porte (218 units) and Alief (197 units).
- Softening areawide demand combined with an influx of new supply pushed most submarket occupancies lower, and total rent growth slowed in turn by 90 basis points this quarter. Meanwhile, it is getting easier to find an apartment for renters in all regions of the country, with the national vacancy rate increasing to 5.9 percent, according to the National Rent Report released by Apartment List for the largest 100 U.S. cities.

NET ABSORPTION BY CLASS



Source: Apartment Data Services, Transwestern

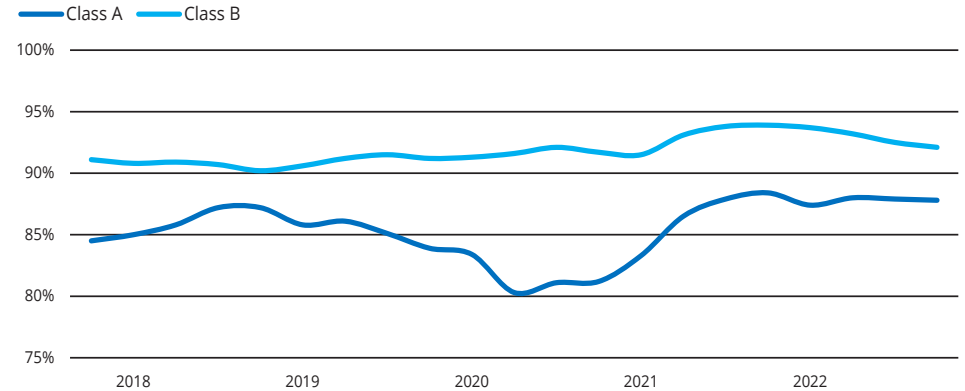


OCCUPANCY

Houston Apartment Demand Sagged in Final Quarter

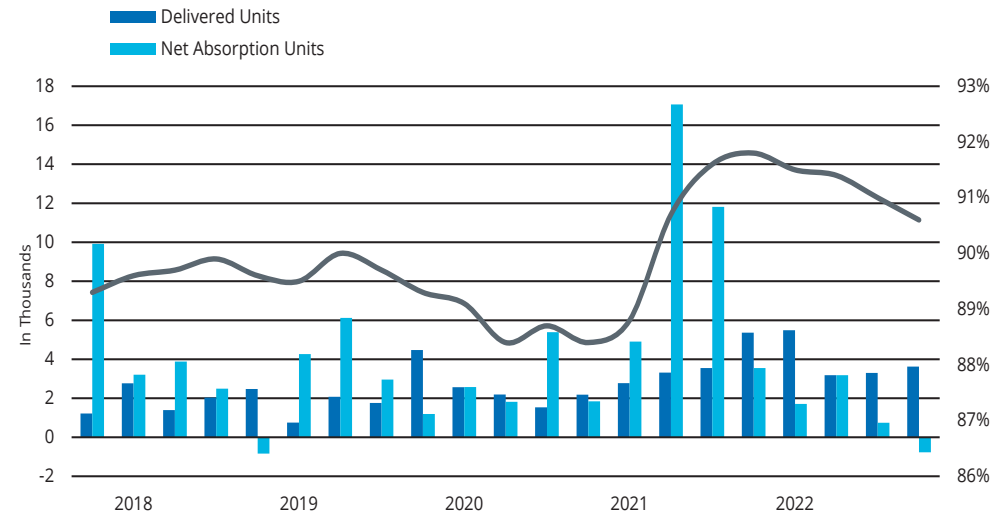
- Houston’s overall metro occupancy at year-end was 90.6 percent, another slight decline over the third quarter and a notable year-over-year decline of 1.2 percent. Houston has followed the prevailing nationwide trend, with demand for new apartment leases softening as 2022 came to a close. Analysts point to the combination of low consumer confidence levels and rising inflation, according to the latest data from RealPage.
- 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 87.8 percent, a decrease of 10 basis points from previous quarter, and Class B occupancy registering at 92.1 percent, a decrease of 40 basis points over the previous quarter.
- Eleven submarkets showed increases in occupancy this quarter. The largest gains were seen in Downtown and Brookhollow/ Northwest Crossing (both registering a rise of 1.5%) and Friendswood/ Pearland East and Alvin/ Angleton/ Lake Jackson (1.1% each respectively) followed by Montrose/ Museum/ Midtown (70 basis points). A combination of positive absorption and new construction helped boost area occupancy throughout these five submarkets.
- On the other side of the spectrum, ten submarkets posted negative occupancy growth of more than 100 basis points percent quarter-over-quarter. The three with the most notable drops include: I-69 North losing three percent, Northeast Houston/ Crosby and Beltway 8/ I-45 South each falling back 1.7 percent, respectively. While these submarkets are characterized primarily by Class B properties, the drop in demand this quarter came across all price points and in markets with both a concentration of Class A and B multifamily communities as well as in urban and suburban areas.

OVERALL OCCUPANCY RATE BY CLASS



Source: Apartment Data Services, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: Apartment Data Services, Transwestern

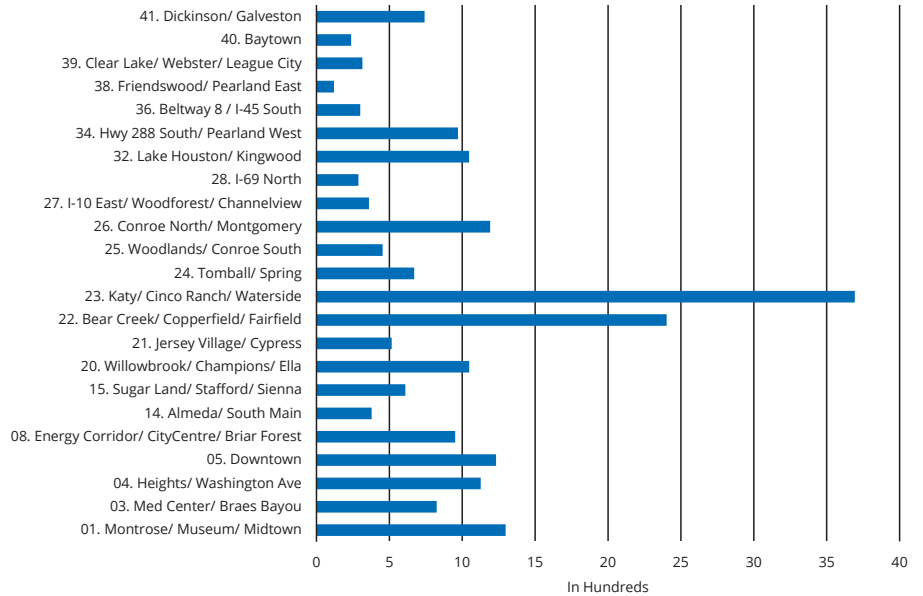


UNDER CONSTRUCTION

Deliveries Kept Slower Pace with Q3 2022 Results

- Construction completions mirrored the rate approximately totaling those in the third quarter and spanned across the metro, totaling 3,628 units with large project deliveries in Bear Creek/ Copperfield/ Fairfield (697 units), Clear Lake/ Webster/ League City (615 units), Katy/ Cinco Ranch/ Waterside (489 units). Projects currently underway now total an approximate 20.7K units.
- Occupancy on recently delivered properties registered at an average of 8.5 percent, or 308 units of the total Q4 2022 completions. Currently, Metro Houston has nearly 20,780 units in the construction pipeline, increasing from the previous quarter’s 16,750 units total construction pipeline.
- Houston had three prominent project deliveries this period: Ascend at Brittmoore, containing 361 units in Memorial/ Spring Branch which had move-ins begin in December 2022, Prose Copperfield featuring 361 units in Bear Creek/ Copperfield/ Fairfield and had move-ins beginning in October 2022, and Highmark delivering to market with 336 units in Bear Creek/ Copperfield/ Fairfield submarket and saw move-ins begin October 2022.
- 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, X Houston (475 units), a high rise in Med Center/ Braes Bayou with move-ins scheduled for August 2024, and lastly, Birchway Perry Road (462 units), located in Willowbrook/ Champions/ Ella with a move-in date of spring to summer 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
X Houston	Med Center/ Braes Bayou	475	Q3 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

Source: Apartment Data Services, Transwestern

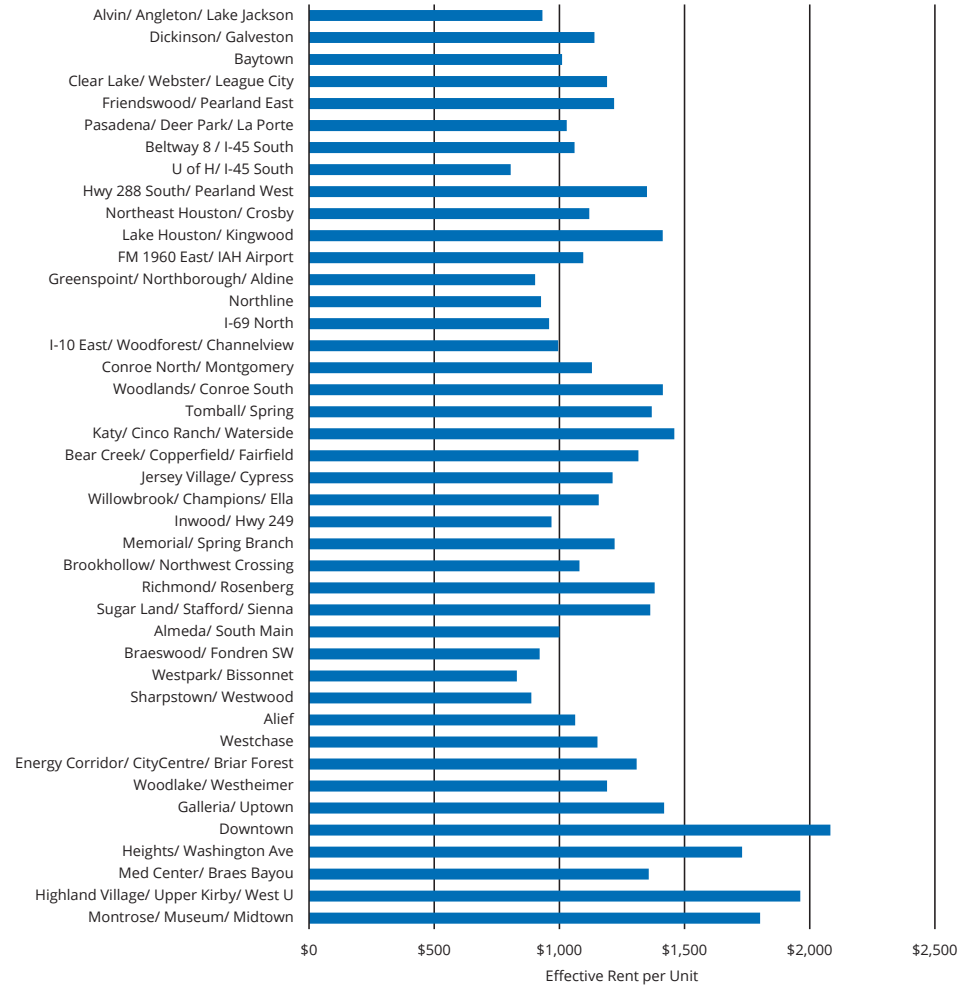


RENTAL RATES

1:3 Submarkets Experience Rent Contraction, Fueled by Cooldown in Leasing Activity

- Annual apartment metro-wide rents averaged \$1,250 per month at the end of the fourth quarter, falling from \$1.42/PSF/MO to \$1.40/PSF/MO, a decrease of 90 basis points quarter-over-quarter, but a 4.0 percent increase from the same period last year.
- Rents contracted in 28 out of the 42 submarkets throughout Houston. During the 90-day period, four submarkets experienced asking rents shrinking by more than nine percent: Alvin/ Angleton/ Lake Jackson (-10.7%), Conroe North/ Montgomery (10.4%), Montrose/ Museum/ Midtown (-9.8%), and Downtown (-9.6%). All four submarkets maintain positive year-over-year rental rate growth with Montrose/ Museum/ Midtown and Downtown being a leading indication of the cooling rental rate growth seen both in Houston and throughout the state of Texas. Metro Houston rent growth has started to realign with pre-pandemic numbers, a result that can be directly linked to falling demand, inflation, rising interest rates and an influx of supply due to increased new developments.
- Conversely, the remaining 14 submarkets showing positive rent growth over the 90-day period with four increasing by more than 5 percent: Northeast Houston/ Crosby (19.7%), Richmond/ Rosenberg (12.3%), Sharpstown Westwood (6.2%), and Northline (5.1%).

ASKING RENT



Source: Apartment Data Services, Transwestern

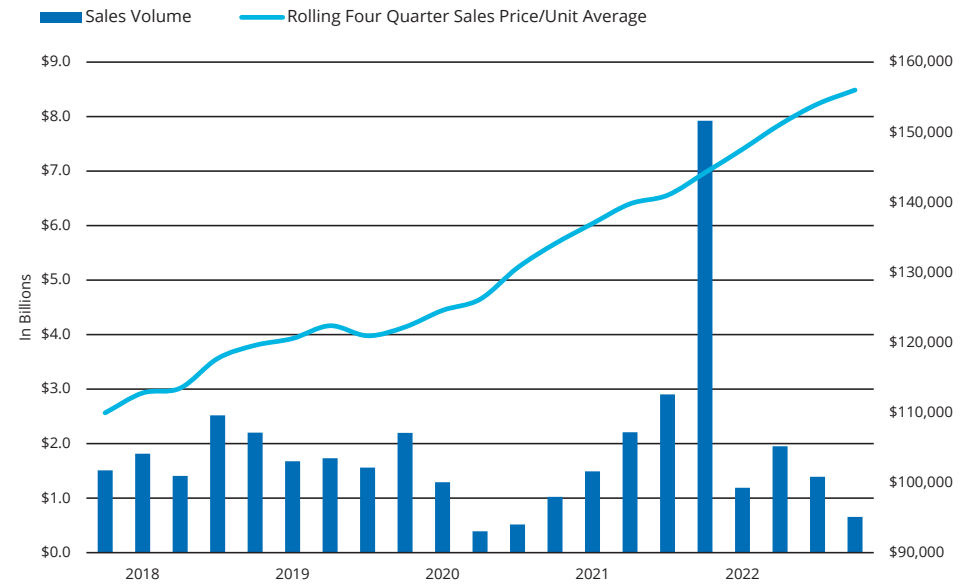


SALES

Houston Investors Active Net Sellers in Final Quarter

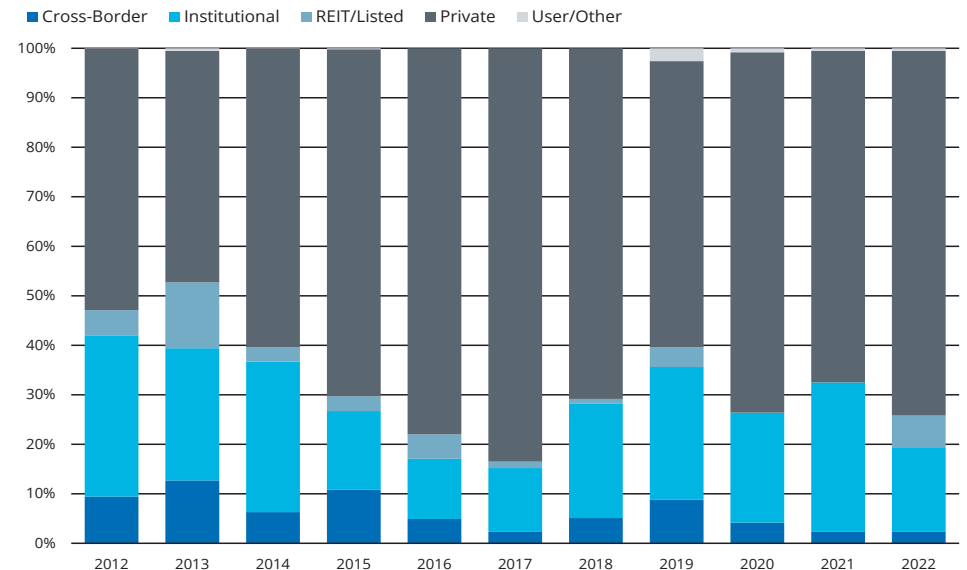
- Investors completed 24 Houston area multifamily property trades during the fourth quarter with acquisitions averaging \$159,927 per unit, roughly a 3.3 percent increase from the previous period of \$154,790 in Q3 2022.
- Dispositions defined the market activity for 2022 with institutional, international, and private investors selling just over a net \$2 billion worth of assets. Institutions purchased \$43.9 million worth of assets during the 90-period, though, they made up a majority of net negative year-end total with \$1.2 billion in dispositions. International investors clocked in at the second largest sellers for 2022, the investor group sold a net of \$155.2 million during the quarter and a net \$371.7 million throughout the year. Private investors also participated in net sell offs for both the quarter and the year with quarterly net dispositions hitting just over \$160 million and annual net dispositions adding up to just over \$355 million.
- REITs finished both the year and the quarter as a net purchaser, raking in a quarterly net gain of \$7.2 million coupled with an annual net gain of \$365 million at year-end.
- Two noteworthy property trades were announced during the quarter, Berkshire Communities, a multifamily residential apartment investment group, acquired Falls At Eagle Creek in the Lake Houston/ Kingwood submarket. The Class-B, 412-unit property, built in 2008, is located at the corner of Sam Houston Tollway and Fall Creek View Dr, and had a 99 percent occupancy at the close of the fourth quarter. A second property trade worth mentioning was also by Berkshire Communities. The group acquired Falls at Copper Lake in the Bear Creek/ Copperfield/ Fairfield submarket. The Class-B, 374-unit property, completed in 2008 and rehabbed in 2017, is located at the corner of Farm to Market Rd W and Huffmeister Rd, and reported a 94 percent occupancy at the end of the fourth quarter.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



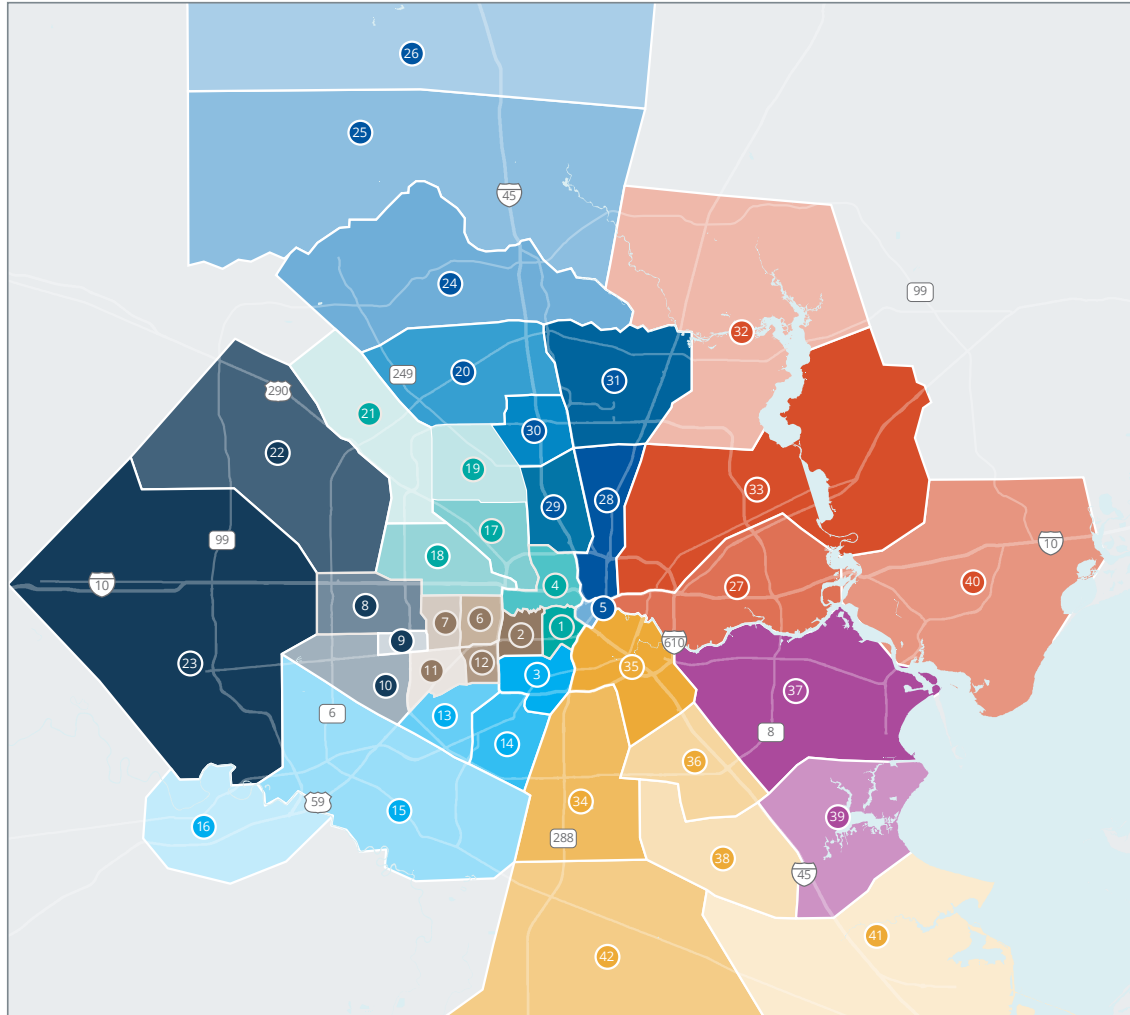
HOUSTON MULTIFAMILY MARKET INDICATORS

SUBMARKET (# CORRESPONDS TO MAP, PG 10)	# OF APT. COMMUNITIES	# OF APT. UNITS	OCCUPANCY	NET ABSORPTION UNITS	AVERAGE EFFECTIVE RENT	RENT % CHANGE YOY	UNITS UNDER CONSTRUCTION
1. MONTROSE/ MUSEUM/ MIDTOWN	73	18,024	91.5%	131	\$1,802	(9.8%)	1,298
2. HIGHLAND VILLAGE/ UPPER KIRBY/ WEST U	68	19,168	91.4%	68	\$1,962	(0.6%)	-
3. MED CENTER/ BRAES BAYOU	85	25,261	90.7%	(142)	\$1,357	(8.1%)	825
4. HEIGHTS/ WASHINGTON AVE	73	17,855	88.7%	71	\$1,730	(5.0%)	1,127
5. DOWNTOWN	28	7,230	81.2%	101	\$2,083	(9.6%)	1,232
6. GALLERIA/ UPTOWN	104	24,791	91.1%	(2)	\$1,419	(3.2%)	-
7. WOODLAKE/ WESTHEIMER	38	12,526	89.6%	(84)	\$1,190	2.3%	-
8. ENERGY CORRIDOR/ CITYCENTRE/ BRIAR FOREST	109	34,015	89.7%	(152)	\$1,309	(5.6%)	952
9. WESTCHASE	48	14,927	90.9%	75	\$1,152	1.1%	-
10. ALIEF	113	27,569	91.6%	(197)	\$1,063	2.8%	-
11. SHARPSTOWN/ WESTWOOD	106	25,538	94.3%	102	\$888	6.2%	-
12. WESTPARK/ BISSONNET	56	16,766	94.1%	22	\$830	(4.4%)	-
13. BRAESWOOD/ FONDREN SW	83	21,975	90.8%	27	\$921	(0.2%)	-
14. ALMEDA/ SOUTH MAIN	26	4,973	93.3%	21	\$1,000	(1.2%)	378
15. SUGAR LAND/ STAFFORD/ SIENNA	66	15,732	92.6%	1	\$1,363	(6.0%)	610
16. RICHMOND/ ROSENBERG	33	5,731	91.7%	(8)	\$1,381	12.3%	-
17. BROOKHOLLOW/ NORTHWEST CROSSING	98	21,892	91.2%	72	\$1,080	1.6%	-
18. MEMORIAL/ SPRING BRANCH	120	24,633	90.3%	(18)	\$1,221	1.6%	-
19. INWOOD/ HWY 249	30	5,730	93.7%	40	\$968	1.7%	-
20. WILLOWBROOK/ CHAMPIONS/ ELLA	162	40,882	90.1%	(461)	\$1,157	2.7%	1,048
21. JERSEY VILLAGE/ CYPRESS	67	16,284	91.6%	(61)	\$1,212	(2.9%)	516
22. BEAR CREEK/ COPPERFIELD/ FAIRFIELD	71	19,266	89.5%	64	\$1,316	(2.7%)	2,402



HOUSTON MULTIFAMILY MARKET INDICATORS

SUBMARKET (# CORRESPONDS TO MAP, PG 10)	# OF APT. COMMUNITIES	# OF APT. UNITS	OCCUPANCY	NET ABSORPTION UNITS	AVERAGE EFFECTIVE RENT	RENT % CHANGE YOY	UNITS UNDER CONSTRUCTION
23. KATY/ CINCO RANCH/ WATERSIDE	128	36,105	90.3%	174	\$1,459	(3.9%)	3,693
24. TOMBALL/ SPRING	77	19,105	92.1%	56	\$1,369	(3.4%)	670
25. WOODLANDS/ CONROE SOUTH	78	22,094	91.6%	(7)	\$1,413	(7.4%)	454
26. CONROE NORTH/ MONTGOMERY	60	11,417	90.2%	10	\$1,130	(10.4%)	1,191
27. I-10 EAST/ WOODFOREST/ CHANNELVIEW	61	12,526	88.2%	(123)	\$995	(2.7%)	360
28. I-69 NORTH	31	4,999	84.5%	94	\$959	(7.2%)	288
29. NORTHLINE	51	6,693	90.6%	(91)	\$927	5.1%	-
30. GREENSPPOINT/ NORTHBOROUGH/ ALDINE	68	17,569	89.3%	(16)	\$903	4.9%	-
31. FM 1960 EAST/ IAH AIRPORT	48	9,274	93.0%	(116)	\$1,095	(0.3%)	-
32. LAKE HOUSTON/ KINGWOOD	72	17,567	92.0%	20	\$1,413	2.6%	1,047
33. NORTHEAST HOUSTON/ CROSBY	22	3,392	88.6%	(56)	\$1,119	19.7%	-
34. HWY 288 SOUTH/ PEARLAND WEST	53	13,419	90.2%	(62)	\$1,350	(6.3%)	971
35. U OF H/ I-45 SOUTH	118	18,989	92.3%	(67)	\$805	(8.8%)	-
36. BELTWAY 8 / I-45 SOUTH	48	13,653	87.3%	-242	\$1,061	0.1%	300
37. PASADENA/ DEER PARK/ LA PORTE	127	24,201	89.9%	(218)	\$1,029	(0.2%)	-
38. FRIENDSWOOD/ PEARLAND EAST	33	6,405	91.2%	70	\$1,219	(3.1%)	120
39. CLEAR LAKE/ WEBSTER/ LEAGUE CITY	103	26,127	89.2%	14	\$1,190	(7.8%)	315
40. BAYTOWN	59	11,207	89.5%	(87)	\$1,011	(4.7%)	238
41. DICKINSON/ GALVESTON	81	12,741	91.7%	20	\$1,140	(1.5%)	742
42. ALVIN/ ANGLETON/ LAKE JACKSON	74	12,348	82.9%	190	\$932	(10.7%)	-
GREATER HOUSTON TOTALS	3,049	720,599	90.6%	(767)	\$1,250	4.0%	20,777



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

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 multifamily 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

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).

Copyright © 2023 Transwestern. All rights reserved. No part of this work may be reproduced or distributed to third parties without written permission of the copyright owner. The information contained in this report was gathered by Transwestern from CoStar and other primary and secondary sources.