



TRANSWESTERN

HOUSTON MULTIFAMILY MARKET

Q1 2023



TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (%)	4.4	5.2	↓	5.6	↑
NET ABSORPTION (Units)	1,077	1,708	↓	3,723	↔
OCCUPANCY RATE (%)	90.1%	91.5%	↓	90.0%	↔
UNITS (Total)	725,463	709,655	↑	683,413	↑
EFFECTIVE RENT (Unit)	\$1,263	\$1,212	↑	\$1,107	↔
SALES VOLUME (Millions)	\$320	\$1,189	↓	\$1,827	↓

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

LEASING ACTIVITY RETURNS, BROUGHT BY NEW CLASS A UNIT DELIVERIES

Houston's multifamily sector improved this quarter scoring overall net growth with demand in the black for a total of 1,077 units. This positive trend reverses the unit losses registered at the close of 2022 and is a result of new construction deliveries and a robust pipeline in both urban and suburban submarkets. The largest gains were made in active markets with prime unit deliveries such as Katy/ Cinco Ranch/ Waterside, Heights/ Washington Ave and Montrose/ Museum/ Midtown which saw residents move into a combined 715 apartment homes. Developers turned the lights on for more than 4,800 operating units this quarter and added 1,700 to the construction volume which now totals nearly 22,500 units at the end of the first quarter.

The strong construction at the beginning of the year comes on the heels of recent population growth estimates released by the U.S. Census Bureau. Houston ranked as the second fastest-growing U.S. metro with a post-pandemic population surge, the largest increase in the past six years according to a recent analysis. Between July 2021 and July 2022, the nine-county Houston metro area added 125,000 new residents, with the regional population of 7.34 million, according to the Greater Houston Partnership. This new figure exceeds the 20-year average of 119,000 residents per year with more than two-thirds of the gains coming from new people moving to the area. As a result, multifamily construction levels are working to keep pace with the inbound population growth and household formation in the near-term during 2023 and into 2024.

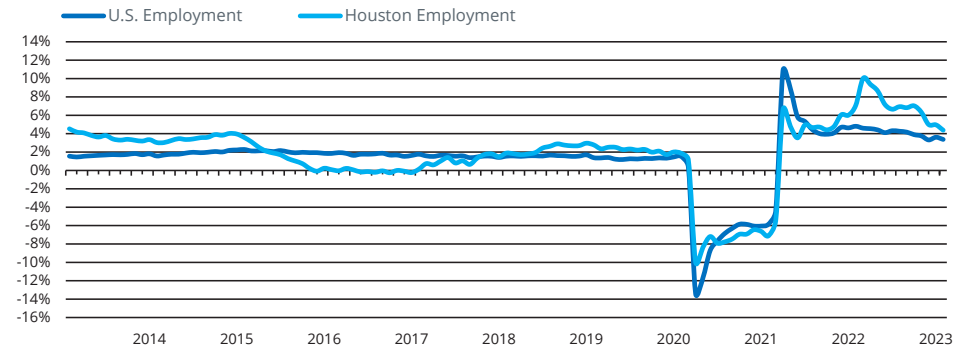


ECONOMY

Jobs, Port Activity Beating Long-Term Records

- Metro Houston created 29,200 jobs in February, according to the Texas Workforce Commission (TWC), a total well ahead the twenty-year average of 22,100 jobs for the month, suggesting Houston's economy continues to grow above the long-term trend. Sectors with the largest employment gains included local education, administrative and support services and health care and social assistance. February's gains offset nearly 60 percent of January's job losses of more than 50,000. If job growth over the next two months matches long-term averages, the region will recover all January's losses by April, according to the Greater Houston Partnership.
- Early signs suggest falling mortgage rates are starting to pull some Houston homebuyers back into the local housing market. Single-family home sales remained off in January compared to last year's level, the Houston Association of Realtors (HAR) reported in February. Metro home sales started slowing last March when they were white-hot in both average sales prices and transaction volume. According to the HAR, the current easing environment of mortgage rates are instead creating more of a return to seasonal home sales trends: slower volume during the holidays and new year. But as lending rates stabilize along with more affordable price points hitting the market, the HAR expects an upswing in sales later this year.
- Houston consumer confidence is strong coming into 2023 as buyers snatched up big-ticket items for cars, trucks and SUVs. Houston-area dealers sold more than 315,000 vehicles in the 12 months ending February, an 11.9 percent increase over those sold this time last year according to TexAuto Facts, published by InfoNation, Inc. Likewise, Port Houston recorded its busiest year in 2022 as the global economy began recovering and West Coast port congestion attracted new shippers to the Gulf Coast. Almost 55.1 million tons moved through Port Houston, according to data released in January by port officials, a new record and an increase of 22 percent compared with 2021.

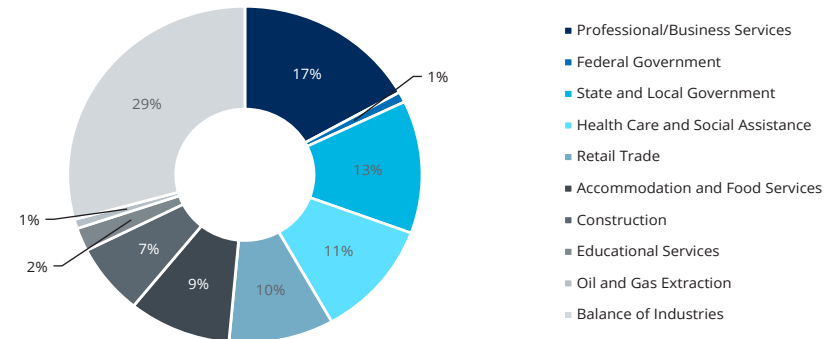
Y-O-Y CHANGE IN JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

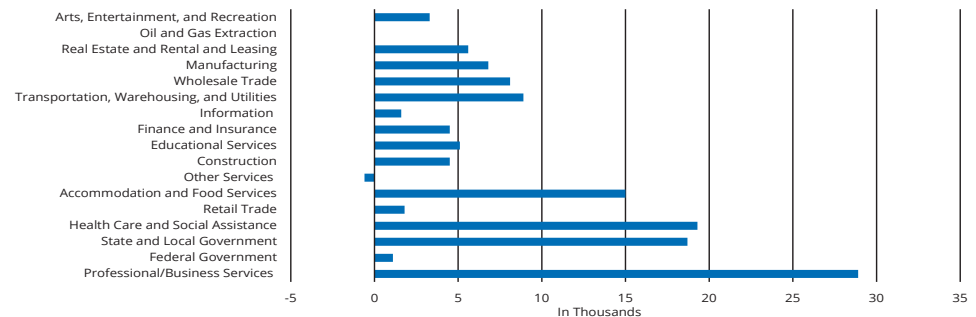
Houston | February 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Houston | February 2023



Source: Bureau of Labor Statistics, Transwestern

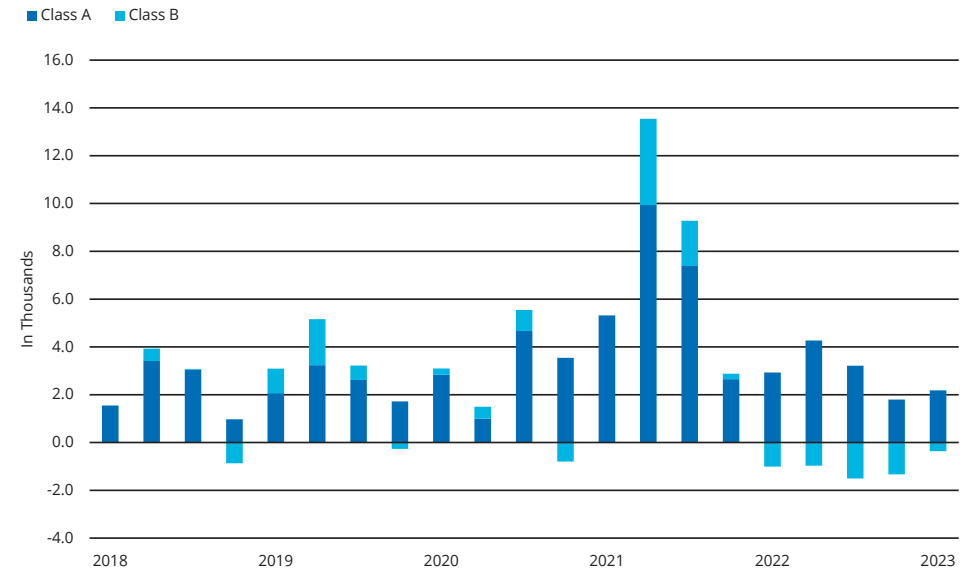


NET ABSORPTION

Leasing Demand Bounces Back Even as Inflation Takes a Measured Toll

- Houston's multifamily sector rebounded this quarter clocking overall net growth as demand was in the black for a total of 1,077 units. The positive trend reverses unit losses of 767 units at the close of 2022 during the fourth quarter and come mainly as a result of new construction deliveries and a robust pipeline in both urban and suburban submarkets.
- Six submarkets experienced notable comparative growth this quarter with absorption exceeding more than 100 units in the past 90 days – this type of demand exceeds that of the fourth quarter when five submarkets had triple-digit growth. These include urban and suburban communities. In descending order these submarkets are Katy/ Cinco Ranch/ Waterside (356 units), Heights/ Washington Ave (191 units), Montrose/ Museum/ Midtown (168 units), Clear Lake/ Webster/ League City (166 units), Downtown (138 units) and Med Center/ Braes Bayou (107 units).
- Five submarkets, though, posted significant net absorption losses of 100 units or higher this quarter, an improvement over the fourth quarter when Houston had seven submarkets measuring negative absorption of more than 100 units each. The largest were -286 units in Braeswood/ Fondren SW, -224 units in Greenspoint/ Northborough/ Aldine and -150 units in Westchase, all markets with a large concentration of Class B properties which are being impacted by rising rates of general inflation and consumer living costs putting a damper on mid-income household formation.

NET ABSORPTION BY CLASS



Source: Apartment Data Services, Transwestern

- Sun Belt growth markets such as Houston have encountered some of the highest inflation rates in the U.S. since 2022. But the rates of growth are sharply subsiding. So far this year, inflation as measured by the consumer price index, or CPI, has nearly halved from its peak of 9.1 percent in June to 5.0 percent in March, according to the Greater Houston Partnership's latest release in March.

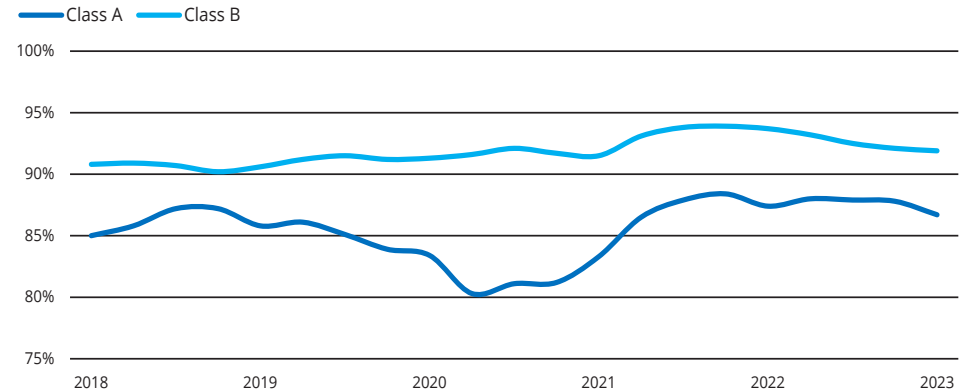


OCCUPANCY

Levels Mixed by Submarket; Small Declines in Most

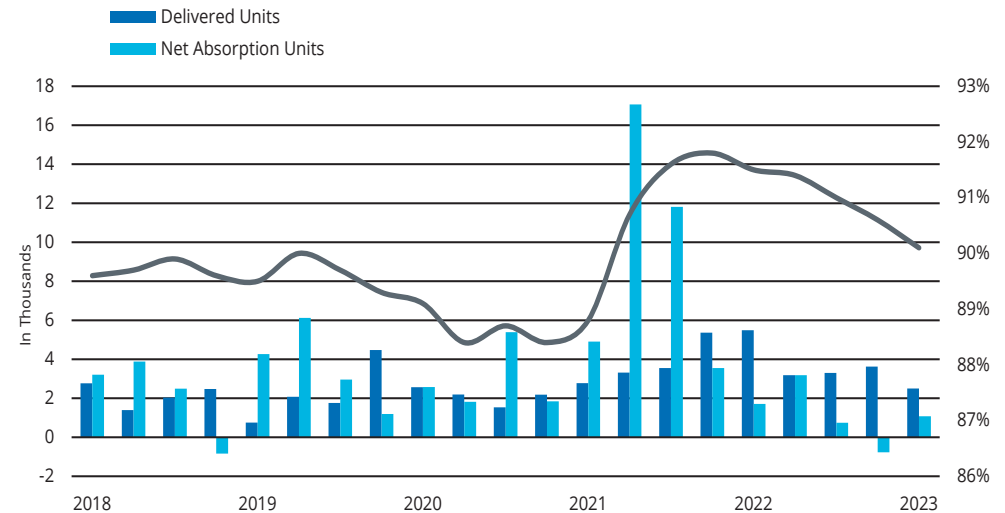
- Houston's overall metro occupancy for the first quarter measured 90.1 percent, dipping 50 basis points marking a slight decline over the final quarter of 2022 and a notable year-over-year decline of 1.4 percent. Houston has been following the prevailing nationwide trend during the past six months, with demand for apartment leases softening. Weaker demand can likely be tied to economic uncertainty and elevated inflation cutting into potential renter households' budgets.
- Both Class A and Class B properties showed decreased occupancy during the first 90-day period with Class A occupancy being marked at 86.7 percent, a decrease of 1.1 percents from previous quarter, and Class B occupancy registering at 91.9 percent, a decrease of 20 basis points over the previous quarter.
- Sixteen submarkets showed occupancy increases this quarter. The largest gains were seen in I-69 North where occupancy rose by 1.4 percent, Heights/ Washington Ave experiencing a climb of 1.2 percent and Friendswood/ Pearland East measuring occupancy up by 1.1 percent. A dearth of new construction in the two outlying areas of I-69 North and Friendswood/ Pearland East helped existing properties compete for new residents while the robust construction of Heights/ Washington Ave explains the occupancy gain as renters are drawn to its strategic inlying urban market and its convenient upscale housing options.
- On the other side of the spectrum, 22 submarkets posted negative occupancy growth quarter-over-quarter. Most were only marginal declines of a few basis points; however, Katy/ Cinco Ranch/ Waterside measured the largest occupancy decrease. The submarket's decline of 3.1 percent is largely attributed to the strong amount of new construction in the area. Currently, the submarket has the largest amount of product in the pipeline, more than 3,800 units, while also carving out the largest net absorption of for the quarter of 356 units.

OVERALL OCCUPANCY RATE BY CLASS



Source: Apartment Data Services, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: Apartment Data Services, Transwestern

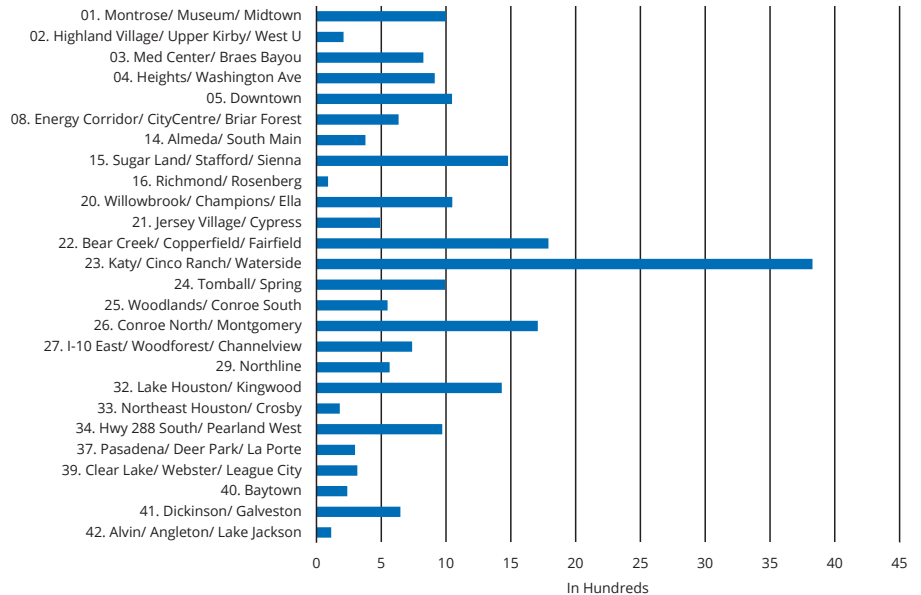


UNDER CONSTRUCTION

Far North to Southwest, Houston's Grand Parkway Boon to New Construction

- Completions increased in the first quarter to a net total of more than 4,800 operating units. During the past 12 months, 75 multifamily communities have opened throughout metro Houston containing nearly 18,000 units. During the first quarter, move-ins began for the 384 units at The Rosslyn Garden Oaks in Heights/ Washing Ave, Lumen in Montrose/ Museum/ Midtown featuring 367 units, and Cendana District West in Katy/ Cinco Ranch/ Waterside for its 349 units. These were among the largest properties under construction at the start of the year and represent the type of growth occurring in both densely populated areas in the Heights/Washington Ave as well as the outlying suburbs such as Katy/ Cinco Ranch/ Waterside.
- Other large properties in lease-up during the quarter include San Estralla containing 318 units in the Energy Corridor/ CityCentre/ Briar Forest, Twelve620 in I-69 North in 288 units and Downtown's 1810 Main with 283 units. Occupancy for the large Class A communities is off to a healthy start where recent measures are in the double-digits between 11 and 15 percent in early opening days.
- Meanwhile, 80 communities are under construction with more than 22,000 units in the pipeline. The lion's share is found in Katy/ Cinco Ranch/ Waterside featuring 3,828 units in the works as the construction patterns continue to be found along the outlying Grand Parkway circling Houston. Also near the Grand Parkway, Conroe North/Montgomery Far North - more than 30 miles due north of Downtown - has the second highest concentration of new multifamily product under construction (1,708 units) backed next by following the Grand Parkway to the far southwest side of Houston where Sugar Land/ Stafford/ Sienna has the third highest amount of new product underway (1,478 units).

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
Vic At Park Row	Katy/ Cinco Ranch/ Waterside	382	Q2 2023

Source: Apartment Data Services, Transwestern

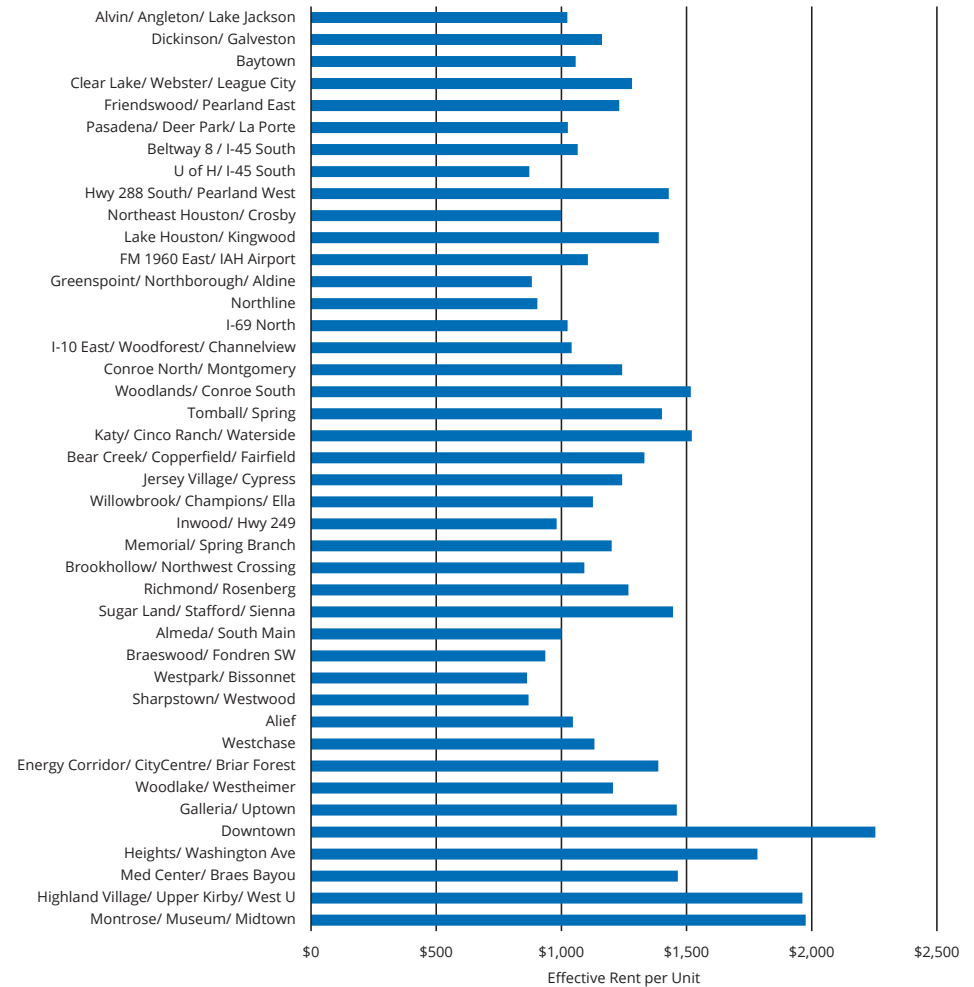


RENTAL RATES

Class B Sector Sees Largest Annualized Rent Gains

- Annual apartment rents averaged \$1,263 per month metro-wide in the first quarter, up from \$1,250 per month at the close of 2022. Effective rents per square foot, however, remained unchanged this quarter at \$1.42/PSF/MO as larger units in new properties came online commanding only slightly larger monthly total rents per unit but effectively less per square foot. It is noteworthy to include that overall rents rose 4.0 percent over the same period last year as the market saw nearly 16,000 new unit completions in the past 12 months in addition to notable rent gains made in the Class B sector in select submarkets.
- The Northeast Houston/ Crosby submarket carved out double-digit rent gains of 11.1 percent in the past year due to the large concentration of Class B property segment. The submarket holds 1,488 Class B units, comprising more than 43.8 percent of the submarket total, and as such, annual rents rose to more than \$1,114 per unit, per month from \$988 in March 2022. Class B occupancy held steady during the same 12-month period going from 95.6 percent to 94.2 percent.
- Additional submarkets with noteworthy, annualized rent growth include Inwood/ Hwy 249 measuring 8.3 percent, Sharpstown/ Westwood achieving an 8.0 percent gain, and Braeswood/ Fondren SW rising 6.2 percent. All three have large concentrations of Class B communities and the rent growth is attributed to both general inflation rates as well as renters opting for more cost-effective housing alternatives, specifically in nearby suburban markets.

ASKING RENT



Source: Apartment Data Services, Transwestern

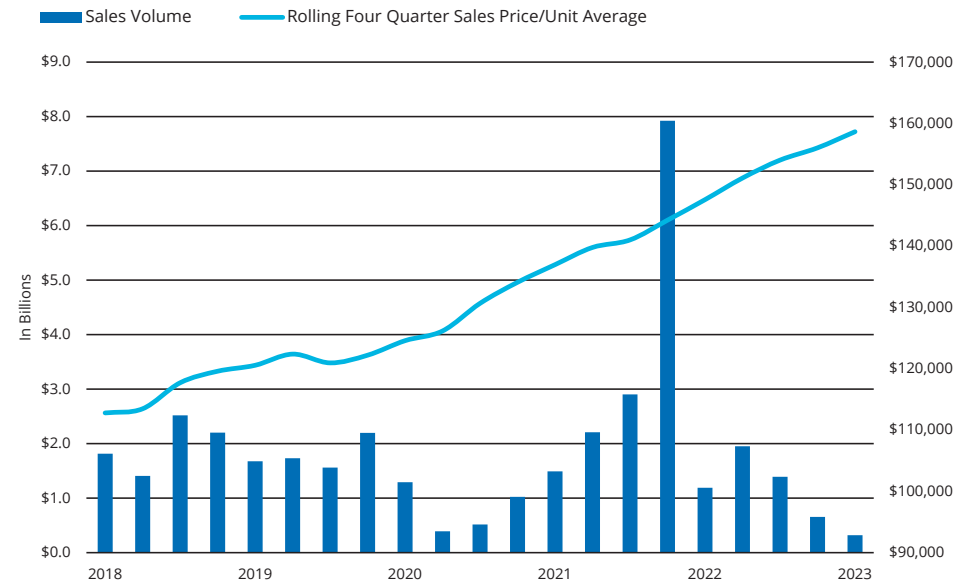


SALES

Q1 Net Dispositions Hold a Slight Edge on Overall Investment Activity

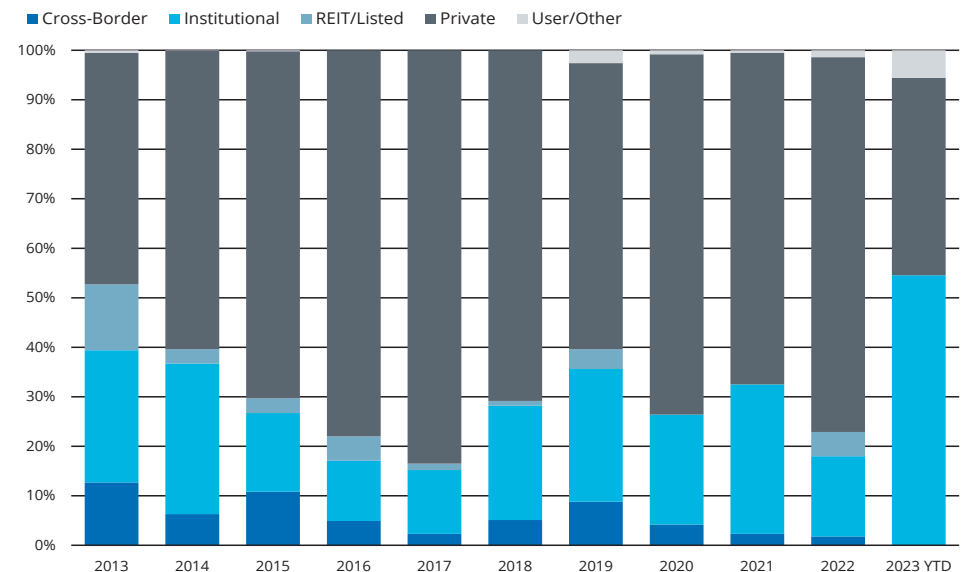
- Investors completed nine Houston area multifamily property trades during the first quarter with acquisitions averaging \$164,726 per unit, a 3.0 percent increase from the previous period of \$159,927 per unit in Q4 2022.
- Net dispositions slightly edged out net acquisitions during the first period of 2023 with the private investor sector disposing a net total of \$286.8 million. Private investors continue where they left off last year, where the investor group finished the year with a net total of \$355.1 million in dispositions.
- Institutional investors made up the other side of the transaction sheet this quarter; the group acquired a net total of \$242.8 million during the 90-day period. Institutions' total net acquisitions were obtained all in new purchases during the period with no building sales catalogued. It should be noted that the positive net start to 2023 is in contrast to that of 2022, where institutions finished the year with just under a net total of \$1.3 billion in dispositions.
- International investors and REITs were quiet during the first quarter; the two investor groups remained on the side lines, clocking in no reported market activity.
- Two notable property trades were announced during the quarter, Westdale, a Dallas-based strategic real estate investment firm, acquired The Grand At Upper Kirby (formally known as: Metro Greenway) in the Highland Village/ Upper Kirby/ West U submarket. The Class-A, 309-unit property, built in 2007, is located at the corner of I-69/TX-HW 59 and Wesleyan St, and had 93 percent occupancy at the close of the quarter. A second property worth highlighting is Florida-based Dreamstone Investments, a value-add real estate investment firm, acquiring The Waterview in the Katy/ Cinco Ranch/ Waterside submarket. The very recently completed Class-A, 295-unit property, built in 2022, is located at the corner of Morton Rd and W Bellfort St, and reported a 92 percent occupancy at the end of the first quarter.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



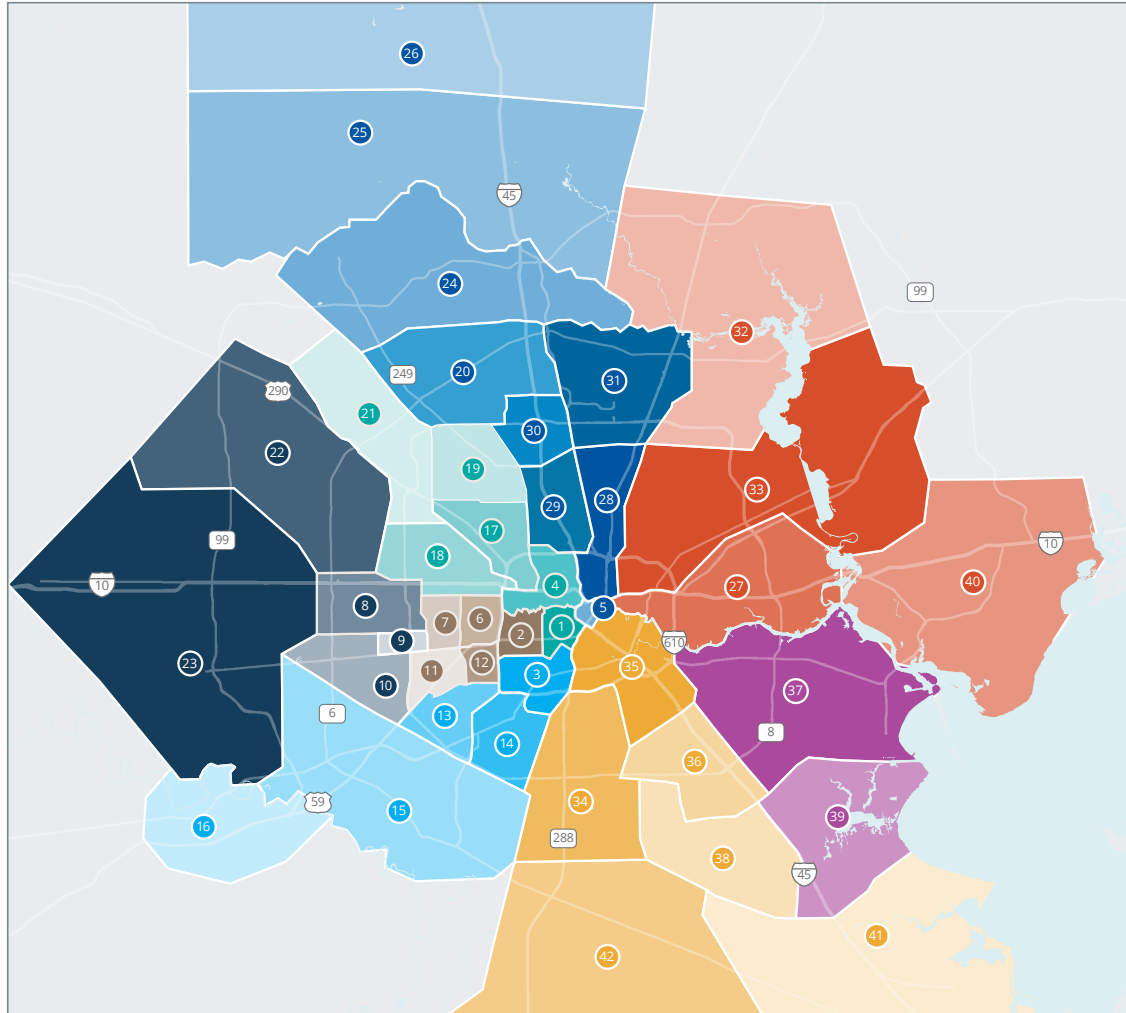
HOUSTON MULTIFAMILY MARKET INDICATORS

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	74	18,332	90.9%	168	\$1,976	2.9%	1,000
2. HIGHLAND VILLAGE/ UPPER KIRBY/ WEST U	68	19,168	91.6%	43	\$1,963	2.5%	209
3. MED CENTER/ BRAES BAYOU	86	25,578	89.9%	107	\$1,465	1.9%	825
4. HEIGHTS/ WASHINGTON AVE	73	17,855	89.9%	191	\$1,783	0.7%	913
5. DOWNTOWN	29	7,458	80.3%	138	\$2,254	2.4%	1,046
6. GALLERIA/ UPTOWN	104	24,791	91.1%	18	\$1,461	1.7%	-
7. WOODLAKE/ WESTHEIMER	38	12,526	89.5%	(23)	\$1,206	5.2%	-
8. ENERGY CORRIDOR/ CITYCENTRE/ BRIAR FOREST	110	33,973	89.7%	32	\$1,387	2.0%	634
9. WESTCHASE	48	14,927	89.4%	(150)	\$1,132	1.4%	-
10. ALIEF	113	27,569	91.8%	80	\$1,046	6.6%	-
11. SHARPSTOWN/ WESTWOOD	106	25,538	94.3%	(58)	\$869	8.0%	-
12. WESTPARK/ BISSENET	56	16,766	93.3%	(117)	\$863	5.1%	-
13. BRAESWOOD/ FONDREN SW	83	21,975	88.7%	(286)	\$936	6.2%	-
14. ALMEDA/ SOUTH MAIN	26	4,973	93.0%	(17)	\$1,001	3.5%	378
15. SUGAR LAND/ STAFFORD/ SIENNA	67	15,844	93.2%	91	\$1,446	2.5%	1,478
16. RICHMOND/ ROSENBERG	34	5,872	92.0%	46	\$1,268	4.7%	90
17. BROOKHOLLOW/ NORTHWEST CROSSING	98	21,892	91.0%	(50)	\$1,092	5.7%	-
18. MEMORIAL/ SPRING BRANCH	121	24,711	91.3%	232	\$1,201	4.0%	-
19. INWOOD/ HWY 249	30	5,730	92.7%	(38)	\$981	8.3%	-
20. WILLOWBROOK/ CHAMPIONS/ ELLA	162	40,882	90.1%	44	\$1,126	3.9%	1,048
21. JERSEY VILLAGE/ CYPRESS	68	16,608	90.0%	39	\$1,243	2.6%	491
22. BEAR CREEK/ COPPERFIELD/ FAIRFIELD	72	19,566	88.7%	88	\$1,332	2.9%	1,790



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	135	38,007	87.2%	356	\$1,521	3.8%	3,828
24. TOMBALL/ SPRING	77	19,105	92.3%	35	\$1,402	2.5%	993
25. WOODLANDS/ CONROE SOUTH	81	22,747	89.0%	47	\$1,517	3.5%	549
26. CONROE NORTH/ MONTGOMERY	60	11,417	89.5%	0	\$1,243	4.3%	1,708
27. I-10 EAST/ WOODFOREST/ CHANNELVIEW	61	12,526	88.4%	17	\$1,041	4.1%	738
28. I-69 NORTH	31	4,999	85.9%	66	\$1,025	3.7%	-
29. NORTHLINE	51	6,693	89.8%	(45)	\$904	5.7%	565
30. GREENSPPOINT/ NORTHBOROUGH/ ALDINE	68	17,569	87.6%	(224)	\$882	5.8%	-
31. FM 1960 EAST/ IAH AIRPORT	48	9,274	92.5%	(46)	\$1,106	5.5%	-
32. LAKE HOUSTON/ KINGWOOD	72	17,567	92.2%	24	\$1,389	4.6%	1,430
33. NORTHEAST HOUSTON/ CROSBY	22	3,392	90.0%	48	\$998	11.1%	180
34. HWY 288 SOUTH/ PEARLAND WEST	53	13,419	90.5%	23	\$1,429	3.7%	971
35. U OF H/ I-45 SOUTH	120	19,232	91.0%	(80)	\$872	6.1%	-
36. BELTWAY 8 / I-45 SOUTH	49	13,953	86.9%	52	\$1,065	4.8%	-
37. PASADENA/ DEER PARK/ LA PORTE	127	24,201	90.2%	72	\$1,026	4.7%	298
38. FRIENDSWOOD/ PEARLAND EAST	33	6,405	92.3%	69	\$1,231	5.3%	-
39. CLEAR LAKE/ WEBSTER/ LEAGUE CITY	103	26,127	89.8%	166	\$1,282	2.3%	315
40. BAYTOWN	59	11,207	89.0%	(34)	\$1,057	4.9%	238
41. DICKINSON/ GALVESTON	80	12,741	92.0%	54	\$1,162	6.9%	648
42. ALVIN/ ANGLETON/ LAKE JACKSON	74	12,348	82.3%	(101)	\$1,024	0.0%	114
GREATER HOUSTON TOTALS	3,070	725,463	90.1%	1,077	\$1,263	4.0%	22,477



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/Sienna	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

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