



TRANSWESTERN

HOUSTON MULTIFAMILY MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (%)	4.2	4.0	↑	5.4	↑
NET ABSORPTION (Units)	3,337	3,185	↑	3,730	↔
OCCUPANCY RATE (%)	89.6%	91.4%	↓	90.0%	↔
UNITS (Total)	732,968	712,654	↑	687,619	↑
EFFECTIVE RENT (Unit)	\$1,279	\$1,248	↑	\$1,119	↔
SALES VOLUME (Millions)	\$817	\$1,952	↓	\$1,780	↓

Source: Bureau of Labor Statistics, MRI Software , Real Capital Analytics, Transwestern

COMPLETIONS SPUR ROBUST SUBURBAN DEMAND, MORE RENTAL OPTIONS

Houston area residents turned on the lights in an additional 3,337 units this quarter bringing the year-to-date sum to more than 4,400 multifamily homes. The sharp growth rate comes off a lull in demand seen at the end of 2022 when Houston registered negative absorption of 767 units. Robust construction levels throughout Houston are linked to the strong net absorption as projects continue to deliver. Construction completions increased in the second quarter to a net total of more than 4,860 operating units. As a result, Class A properties showed slight gains over the period with occupancies improving by just under one percent finishing the quarter at an overall occupancy of 85.8 percent. The multifamily pipeline contains nearly 80 communities currently under construction encompassing more than 21,000 units. The majority are in Katy/ Cinco Ranch/ Waterside which features 2,969 units under development with continued demand being seen along the rapid growing suburbs outlying the Grand Parkway encircling Houston. As these properties deliver and commence their lease-up, expect pockets of spot market occupancy as demand catches up to the new supply.

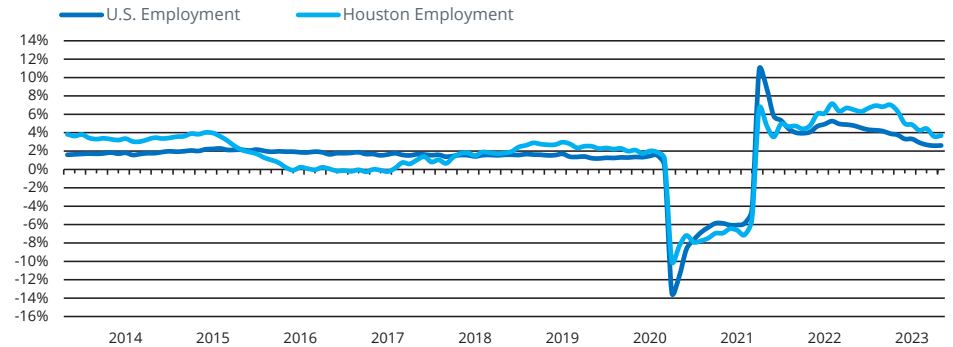
The new Class A inventory is bringing additional property choices for area renters and lifting overall asking rents. Houston’s overall monthly rent grew 2.5 percent at an annual rate during the second quarter and was the only primary Texas market to see positive rent growth over the past 12-month period according to a recent report by MRI Apartment Data.

ECONOMY

Local Jobs Outlook Expected to Total 3.4 Million; YTD Construction Permits, Housing Sales Up

- Houston’s employment growth climbed significantly by 18,500 jobs in May following April’s slower but still positive numbers totaling 3,700, according to the Texas Workforce Commission (TWC). The region typically adds between 10,000 and 18,000 jobs in May, so the recent performance was exceptionally strong. Since the early-1990s the monthly metro average is 12,900 jobs during a typical May. The recent measure is another indicator of how satisfactory Houston’s job market is performing, reported the Greater Houston Partnership (GHP) in mid-June. Metro employment hit 3,354,300 in May, an all-time high, and has added 521,800 jobs since the pandemic, recovering 145.2 percent of the 359,300 jobs lost, said the GHP, and at the current pace of growth, local employment should top 3.4 million later this year.
- Meanwhile, the value of City of Houston building permits escalated noticeably during the first five months of 2023, totaling \$3.512 billion, and nearing the year-to-date value in May 2019 at \$3.580 billion, and is the third largest May-value since 2014. Residential permits topped \$1.968 billion, outweighing nonresidential’s \$3.094 billion as Houston’s housing market is showing signs of rebounding from slower home sales and higher mortgage rates.
- Houston’s market for existing single-family homes improved in May to norms more in line with historic levels as closings year-to-date returned to 2019 numbers following 10-year spikes during the prior to two years. Prices are rising but no longer escalating at double-digit rates, according to a late-June report by the Houston Association of Realtors (HAR). Additionally, the inventory of available homes greatly expanded with the HAR stating that brokers closed on just over 34,000 single-family homes in the first five months of 2023, down from the frenetic pace of the past two years, but still slightly above historic long-term averages.

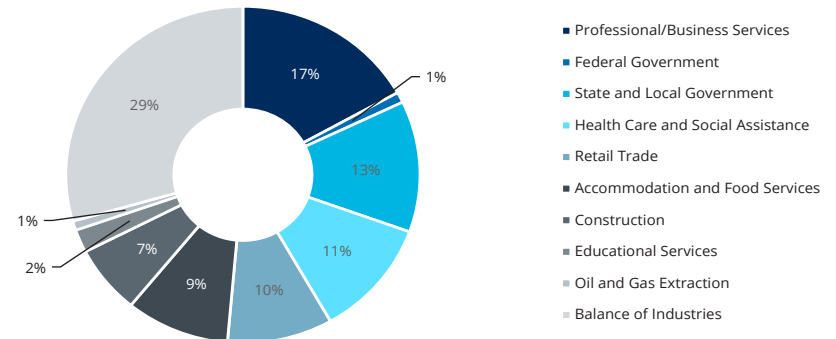
Y-O-Y CHANGE IN JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

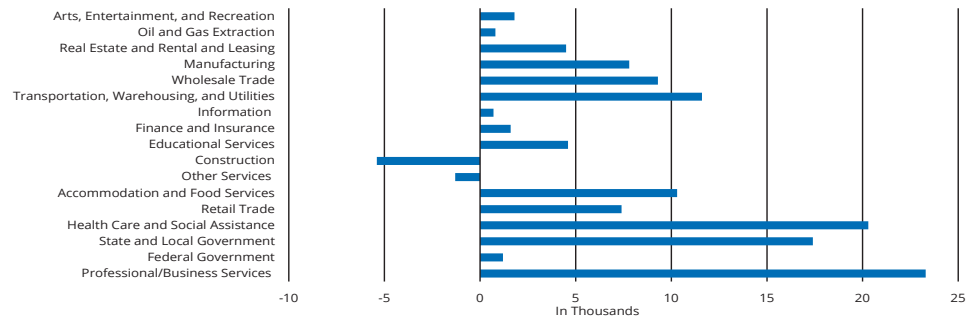
Houston | May 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Houston | May 2023



Source: Bureau of Labor Statistics, Transwestern

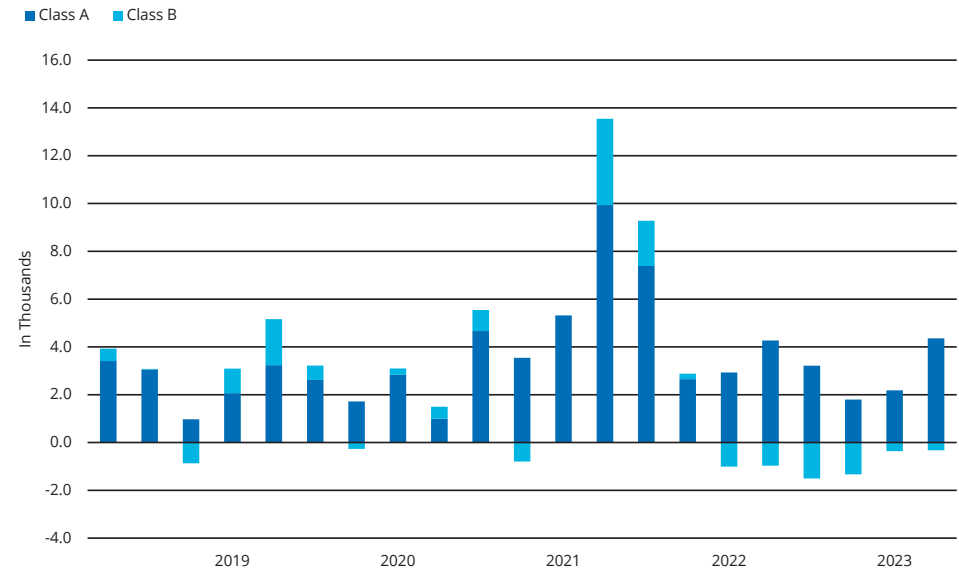


NET ABSORPTION

Strong Absorption Seen with Nearly 5,000 Unit Deliveries

- Renters took down an additional 3,337 units this quarter bringing the year-to-date total to more than 4,400. The sharp growth rate comes off a lull in demand seen at the end of 2022 when Houston registered negative absorption of 767 units. It is worth noting that Houston ranked second amongst its fellow peers throughout Texas for absorption, trailing behind only Austin in terms of 12-month tallies; Austin (7,270 units absorbed), Houston (4,390 units), Dallas-Fort Worth (2,476 units), and San Antonio (-928 units). The positive demand growth is linked to new unit deliveries – nearly 5,000 units in the past 90 days - coupled with population gains. Still, as these properties are in lease-up, overall metro occupancies are taking a dip in most submarkets.
- Of Houston’s 42 submarkets, 27 experienced positive net growth greater than 100 units with six eclipsing 250 over the 90-day period. When comparing these figures quarter-over-quarter, the number of submarkets with triple-digit growth increased by 21 submarkets over Q1.
- The top six performing submarkets include communities located in a mix of Houston’s urban core and suburban communities. In descending order these submarkets are Katy/ Cinco Ranch/ Waterside (633 units), Heights/ Washington Ave (373 units), Bear Creek/ Copperfield/ Fairfield (372 units), Clear Lake/ Webster/ League City (294 units), Highland Village/ Upper Kirby/ West U (291 units), and Energy Corridor/ CityCentre/ Briar Forest (253 units).
- Four submarkets posted negative net moveouts higher than 100 units this quarter and include Pasadena/ Deer Park/ La Porte (-273 units), Westpark Bissonnet (-148 units), Sharpstown/ Westwood (-123 units), and Alief (-119 units).

NET ABSORPTION BY CLASS



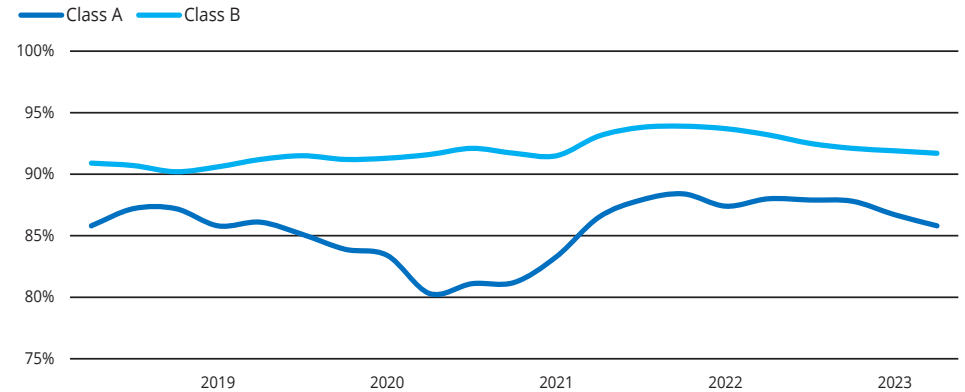
Source: MRI Software, Transwestern

OCCUPANCY

Occupancy Levels Subside with New Construction Completions

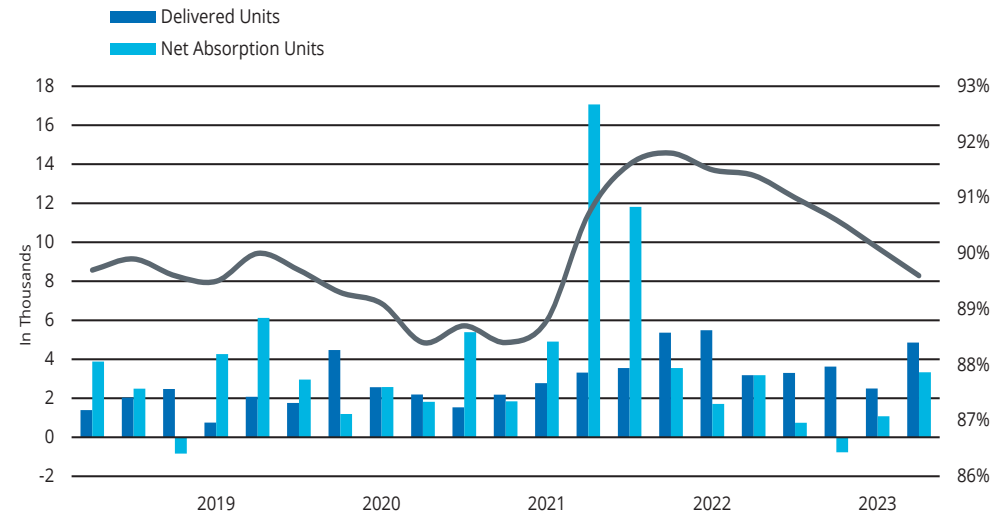
- Houston’s overall metro occupancy this quarter measured 89.6 percent, dipping 50 basis points over Q1 and a notable year-over-year decline of 1.8 percent. Much of the slower demand is seen in Class B sector which has showed an annual negative growth of 1.4 percent.
- Class A properties showed slight gains over the period with occupancies improving by just under one percent finishing the quarter at an overall occupancy of 85.8 percent.
- Twelve submarkets witnessed increases in occupancy. The largest gains were seen in I-69 North where occupancy rose 2.1 percent, Westchase experienced a climb of 1.7 percent, and Highland Village/ Upper Kirby/ West U with quarterly expansion of 1.5 percent. The upward movement aligns with historical market economics, but for two different reasons; Highland Village/ Upper Kirby/ West U has been home to an influx of occupiers seizing a seasonal flight-to-quality residents, with Class A, occupancy gain of 6.0 percent since 2021. I-69 and Westchase represent a strategic opportunity for existing properties to compete for new residents during a metro-wide escalation in new development construction.
- A majority of submarkets posted negative occupancy growth quarter-over-quarter. Nearly half were only marginal declines of a few basis points; however, Inwood/ Hwy 249 and I-10 East/ Woodforest/ Channelview measured the largest occupancy declines with each decrease registering a drop of 4.5 percent and 4.2 percent, respectively. Worth noting is that I-10 East/ Woodforest/ Channelview recently cut the ribbon on a brand new 378 units over the quarter, and a 360-unit community currently under development with a slated delivery Q3 2023.

OVERALL OCCUPANCY RATE BY CLASS



Source: MRI Software, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: MRI Software, Transwestern

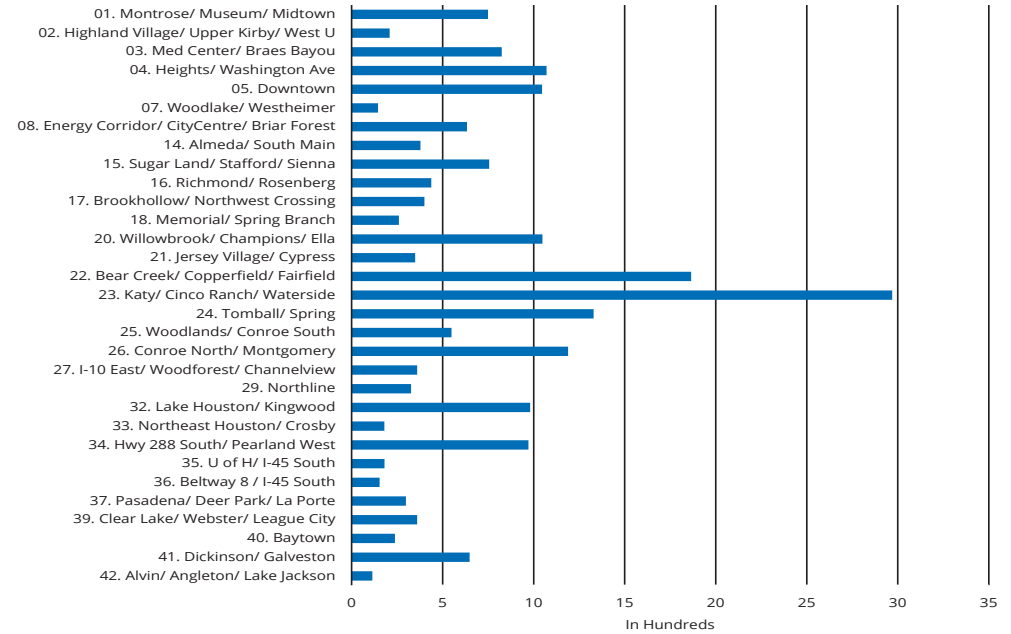


UNDER CONSTRUCTION

Deliveries On Pace for Suburban Growth Spurt

- Construction completions increased in the second quarter to a net total of more than 4,860 operating units. During the past 12 months, 82 multifamily communities have opened throughout metro Houston containing nearly 21,789 units. During the second quarter, move-ins began for the 388 units at Lenox Grand West in Katy/ Cinco Ranch/ Waterside, Allora New Forest in I-10 East/ Woodforest/ Channelview featuring 378 units, and Filament at the Grid in Sugar Land/ Stafford/ Sienna for its 362 units. These properties came in as some of the largest to be delivered over the quarter and represent the continued demand seen throughout metro Houston’s suburban markets.
- Three more notable, large properties in lease-up during the quarter include Prose District West containing 360 units in Sugar Land/ Stafford/ Sienna, West End in Katy/ Cinco Ranch/ Waterside with 335 units, and The Vic at Woodforest with 334 units in the Conroe North/ Montgomery. Occupancy for all multi-residential communities delivered over the quarter registers approximately 6.5 percent.
- Meanwhile, 78 communities are currently under construction with more than 21,000 units in the pipeline. The majority is in Katy/ Cinco Ranch/ Waterside which features 2,969 units under development with continued demand being seen along the rapid growing suburbs outlying the Grand Parkway encircling Houston. Following the theme of Houston’s looped thoroughfares, Bear Creek/ Copperfield/ Fairfield, which encompasses both the Grand Parkway and Highway 6, ranked second highest in total new construction throughout the metro with just over 1,800 units under construction. Tomball/ Spring ranked third with a total of 1,329 units under construction, and further exemplifies the trend of new development following the Grand Parkway, specifically along the Northwest-North corridor.

UNDER CONSTRUCTION



Source: MRI Software, 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	Tomball/ Spring	420	Q3 2023
Artistry Design District	Brookhollow/ Northwest Crossing	400	Q4 2024

Source: MRI Software, Transwestern

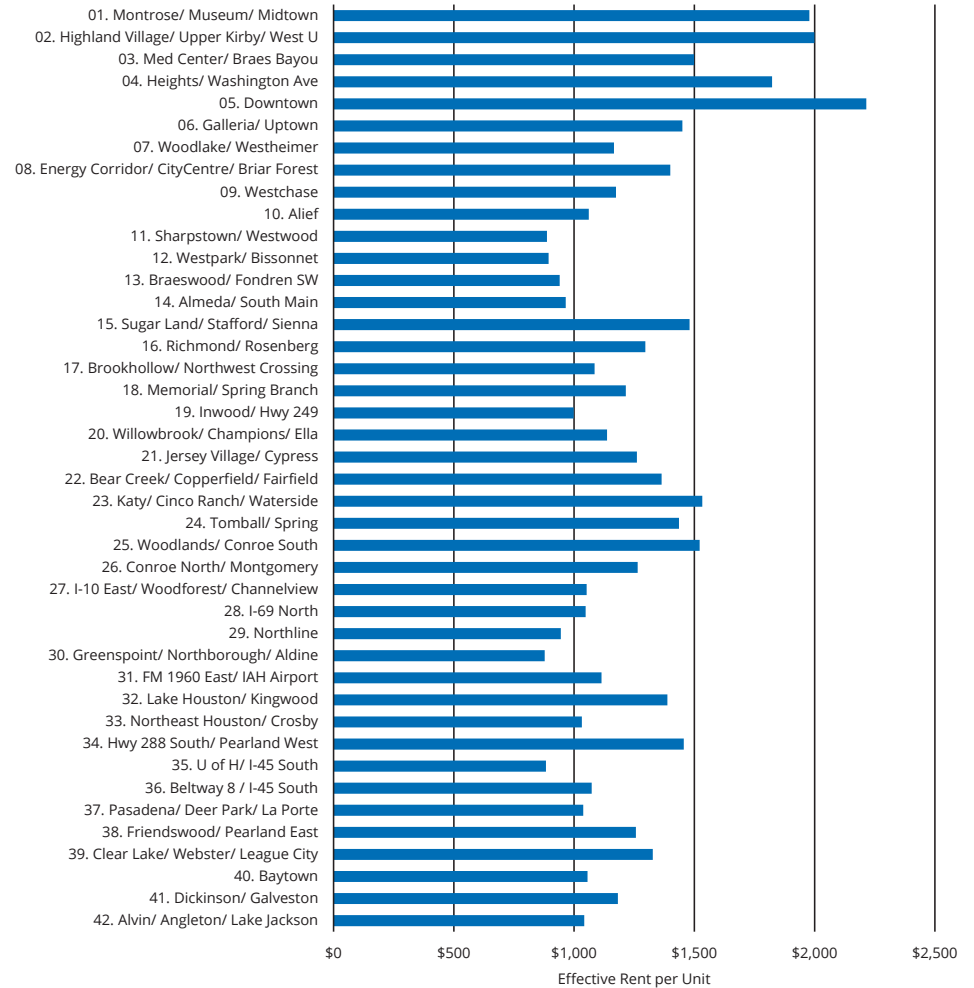


RENTAL RATES

Effective Rates on the Rise, Gains Mostly in Class B & C Sectors

- Annual apartment rents averaged \$1,279 per month throughout metro Houston in the second quarter, up from \$1,263 per month in Q1 2023. Effective rates per square foot also saw a \$0.02 increase during the 90-day period with rents rising to \$1.44/PSF/MO. The metro’s overall rental rate, per month, has grown 2.5 percent from the same period last year, and the only primary Texas market to see positive rental rate growth over the past 12-month period according to MRI Apartment Data.
- Northeast Houston/ Crosby and Northline were two submarkets cataloguing double-digit rent gains year-over-year. Making a return from Q1, Northeast Houston/ Crosby was featured last quarter as the only quarter to see double-digit rent gains with the submarket capitalizing on its annual rent growth by 13.7 percent. As previously mentioned, the Northline submarket also experienced double-digit growth with a 10.3 percent bump year-over-year. Both submarket’s inventories house just above 9 percent of Class A space with the remaining space being evenly distributed between Class B, Class C, and Class D with both submarkets seeing \$0.01/PSF/MO and/or \$0.02/PSF/MO gains across all classifications of space.
- Additional submarkets with noteworthy 12-month rent growth include Sharpstown/ Westwood measuring 9.3 percent, Dickinson/ Galveston increasing 6.3 percent, and Inwood/ Hwy 249 rising 6.2 percent. All three submarkets have a high concentration of Class B and Class C communities with rent growth being attributed to continued migration to more cost-effective housing in suburban markets and increased inflation from the same period last year.

ASKING RENT



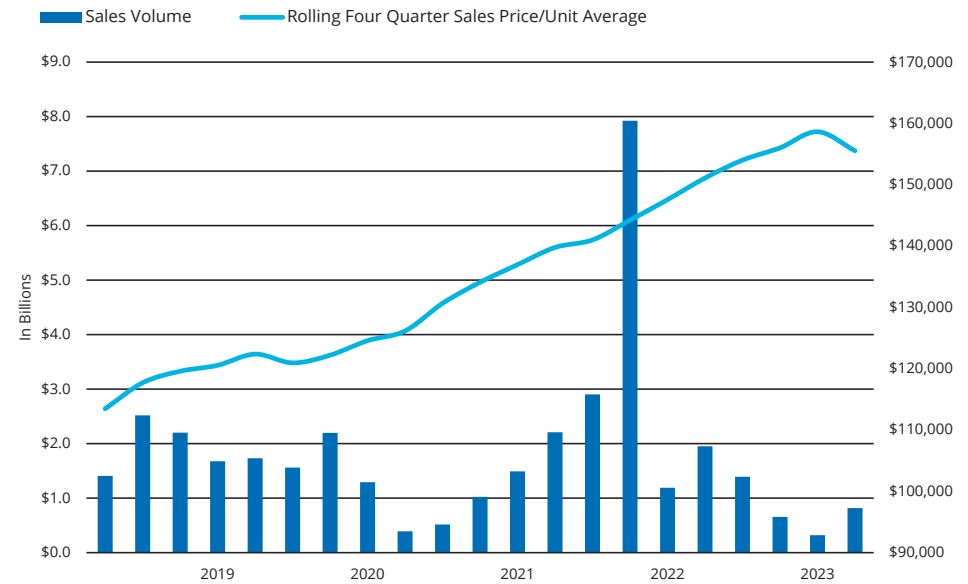
Source: MRI Software, Transwestern

SALES

International Investors Net Buyers as REITs Remain on the Sidelines During Q2 2023

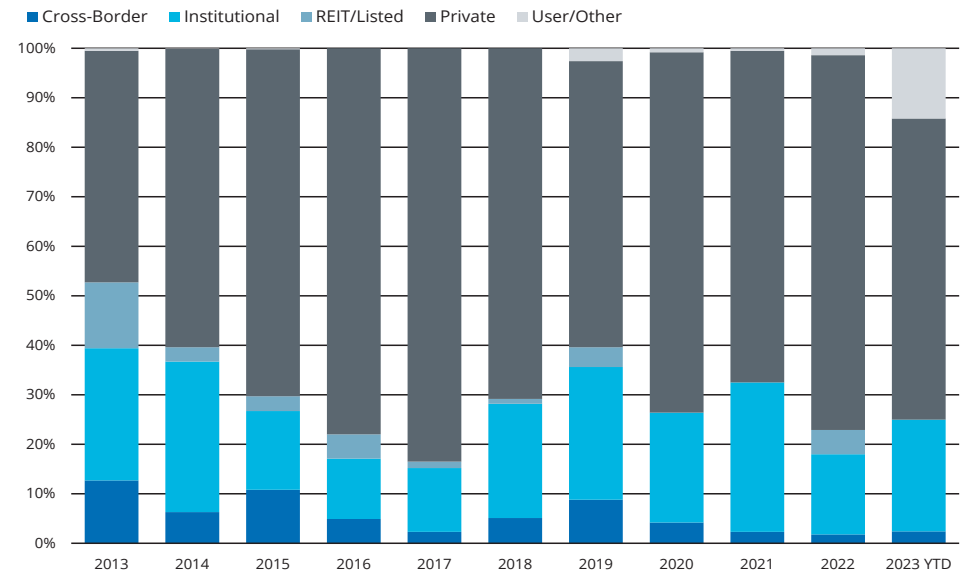
- Investors completed 22 Houston area multifamily property trades during the second quarter with acquisitions averaging \$142,733 per unit, a notable 13.4 percent decrease from the previous period of \$164,726 per unit in Q1 2023. Multifamily investment sales decreased an estimated 20 percent since their activity peak in 2021 according to analytics firm Green Street.
- Net dispositions dominated the capital market landscape during the second period of 2023 with institutions and private investors selling off a net total of \$146.7 million and \$44.9 million, respectively. Updating their strategy, institutional investors have once again become net sellers, continuing their approach from 2022 when they sold a net total of \$1.3 billion. Private buyers on the other hand are moving forward with their Q1 course bringing their total sales figure to a net of \$331.7 million in the past 90 days.
- International investors finished the quarter as the only group to make positive gains in their respective portfolio. The investor group was absent during Q1 but made headway by acquiring a net total of \$29.4 million during the second quarter. Last, REITs reported no capital markets activity during the second quarter and remaining inactive for 2023.
- A notable trade announced during the quarter was from New York-based Fundamental Advisors, a private equity firm, acquiring the four-property portfolio of Dallas-based Applesway Investment Group. The Dallas-based real estate investment firm made headlines early in the quarter when it was announced by Arbor Realty Trust, a publicly traded mortgage company, foreclosed on the properties after Applesway Investment Group defaulted on the loans. The 3,204-unit portfolio, comprised of Class B properties, was acquired for an estimated \$196.5 million according to Real Capital Analytics.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



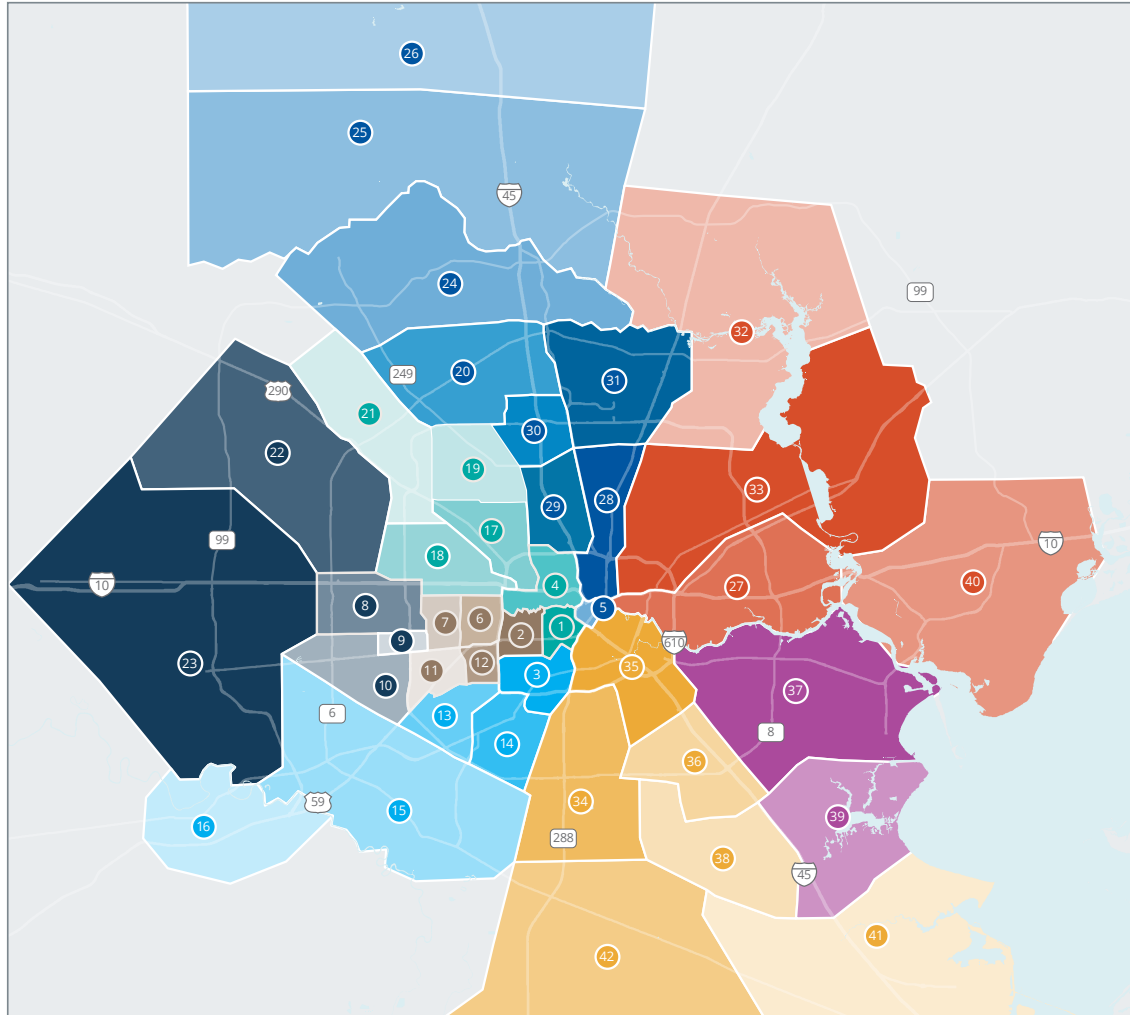
HOUSTON MULTIFAMILY MARKET INDICATORS

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	75	18,699	90.3%	204	\$1,978	0.9%	749
2. HIGHLAND VILLAGE/ UPPER KIRBY/ WEST U	68	19,168	93.1%	291	\$1,999	(0.4%)	209
3. MED CENTER/ BRAES BAYOU	86	25,578	90.8%	148	\$1,499	(1.0%)	825
4. HEIGHTS/ WASHINGTON AVE	75	18,401	89.8%	373	\$1,823	(0.9%)	1,071
5. DOWNTOWN	30	7,830	79.3%	221	\$2,215	(0.8%)	1,046
6. GALLERIA/ UPTOWN	104	24,787	91.4%	64	\$1,450	(3.2%)	-
7. WOODLAKE/ WESTHEIMER	37	12,233	90.1%	1	\$1,166	(0.6%)	145
8. ENERGY CORRIDOR/ CITYCENTRE/ BRIAR FOREST	110	33,973	90.2%	253	\$1,400	(1.1%)	634
9. WESTCHASE	48	14,928	91.1%	81	\$1,174	2.8%	-
10. ALIEF	113	27,589	91.2%	(119)	\$1,061	4.0%	-
11. SHARPSTOWN/ WESTWOOD	106	25,539	93.8%	(123)	\$887	9.3%	-
12. WESTPARK/ BISSONNET	57	16,881	92.4%	(148)	\$894	5.9%	-
13. BRAESWOOD/ FONDREN SW	83	21,975	88.7%	(46)	\$940	3.7%	-
14. ALMEDA/ SOUTH MAIN	26	4,973	91.3%	(69)	\$965	(1.1%)	378
15. SUGAR LAND/ STAFFORD/ SIENNA	69	16,566	89.8%	110	\$1,480	(0.6%)	756
16. RICHMOND/ ROSENBERG	35	6,166	88.4%	49	\$1,296	4.4%	438
17. BROOKHOLLOW/ NORTHWEST CROSSING	99	21,989	90.5%	(2)	\$1,085	1.5%	400
18. MEMORIAL/ SPRING BRANCH	121	24,730	91.3%	(15)	\$1,215	2.8%	260
19. INWOOD/ HWY 249	31	6,030	88.2%	8	\$998	6.2%	-
20. WILLOWBROOK/ CHAMPIONS/ ELLA	162	40,882	89.6%	(87)	\$1,137	0.8%	1,048
21. JERSEY VILLAGE/ CYPRESS	69	16,750	89.9%	112	\$1,261	0.2%	349
22. BEAR CREEK/ COPPERFIELD/ FAIRFIELD	74	19,921	89.0%	372	\$1,364	1.0%	1,865



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	140	39,615	85.5%	633	\$1,533	(0.5%)	2,969
24. TOMBALL/ SPRING	79	19,669	90.7%	166	\$1,436	(1.4%)	1,329
25. WOODLANDS/ CONROE SOUTH	81	22,747	90.2%	242	\$1,522	(1.6%)	549
26. CONROE NORTH/ MONTGOMERY	62	12,015	86.9%	182	\$1,264	5.7%	1,189
27. I-10 EAST/ WOODFOREST/ CHANNELVIEW	62	12,901	84.2%	(64)	\$1,052	2.3%	360
28. I-69 NORTH	31	4,999	88.0%	116	\$1,048	2.8%	-
29. NORTHLINE	52	6,936	88.3%	112	\$945	10.3%	327
30. GREENSPPOINT/ NORTHBOROUGH/ ALDINE	68	17,569	87.3%	(44)	\$878	4.7%	-
31. FM 1960 EAST/ IAH AIRPORT	49	9,610	88.6%	(68)	\$1,114	5.2%	-
32. LAKE HOUSTON/ KINGWOOD	73	17,885	91.4%	124	\$1,388	(0.8%)	981
33. NORTHEAST HOUSTON/ CROSBY	22	3,392	89.5%	(19)	\$1,032	13.7%	180
34. HWY 288 SOUTH/ PEARLAND WEST	53	13,419	91.8%	136	\$1,456	2.1%	971
35. U OF H/ I-45 SOUTH	120	19,232	92.2%	121	\$883	5.6%	181
36. BELTWAY 8 / I-45 SOUTH	49	13,953	85.3%	(62)	\$1,073	3.7%	154
37. PASADENA/ DEER PARK/ LA PORTE	127	24,196	88.7%	(273)	\$1,038	1.5%	298
38. FRIENDSWOOD/ PEARLAND EAST	33	6,405	92.2%	9	\$1,257	3.0%	-
39. CLEAR LAKE/ WEBSTER/ LEAGUE CITY	104	26,442	89.8%	294	\$1,327	1.8%	360
40. BAYTOWN	59	11,207	89.7%	41	\$1,056	1.8%	238
41. DICKINSON/ GALVESTON	81	12,840	91.5%	46	\$1,182	6.3%	648
42. ALVIN/ ANGLETON/ LAKE JACKSON	74	12,348	81.3%	(33)	\$1,042	4.7%	114
GREATER HOUSTON TOTALS	3,097	732,968	89.6%	3,337	\$1,279	2.5%	21,021



- | | | | |
|---|-------------------------------------|--------------------------------------|------------------------------------|
| 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 all classifications of space for multifamily properties and analyzes all leasing and representative investment sales activity.

FOR MORE INFORMATION

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