



TRANSWESTERN

HOUSTON MULTIFAMILY MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (%)	4.7	4.4	↑	5.5	↑
NET ABSORPTION (Units)	3,026	743	↑	3,689	↔
OCCUPANCY RATE (%)	89.2%	91.0%	↓	89.9%	↓
UNITS (Total)	740,430	718,780	↑	692,027	↑
EFFECTIVE RENT (Unit)	\$1,277	\$1,261	↑	\$1,131	↔
SALES VOLUME (Millions)	\$350	\$1,392	↓	\$1,729	↓

Source: Bureau of Labor Statistics, MRI Software, Real Capital Analytics, Transwestern. Arrow color palette indicates property sector agency leasing, management and investor trending assessment(s).

ELEVATED CONSTRUCTION, AREA RENTAL CONCESSIONS AID NET ABSORPTION

Multifamily renters took down an additional 3,026 units this quarter, bringing the year-to-date total to more than 7,400 throughout Greater Houston. The results mark the second consecutive quarter of net absorption above 3,000 units and positive net absorption for every quarter this year. Houston now ranks only behind Austin for the strongest unit demand in the past 12-month period. The Class A sector is the hotbed of activity again this quarter, where new tenants occupied a net total of nearly 4,300 apartment homes and developers completed more than 5,200. As a result of deliveries outpacing demand, overall occupancy dipped by 40 basis points to 89.2 percent.

Rents are sustaining their upward trend, however, as the new product is commanding a higher premium. Annual monthly rents are up \$16.00 to \$1,277 during the third quarter over this time last year. Nevertheless, Houston area developers are exceedingly active with 90 apartment communities under construction totaling more than 23,000 units. Katy/ Cinco Ranch/ Waterside, Heights/Washington Ave and Montrose/ Museum/ Midtown round out the metro areas with the largest levels of construction. In line with such a high level of new building, nearly 82,000 Class A units have some measure of rental concessions linked to them this quarter, according to apartment data and reporting firm, MRI.

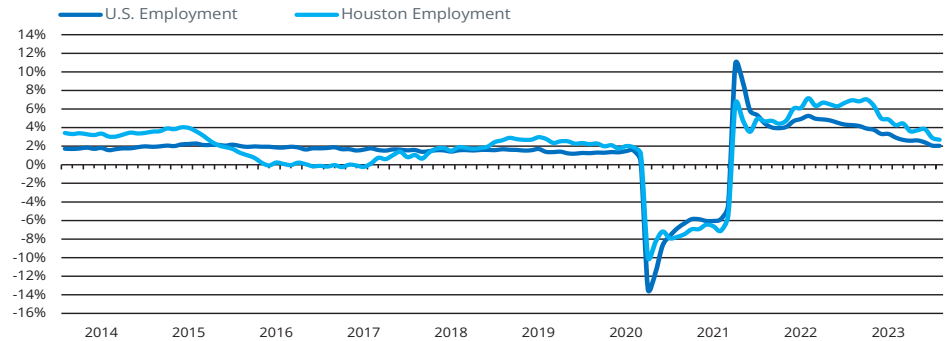


ECONOMY

Strong September Job Gains, Buoyant Energy Prices and Houston's New MSA Naming Highlight Q3 2023

- Metro Houston added 22,000 jobs in September, record for the month. The growth spurt was tied primarily to local public education as educators and professional staff returned to campus at the start of the new school year. Private sector employment was essentially unchanged with several sectors experiencing nominal job growth including financial activities; health care and social assistance, according to the Texas Workforce Commission (TWC). Total nonfarm payroll employment now tops 3,370,800 while metro Houston has created 94,700 jobs in the past 12 months, ranking fourth in the U.S. for major metros.
- West Texas Intermediate (WTI), the U.S. benchmark for light, sweet crude, has traded between \$65 and \$75 per barrel since January but since late-July has consistently traded at \$79 or higher. In its recent Short-Term Energy Outlook, the U.S. Energy Information Administration (EIA) attributed the recent price increases to Saudi Arabia extending its voluntary production cuts coupled with increased global demand. The EIA forecasts prices to trade between \$80 and \$83 per barrel through December of next year. With productivity improvements and higher prices, U.S. production should average 12.8 million barrels a day this year and 13.1 million next year, both years would be annual records.
- In July, the Office of Management and Budget (OMB) gave Houston a new name: Houston-Pasadena-The Woodlands Metropolitan Statistical Area from its previous title of Houston-The Woodlands-Sugar Land MSA. Every ten years, OMB examines commuting patterns and economic ties in all U.S. counties and nearly 400 metro areas. For a city to be included in an MSA's name, it must be the most populous city in the region or have strong commuter ties. Ten counties now comprise the Houston MSA and include Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller. With the addition of San Jacinto, the metro area's population is 7,368,466 as of July 1, 2023, reported the Greater Houston Partnership (GHP) in August.

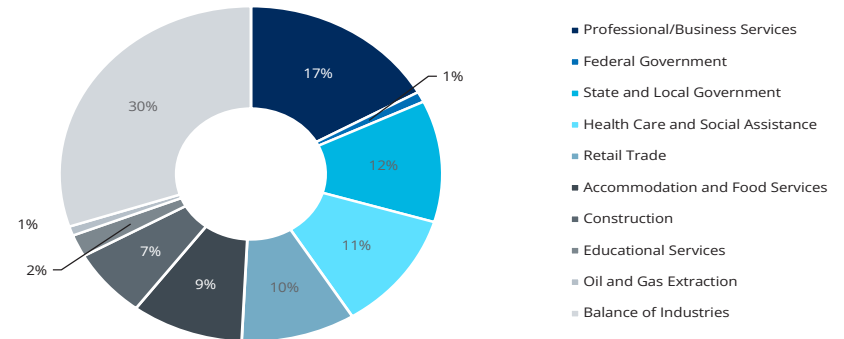
Y-O-Y CHANGE IN JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

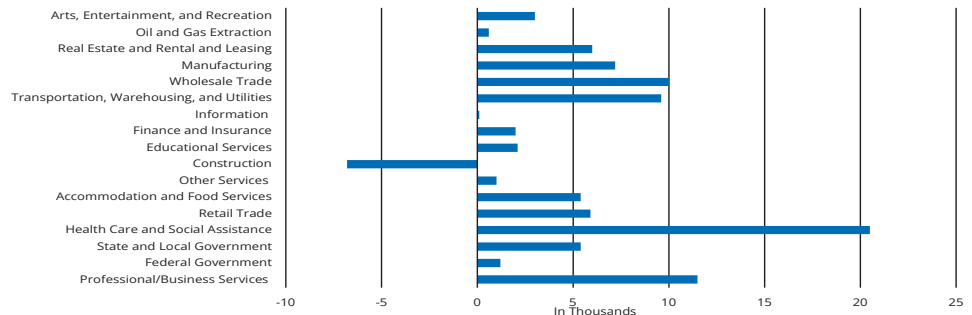
Houston | August 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Houston | August 2023



Source: Bureau of Labor Statistics, Transwestern

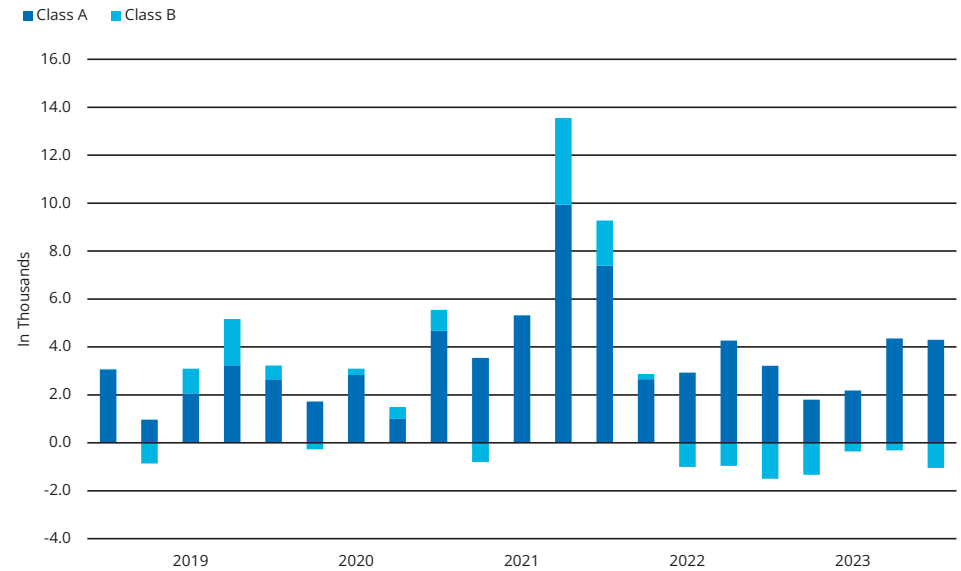


NET ABSORPTION

Houston's Positive Net Absorption Carried by Class A Properties

- Renters took down an additional 3,026 units this quarter, bringing the year-to-date total to more than 7,400. This marks the second quarter in a row with net absorption above 3,000 units and positive net absorption for every quarter this year. Expanding outwards to Texas's primary markets, Houston ranks second in total 12-month absorption, trailing only behind Austin: Austin (7,844 units), Houston (6,673 units), Dallas-Fort Worth (6,465 units), and San Antonio (1,854 units).
- Five submarkets experienced notable growth this quarter with absorption surpassing more than 200 units in the past 90 days. All five submarkets are considered suburban communities and in descending order include Katy/ Cinco Ranch/ Waterside (779 units), Bear Creek/ Copperfield/ Fairfield (479 units), Jersey Village/ Cypress (335 units), Alvin/ Angleton/ Lake Jackson (309 units), and I-10 East/ Woodforest/ Channelview (294 units).
- Fourteen submarkets showed net absorption losses this quarter with four posting space givebacks greater than 100 units, those submarkets include: Westchase (192 units), Pasadena/ Deer Park/ La Porte (168 units), Sharpstown/ Westwood (110 units) and FM 1960 East/ IAH Airport (102 units).
- Positive net absorption is solely attributed to Class A buildings this quarter with the building class absorption gaining a net total of 4,229 units. Class B, C, and D buildings all gave back space during the quarter with Class B giving back just under 1,050 units and Class C and D buildings giving back just over 225 units.

NET ABSORPTION BY CLASS



Source: MRI Software, Transwestern

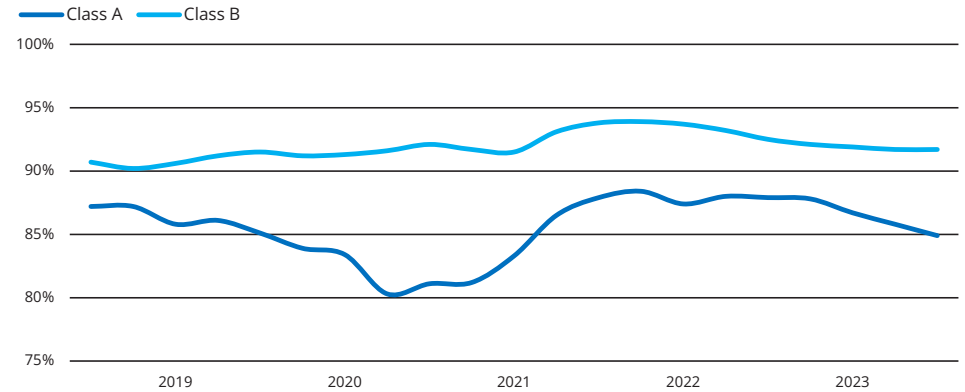


OCCUPANCY

Class A Occupancy Dips Below 85% For First Time Since 2021

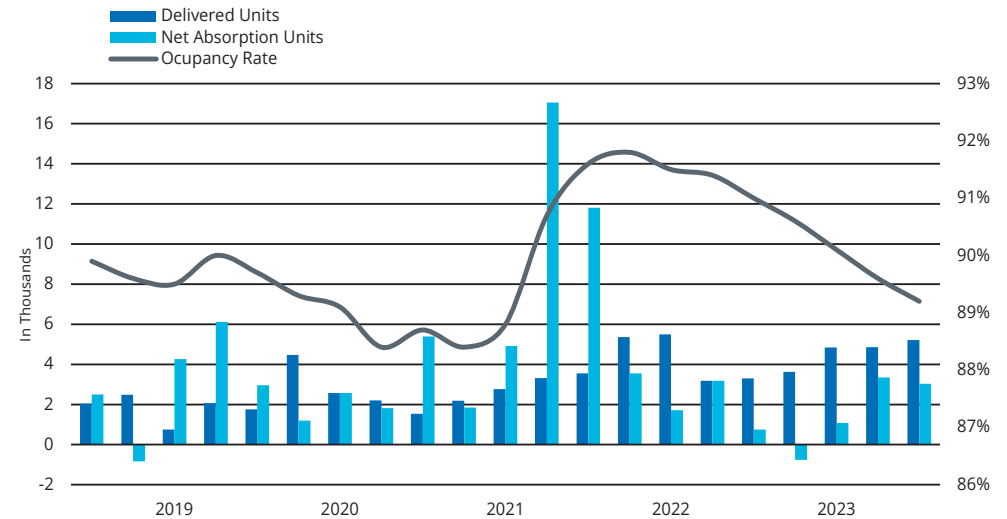
- Houston’s overall metro occupancy this quarter measured 89.2 percent, dipping 40 basis points over Q2 and a year-over-year decline of 80 basis points. Much of the slower demand is seen in the Class A sector which showed annual negative growth of 3.0 percent.
- Class A properties finished with an 84.9 percent occupancy, decreasing nearly a full percentage point during the period, while Class B properties remained flat, finishing the third quarter at 91.7 percent occupied.
- Out of 42 tracked submarkets, 11 experienced elevated occupancy at the close of Q3. The largest gains were seen in Alvin/ Angleton/ Lake Jackson where occupancy rose 2.4 percent, Jersey Village/ Cypress which witnessed a climb of 2.3 percent, and I-10 East/ Woodforest/ Channelview saw a 2.2 percent bump. All three submarkets offer competitive pricing and currently have new units under construction: 232 units, 349 units, and 790 units, respectively, or 5.8 percent of the total new development pipeline. Factoring in outward migration to the suburbs, competitive rent, and a lower number of units set to deliver, these three submarkets characterize dominant market trends over the past several quarters
- Negative growth has been the story for Houston during 2023 with 29 submarkets posting a contraction in occupancy quarter-over-quarter, 19 of which experienced marginal occupancy decreases of 1.0 percent or less, though. Almeda/ South Main and Richmond/ Rosenberg occupancies fell by 4.1 percent and 3.2 percent respectively. It is worth noting that Richmond/ Rosenberg delivered 585 units, accounting for just under 10 percent of the inventory, with a 10 percent pre-lease commitment.

OVERALL OCCUPANCY RATE BY CLASS



Source: MRI Software, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: MRI Software, Transwestern

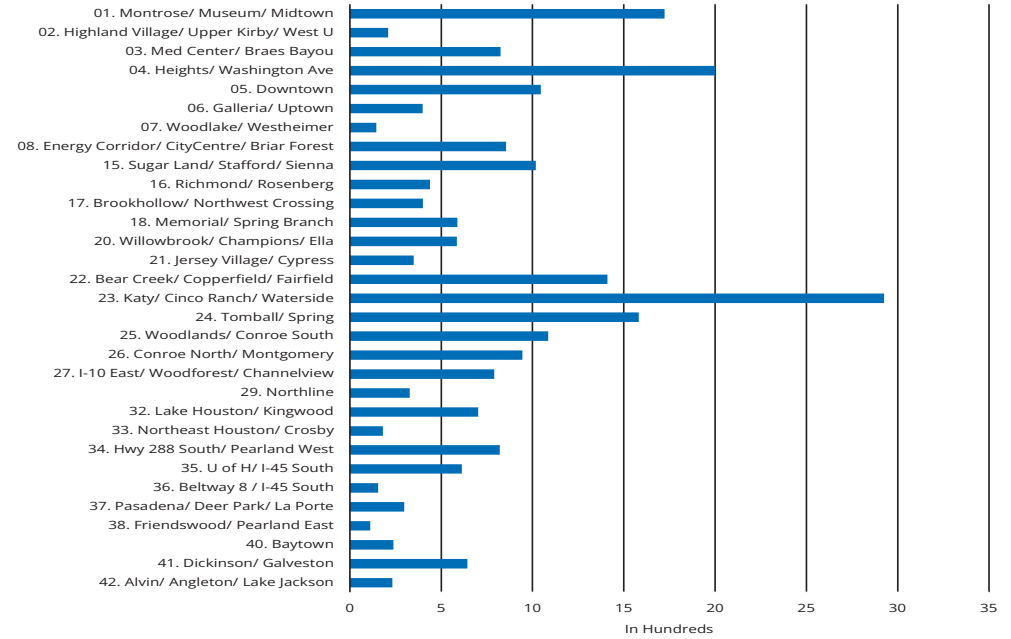


UNDER CONSTRUCTION

Nearly 25,000 Units Delivered in Past Year; 23,000 Now Underway

- Construction completions increased for the sixth quarter in a row to a net total of more than 5,208 operating units. A milestone of more than 5,000 units being delivered has not been seen since the first quarter of 2022. During the past 12 months, 91 multifamily communities have opened throughout metro Houston containing nearly 24,640 units. During the third quarter, move-ins began for the 462 units at Birchway Perry Road at 13611 Perry Rd in Willowbrook/ Champions/ Ella, Birchway Spring Cypress in Tomball/ Spring featuring 420 units, and Vic At Jordan Ranch in Katy/ Cinco Ranch/ Waterside for its 365 units. These three properties marked some of the largest by unit count to be delivered over the quarter and representation of the continued demand seen throughout Houston.
- Three significant deliveries include Kippford At Kemah Crossing containing 360 units in Clear Lake/ Webster/ League City, Fidelis Cypress Creek with 350 units, and Broadstone Cross Creek Ranch with 348 units in Katy/ Cinco Ranch/ Waterside. Occupancy for all multi-residential communities delivered over the quarter registers approximately 8.8 percent.
- Meanwhile, 90 communities are currently under construction with more than 23,000 units in the pipeline. The majority are in the Katy/ Cinco Ranch/ Waterside which features 2,925 units under development; the submarket continues to be a hotbed for population growth, and by proxy, multi-residential development. Coming in second for new development, and trailing by nearly 1,000 units, is Heights/ Washington Ave with exactly 2,000 units under construction. Montrose/ Museum/ Midtown ranked third with a total of 1,723 units under construction, and more interestingly marks the second submarket in the top-three to be part of Houston’s urban core. Currently, the five inner-loop submarkets have just over 5,800 units under construction, or 24.5 percent of the total Houston development pipeline.

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
Artistry Design District	Brookhollow/ Northwest Crossing	400	Q4 2024
Standard At Winrock	Galleria/ Uptown	398	Q2 2025
Modera Waugh	Montrose/ Museum/ Midtown	392	Q4 2023

Source: MRI Software, Transwestern

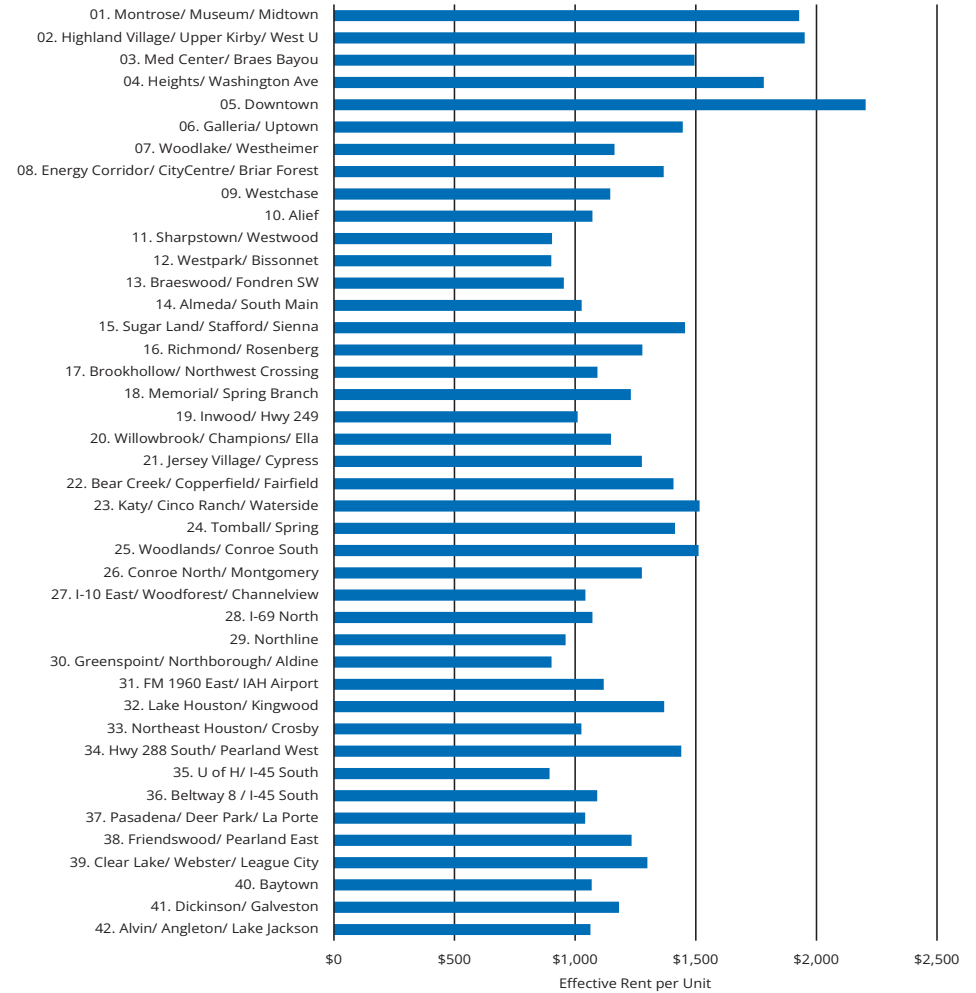


RENTAL RATES

Rents Stable with Largest Gains Seen on the Metro's North Side

- Annual apartment rents averaged \$1,277 per month throughout metro Houston in the third quarter, down from \$1,279 per month in Q2 2023. Effective rates per square foot also saw a \$0.01 decrease during the 90-day period with rents sliding to \$1.43/PSF/MO. On the flip side, the metro's overall rental rate, per month, has grown 1.3 percent from the same period last year. Houston and Dallas-Forth Worth were the only primary Texas markets to see positive gains over the past 12-months with Houston leading the positive growth by entire percentage point according to MRI Apartment Data.
- No submarkets recorded any double-digit rent gains year-over-year. Five submarkets reported rent gains exceeding five percent: Alvin/ Angleton/ Lake Jackson (8.8%), Northline (7.7%), Northeast Houston/ Crosby (7.6%), Sharpstown/ Westwood (6.8%), and Conroe North/ Montgomery (5.8%). Both Northline and Northeast Houston/Crosby were featured last quarter as making double-digit year-over-year rent gains and each house just above 10.0 percent of Class A space with the remaining space being evenly distributed between Class B, Class C, and Class D. Northline and Northeast Houston/ Crosby witnessed the overall average price per square foot increase by \$0.08/PSF/MO and \$0.11/PSF/MO, respectively.
- Out of Houston's 42 submarkets, 18 submarkets showed negative rent growth year-over-year with four decreasing by more than three percent: Downtown (6.5%), Friendswood/ Pearland East (3.7%), Montrose/ Museum/ Midtown (3.3%), and Energy Corridor/ CityCentre/ Briar Forest (3.1%).

ASKING RENT



Source: MRI Software, Transwestern

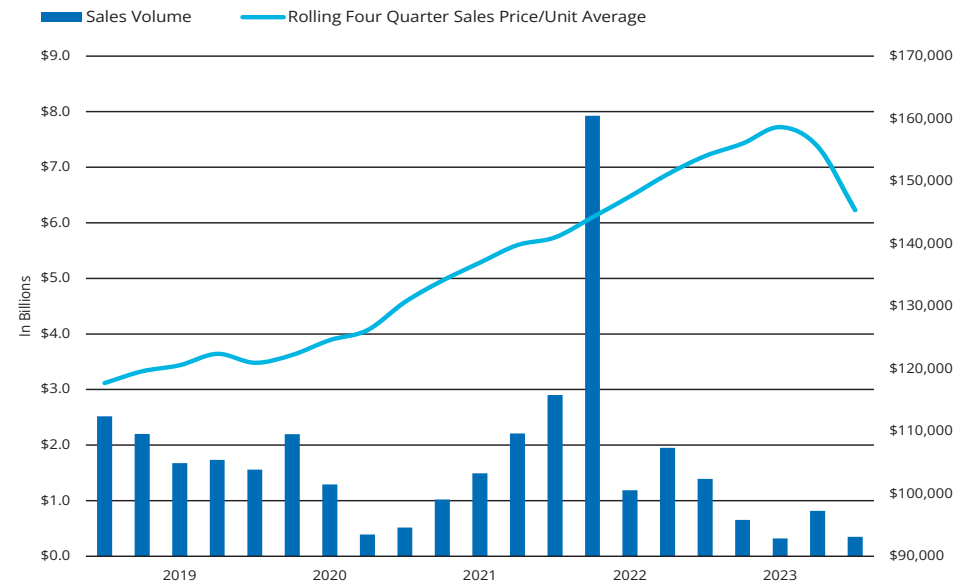


SALES

International Investors Net Buyers, All Others Sell Off During Q3 2023

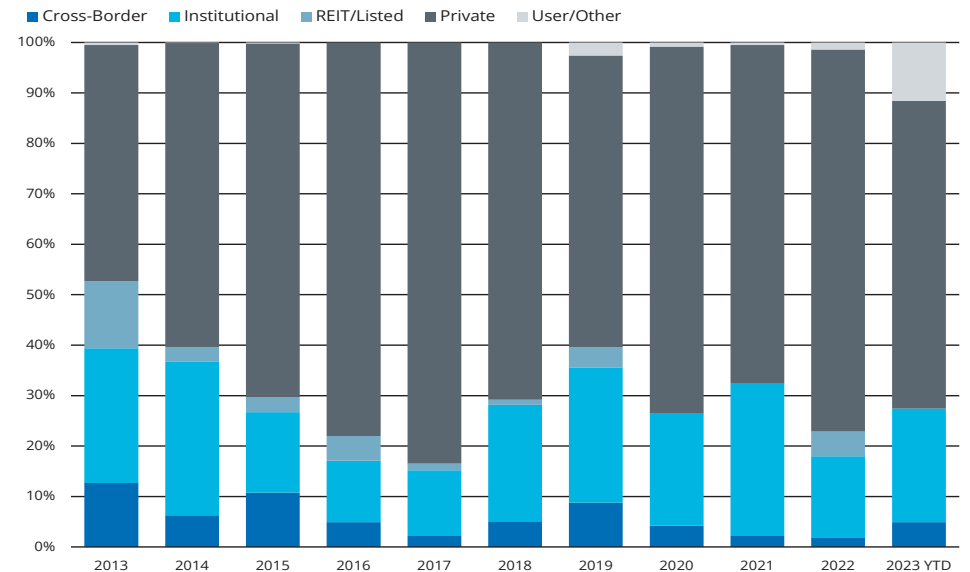
- Investors completed 10 Houston area multifamily property trades during the second quarter with acquisitions averaging \$114,082 per unit, a sharp 20.1 percent decrease from the previous period of \$142,733 per unit in Q2 2023 and down even further with a 26.3 percent decrease from \$154,790 per unit in Q3 2022.
- Net dispositions far-outweighed net acquisitions market-wide for the second quarter in a row, and five quarters where dispositions outpaced acquisitions throughout Houston. The private investment sector recorded net sales of \$111.1 million, the largest sell off for the quarter. Institutional investors clocked in the second largest quarterly sell off with \$52.3 million during the 90-day period, bringing their net holdings down to an estimated \$43.8 million. REITs clocked in the third largest quarterly sell off with \$44.8 million during the 90-day period and the investment sector’s first recorded market activity for 2023.
- International investors finished the quarter as the only group to make net positive acquisitions for their respective portfolio during the quarter, and the only group to finish in the black with net acquisitions throughout 2023, reaching just under \$10.0 million for the third quarter and \$39.4 million for 2023.
- A notable property trade announced during the quarter was from the Ellington Management Group, an opportunistic investment and advisory firm, acquired the Cabo San Lucas in Beltway 8/ I-45 South submarket. The Class C, 1,062-unit property, built in 1972, is located at the corner of Clear Wood Dr and Ledge St, and had an estimated 30.8 percent occupancy at the close of the quarter. The property was acquired from Dallas-based Applesway Investment Group, a multifamily property investment group, and more notably, made headlines for the foreclosure of four of its properties during Q2 2023.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



HOUSTON MULTIFAMILY MARKET INDICATORS

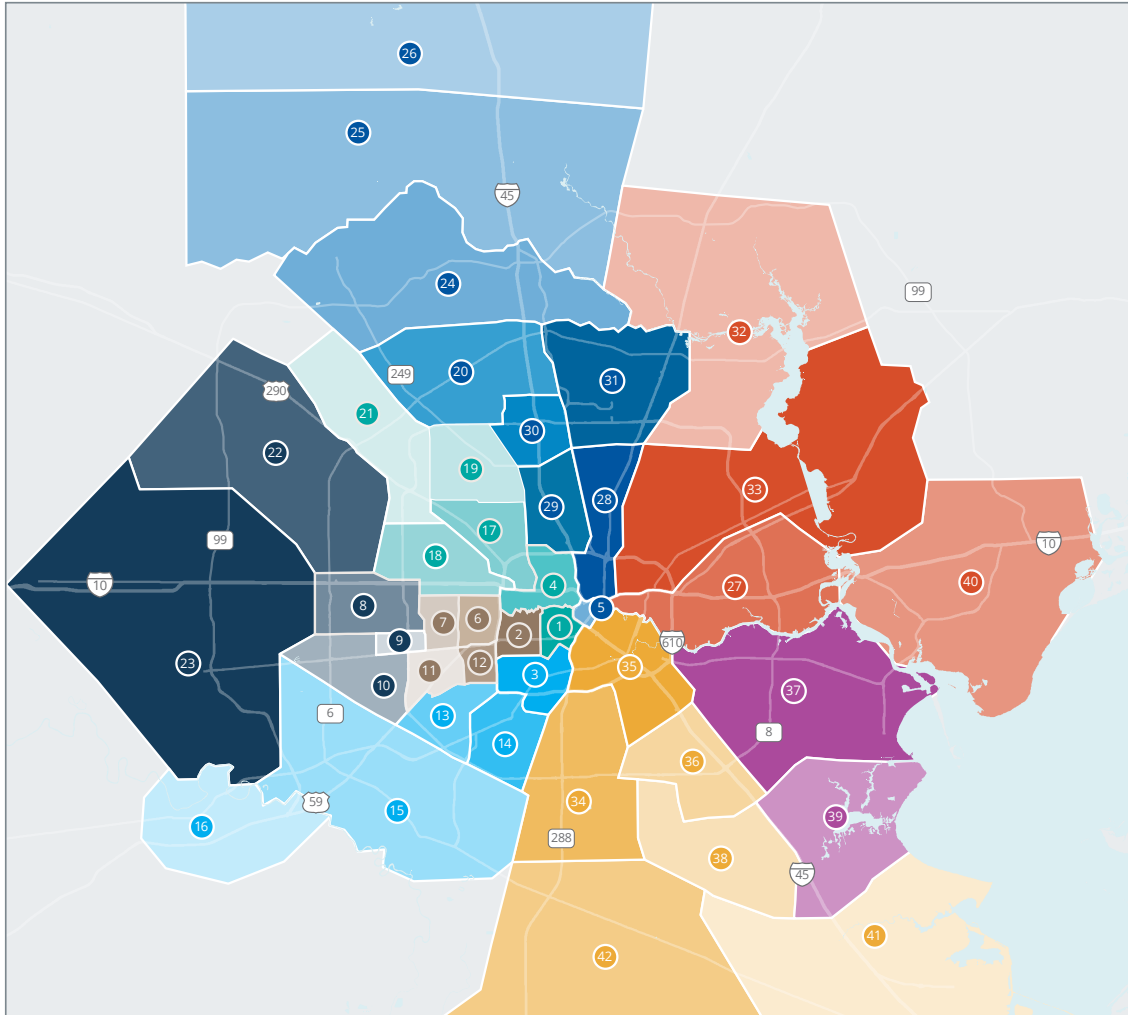
SUBMARKET (# CORRESPONDS TO MAP, PG 10)	# OF APT. COMMUNITIES	# OF APT. UNITS	OCCUPANCY	NET ABSORPTION UNITS	AVERAGE EFFECTIVE RENT	RENT % CHANGE YOY	UNITS UNDER CONSTRUCTION
1. MONTROSE/ MUSEUM/ MIDTOWN	76	18,818	89.8%	42	\$1,929	-3.3%	1,723
2. HIGHLAND VILLAGE/ UPPER KIRBY/ WEST U	68	19,168	93.2%	33	\$1,952	-2.5%	209
3. MED CENTER/ BRAES BAYOU	86	25,578	91.8%	192	\$1,495	-1.7%	825
4. HEIGHTS/ WASHINGTON AVE	76	18,672	89.2%	54	\$1,782	-2.1%	2,000
5. DOWNTOWN	30	7,830	80.7%	123	\$2,204	-6.5%	1,046
6. GALLERIA/ UPTOWN	104	24,787	91.0%	(64)	\$1,446	-0.6%	398
7. WOODLAKE/ WESTHEIMER	37	12,233	89.2%	2	\$1,163	-1.5%	145
8. ENERGY CORRIDOR/ CITYCENTRE/ BRIAR FOREST	110	33,973	90.4%	92	\$1,367	-3.1%	855
9. WESTCHASE	48	14,928	89.4%	(192)	\$1,145	-1.1%	-
10. ALIEF	113	27,589	90.9%	(20)	\$1,072	2.3%	-
11. SHARPSTOWN/ WESTWOOD	106	25,539	93.4%	(110)	\$904	6.8%	-
12. WESTPARK/ BISSONNET	57	16,881	92.7%	63	\$901	4.4%	-
13. BRAESWOOD/ FONDREN SW	84	22,335	88.1%	106	\$953	2.9%	-
14. ALMEDA/ SOUTH MAIN	27	5,351	87.2%	75	\$1,027	1.1%	-
15. SUGAR LAND/ STAFFORD/ SIENNA	69	16,566	90.2%	64	\$1,455	-1.6%	1,018
16. RICHMOND/ ROSENBERG	36	6,457	85.2%	53	\$1,279	2.9%	438
17. BROOKHOLLOW/ NORTHWEST CROSSING	99	21,991	90.4%	(22)	\$1,092	2.0%	400
18. MEMORIAL/ SPRING BRANCH	121	24,730	91.2%	142	\$1,231	1.6%	588
19. INWOOD/ HWY 249	31	6,030	89.3%	62	\$1,010	3.9%	-
20. WILLOWBROOK/ CHAMPIONS/ ELLA	162	41,344	88.5%	47	\$1,149	0.5%	586
21. JERSEY VILLAGE/ CYPRESS	69	16,750	92.2%	335	\$1,276	1.6%	349
22. BEAR CREEK/ COPPERFIELD/ FAIRFIELD	78	21,176	86.2%	479	\$1,408	2.0%	1,410



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	145	40,973	84.7%	779	\$1,516	-1.9%	2,925
24. TOMBALL/ SPRING	80	20,091	89.1%	61	\$1,414	-3.0%	1,582
25. WOODLANDS/ CONROE SOUTH	83	23,190	89.7%	192	\$1,512	-2.1%	1,086
26. CONROE NORTH/ MONTGOMERY	63	12,369	85.1%	143	\$1,277	5.8%	944
27. I-10 EAST/ WOODFOREST/ CHANNELVIEW	63	12,913	86.4%	294	\$1,042	0.0%	790
28. I-69 NORTH	31	4,999	88.0%	24	\$1,072	-0.6%	-
29. NORTHLINE	52	6,936	88.3%	(77)	\$960	7.7%	327
30. GREENSPPOINT/ NORTHBOROUGH/ ALDINE	69	17,674	86.9%	23	\$902	4.9%	-
31. FM 1960 EAST/ IAH AIRPORT	49	9,610	88.3%	(102)	\$1,118	1.2%	-
32. LAKE HOUSTON/ KINGWOOD	75	18,294	89.8%	32	\$1,369	-2.7%	703
33. NORTHEAST HOUSTON/ CROSBY	21	3,292	91.3%	(24)	\$1,026	7.6%	180
34. HWY 288 SOUTH/ PEARLAND WEST	54	13,779	89.4%	(6)	\$1,440	0.0%	821
35. U OF H/ I-45 SOUTH	122	19,346	91.9%	29	\$894	1.1%	613
36. BELTWAY 8 / I-45 SOUTH	50	14,073	85.1%	(49)	\$1,091	1.0%	154
37. PASADENA/ DEER PARK/ LA PORTE	127	24,449	87.4%	(168)	\$1,041	-0.3%	298
38. FRIENDSWOOD/ PEARLAND EAST	33	6,405	91.5%	(45)	\$1,234	-3.7%	111
39. CLEAR LAKE/ WEBSTER/ LEAGUE CITY	105	26,802	88.9%	100	\$1,299	-2.0%	-
40. BAYTOWN	59	11,207	89.5%	(19)	\$1,069	0.2%	238
41. DICKINSON/ GALVESTON	81	12,840	91.4%	(26)	\$1,182	1.9%	644
42. ALVIN/ ANGLETON/ LAKE JACKSON	75	12,462	83.7%	309	\$1,063	8.8%	232
GREATER HOUSTON TOTALS	3,124	740,430	89.2%	3,026	\$1,277	1.3%	23,638

Source: MRI Software, Transwestern



- | | | | |
|---|-------------------------------------|--------------------------------------|------------------------------------|
| 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.

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