

HOUSTON MULTIFAMILY MARKET

Q4 2023



TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE (%)	4.5	3.9	↑	5.5	↓
NET ABSORPTION (Units)	2,985	(767)	↑	3,712	↑
OCCUPANCY RATE (%)	89.0%	90.6%	↓	89.9%	↔
UNITS (Total)	745,377	720,599	↑	696,590	↑
EFFECTIVE RENT (Unit)	\$1,261	\$1,250	↑	\$1,142	↔
SALES VOLUME (Millions)	\$417	\$655	↓	\$1,629	↓

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

NEW DELIVERIES DOMINATE ABSORPTION BUT OUTPACING DEMAND BY 3:1 AT YEAR-END

Multifamily renters took down an additional 2,985 units this quarter, bringing the 2023 calendar year total to more than 10,425 throughout metro Houston. This fourth quarter marked a year of consecutive gains for each 90-day period and leaves Houston ranking only behind Dallas-Fort Worth for the strongest unit demand statewide in the past 12-month period. The Class A sector continues its dominance of capturing demand from renters, where new tenants occupied a net total of nearly 3,054 apartment homes.

As expected with the tracked pipeline, Houston area developers outpaced new demand with an approximate 8,295 units delivered, or a nearly 3:1 ratio for every unit occupied this quarter. This result is seen in the metro’s average occupancy and rental rate stats. Average occupancy fell 20 basis points to 89 percent, with the new supply temporarily outpacing current demand. As for average asking rent per unit, the elevated levels of new supply, average asking rent across all property categories fell for the third period in a row, decreasing slightly by 1.3 percent to \$1,261 per month.

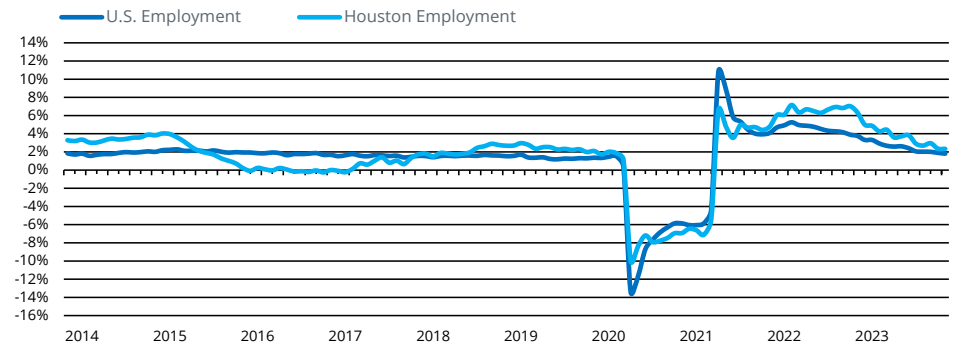


ECONOMY

Strong Steady Job Growth, Lower Inflation and Local Economic Expansion Projected for 2024

- The Houston metro is coming off several years of record economic growth during the closing quarter of 2023. The expansion is expected to continue into 2024 but at a more measured pace, according to the employment forecast released in December by the Greater Houston Partnership (GHP). Metro Houston created 3,600 jobs in December, according to the Texas Workforce Commission (TWC). The most recent monthly jobs report nudged gains for 2023 to 70,100 jobs, below what the region created in 2021 and 2022, which were historically record years for Houston. Still, the region is on track to add another 57,600 during 2024, with all sectors seeing positive gains except construction, real estate, and finance insurance and information.
- Bank of America is projecting the U.S. will see interest rate cuts starting in the first half of next year and quarterly thereafter as inflation mitigates. Inflation tracked above 3.0 percent nationwide during 2023 but is anticipated to fall to 2.5 percent by December 2024.
- The GHP sees no U.S. or local recession in 2024, a prediction echoed by recent data from the Federal Reserve Bank of San Francisco and the Federal Reserve Bank of New York. Economic activity in Houston continued to expand in December but the components showed mixed results. The non-manufacturing sector expanded at a faster pace and manufacturing continued to report spot softness, according to the most recent Houston Purchasing Managers Index (PMI) prepared by the Institute for Supply Management-Houston. The overall PMI fell 60 basis points to 51.4, down from 52.0 in November. Readings above 50 indicate overall expansion of the economy, below 50, contraction.

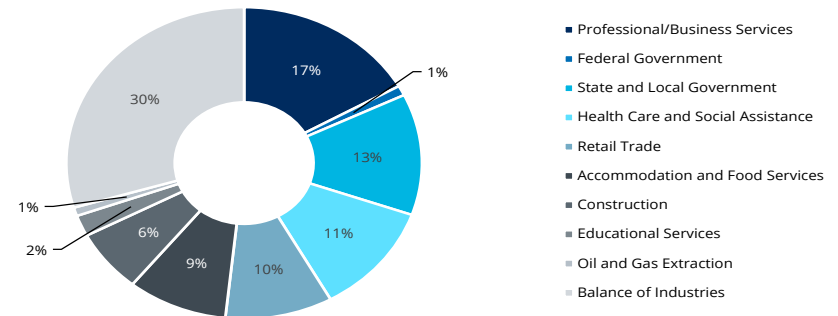
Y-O-Y CHANGE IN JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

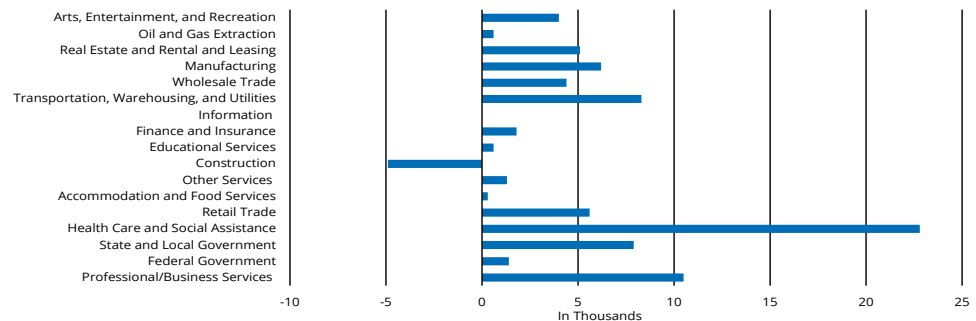
Houston | November 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Houston | November 2023



Source: Bureau of Labor Statistics, Transwestern

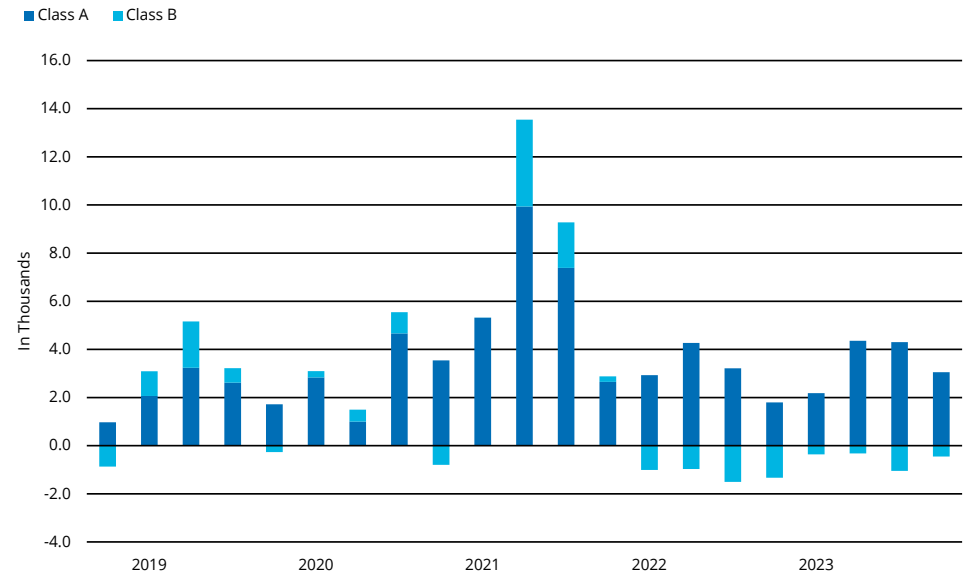


NET ABSORPTION

Total Net Absorption Surpasses 10,000 Units Again in 2023

- Renters took down an additional 2,985 units this quarter, bringing the year-end total to 10,400 new move-ins. This marks the fourth year out of the past five with net absorption above 10,000 units for the entire calendar year. Looking outwards towards Texas's primary markets, Houston ranks second in total 12-month absorption, trailing behind Dallas-Fort Worth's 13,605 units. Austin followed with 9,021 units and San Antonio gained 4,462 units.
- Five submarkets experienced notable growth this quarter with absorption surpassing more than 200 units in the past 90 days. Four of the five submarkets are considered suburban communities, the one exception being Heights/ Washington Ave, and in descending order by absorption include Katy/ Cinco Ranch/ Waterside (605 units), Woodlands/ Conroe South (277 units), Bear Creek/ Copperfield/ Fairfield (263 units), Heights/ Washington Ave (243 units), and Braeswood/ Fondren SW (213 units).
- Ten submarkets recorded net absorption losses this quarter, one of which, Willowbrook/ Champions/ Ella, posted triple-digit negative absorption at 116 units mainly in Class B properties.
- Positive net absorption was aided by Class A, C, and D this quarter with Class A taking the lion share of net positive activity to the tune of 3,054 units being absorbed during the fourth quarter. Only Class B buildings recorded a net loss during the fourth quarter totaling 453 units of negative absorption during the period.

NET ABSORPTION BY CLASS



Source: MRI Software, Transwestern

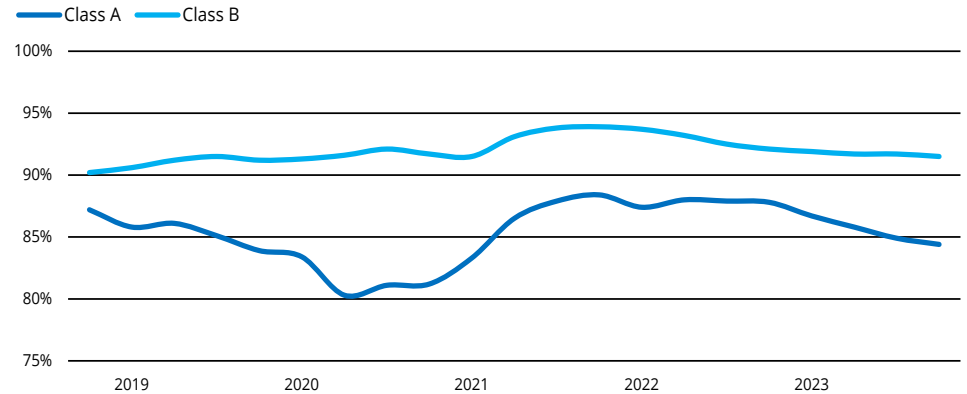


OCCUPANCY

Downtown Records 3.3% Year-End Bump, While Suburban New Supply Outpaces Demand

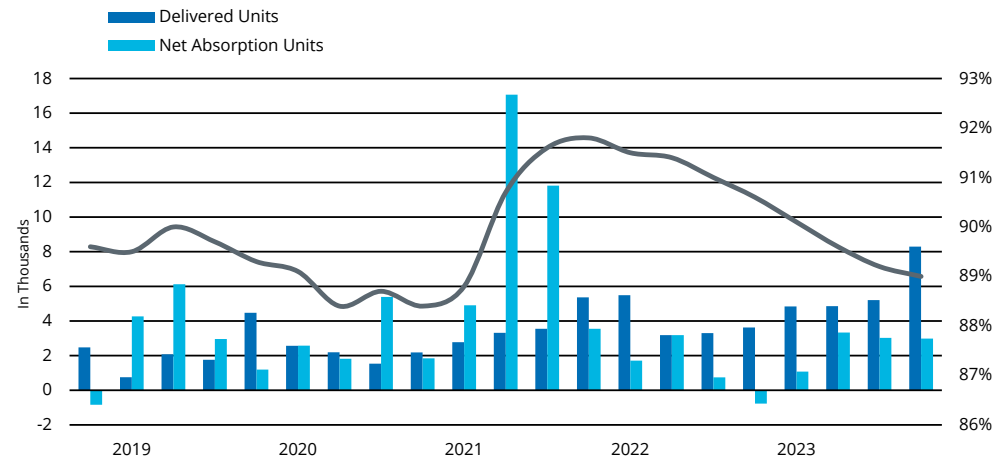
- Houston’s overall metro occupancy this quarter measured 89.0 percent, dipping 20 basis points over Q3 and a year-over-year decline of 1.6 percent. Much of the space givebacks, which ultimately reflects slower demand, is seen in Class B, C, D, where the respective building classes gave back a combined 4,234 units during 2023.
- Class A properties finished with an 84.4 percent occupancy, decreasing slightly by 50 basis points during the period, while Class B properties also decreased over the 3-month period, finishing the fourth quarter down 20 basis points at 91.5 percent.
- Out of the 42 tracked submarkets, only nine experienced elevated occupancy at the close of Q4. The largest gains were seen in Downtown where occupancy rose 3.3 percent, Friendswood/ Pearland East gained 2.9 percent, and Alvin/ Angleton/ Lake Jackson increased 2.7 percent. All three submarkets currently have new units under construction: 1,046 units, 111 units, 232 units, respectively, while Downtown and Alvin/ Angleton/ Lake Jackson also offered the keys to new residents as move ins began for 1,306 units in Downtown and 114 units in Alvin/ Angleton/ Lake Jackson.
- Negative occupancy growth throughout Houston’s submarkets has been the story for 2023, and Q4 has been no exception, with 32 submarkets posting a contraction in occupancy quarter-over-quarter, though, 10 of those submarkets experienced marginal occupancy decreases of 1.0 percent or less. Richmond/ Rosenberg and Tomball/ Spring occupancies fell by 11.4 percent and 8.9 percent, respectively, both being noted for a dip greater than 8.0 percent during the period. It is worth noting that both submarkets have recently delivered a combined 3,127 units over the past 12 months; 2,194 units in Tomball/ Spring, and 1,023 units in Richmond/ Rosenberg.

OVERALL OCCUPANCY RATE BY CLASS



Source: MRI Software, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: MRI Software, Transwestern

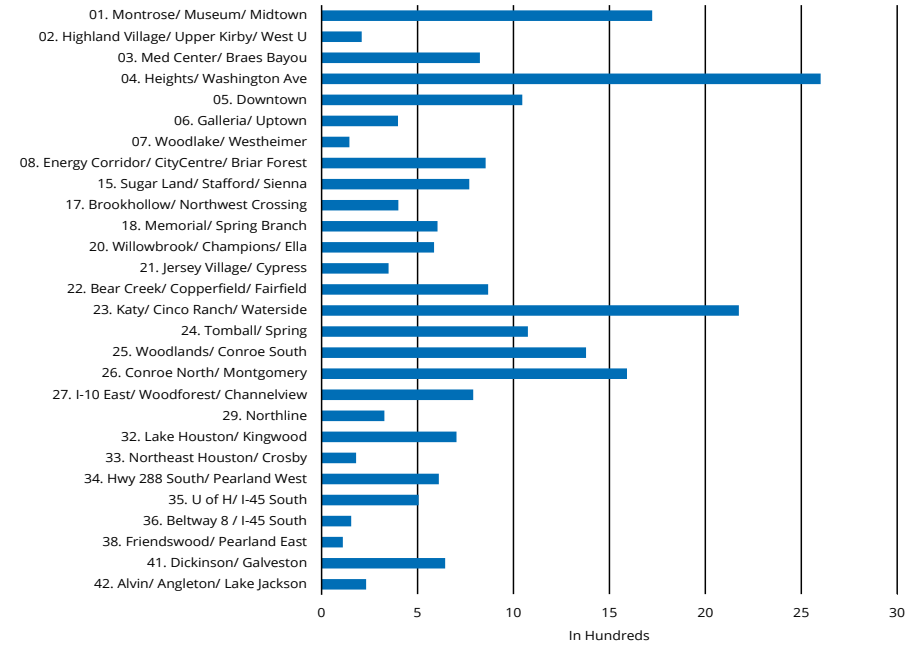


UNDER CONSTRUCTION

Record Deliveries Point Towards a More Tempered Pipeline in 2024, Coming Off Searing Two-Year Pace

- Construction completions increased for the seventh quarter in a row to a net total of 8,295 operating units. This milestone shattered the previous 5-year record of 5,493 units delivered in first quarter of 2022. During 2023, 98 multifamily communities have opened throughout metro Houston containing nearly 26,171 units. During the fourth quarter, move-ins began for the 372 units at Elev8 at 1801 Smith St, a recent office to multifamily conversion, and the 371-unit Broadstone EaDo, both of which are in the Downtown submarket, and The Laura in I-10 East/ Woodforest/ Channelview featuring 360 units.
- Three notable properties that stand out due to their current lease-up status and high unit count this quarter include Alta Sergeant containing 354 units in Conroe North/ Montgomery, Allora Cinco Ranch with 351 units in Katy/ Cinco Ranch/ Waterside, and Allora Gosling with 351 units in Tomball/ Spring. Occupancy for all multi-residential communities delivered over the quarter registered approximately 4.5 percent.
- Meanwhile, 81 communities are currently under construction with just over 21,850 units in the pipeline coming down from its Q3 volume of nearly 23,000 new units. As the pipeline sees more deliveries than starts, 2024 will be a year marked with a relative tempering from the white-hot rate of the previous two years.
- Still, most new projects are in Heights/ Washington Ave with 2,601 units under development, Katy/ Cinco Ranch/ Waterside featuring 2,175 units under construction, and Montrose/ Museum/ Midtown with 1,723 units under construction. These three submarkets represent the current demand trends found throughout Houston, but for much different reasons. Katy/ Cinco Ranch/ Waterside represents suburban demand as both the office-using and industrial-using employers choose premium workplace accommodation along the Katy Freeway in the Energy Corridor, while Heights/ Washington Ave and Montrose/ Museum/ Midtown represent the metro’s urban core which commands 29.3 percent of all units currently under construction and reemphasizes Houston’s overall and well distributed demand.

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

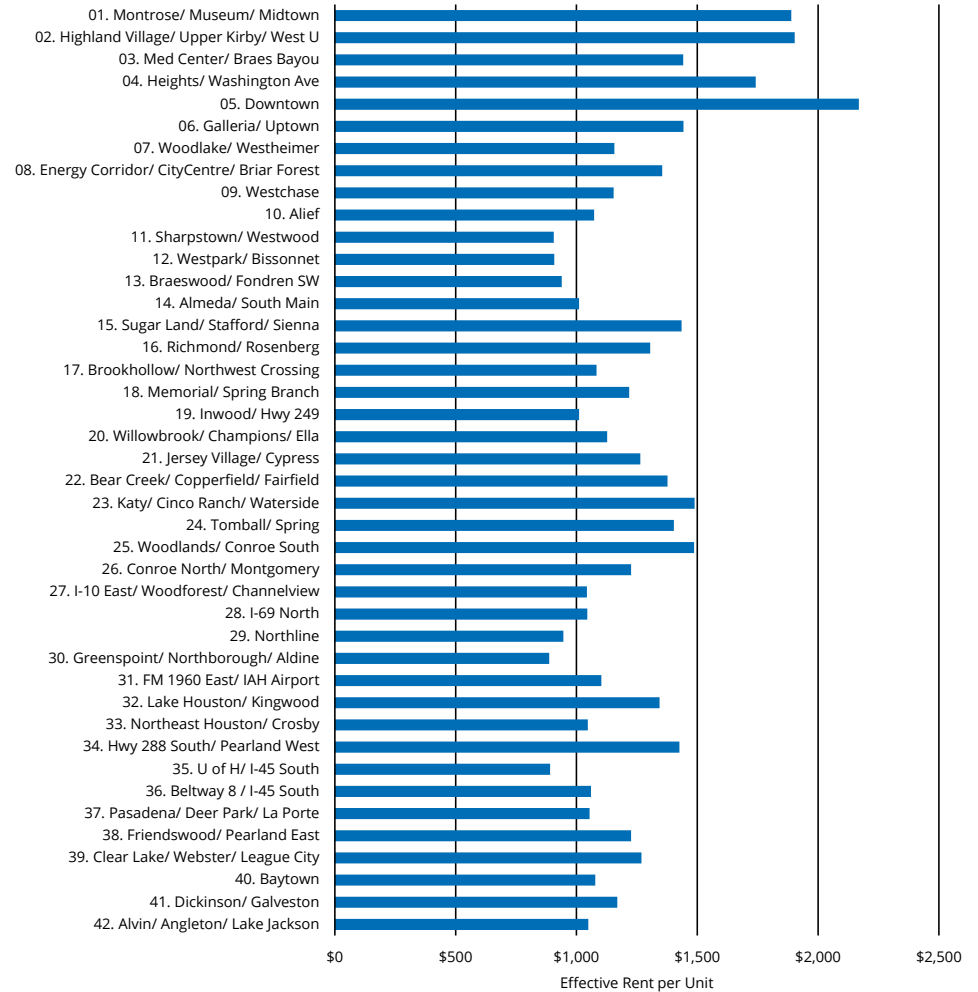


RENTAL RATES

Suburban Markets Dominate 2023's Growth

- Overall monthly rents expanded 1.3 percent during 2023. Notably, Houston was the only primary Texas market to see positive gains over the prior 12-month period with the metro leading positive growth by just under a percentage point according to MRI Apartment Data.
- Meanwhile, in the most recent indicators, annual apartment rents averaged \$1,261 per month throughout Houston during the final quarter, down from \$1,277 per month in Q3 2023. Effective rates per square foot also saw a \$0.02 decrease during the 90-day period with rents sliding to \$1.41/PSF/MO. Overall seasonal leasing slowdowns coupled with slumping Class B and C fundamentals in spot submarkets concentrated on the suburban north and northeast sides contributed to the slight overall decline.
- Alvin/ Angleton/ Lake Jackson and U of H/ I-45 South were two submarkets with a concentration of Class B and C properties that cataloged double-digit rent gains year-over-year. Alvin/ Angleton/ Lake Jackson clocked in an impressive 12.5 percent bump year-over-year, the growth is further emphasized when looking towards the submarket's recent delivery of 454 units over the past 12-month period, and currently features 232 units under construction; a sign of strong and improving market fundamentals and demand. U of H/ I-45 South took the silver with its year-over-year rent gains of 10.6 percent. Much like its quarterly counterpart, the submarket featured important rent gains along with a very strong development pipeline with 154 units currently under construction, and 855 units beginning move ins over the past 12 months.
- Additional submarkets with noteworthy 12-month rent growth include Westpark/ Bissonnet measuring 9.4 percent, I-69 North increasing 9.0 percent, and Conroe North/ Montgomery rising 8.5 percent. All three submarkets have high concentration of Class B and Class C communities which reflect the trend of residents' migration to more cost-effective housing in suburban markets, a continuing theme seen in Metro Houston throughout 2023.

ASKING RENT



Source: MRI Software, Transwestern

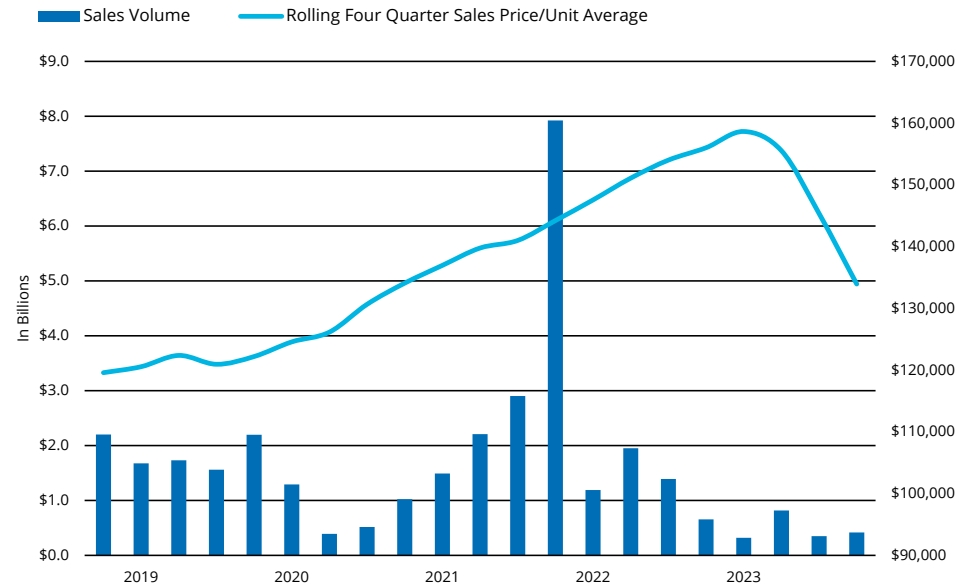


SALES

Institutions Net Buyers in 2023, All Other Investors Sell Off During Year

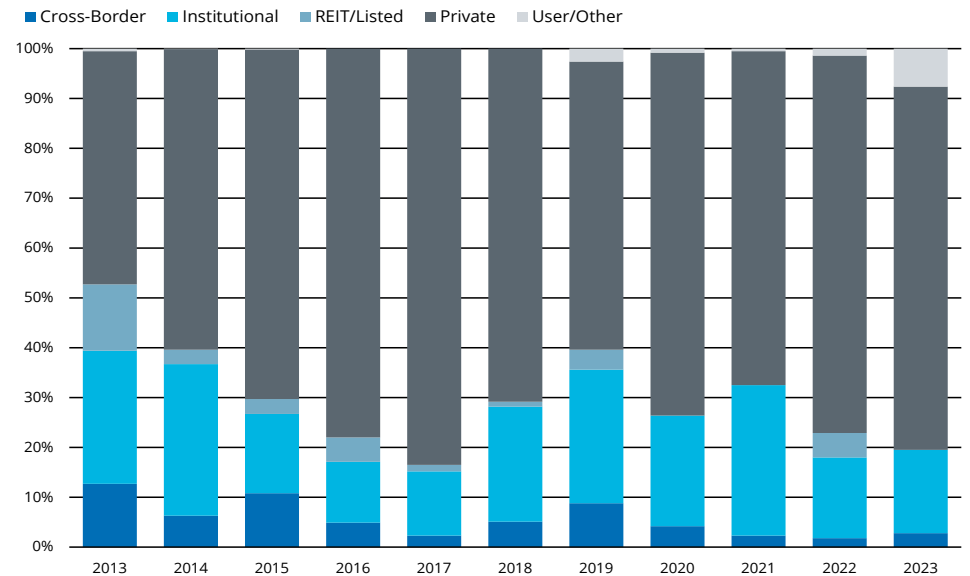
- Investors completed 15 Houston area multifamily property trades during the fourth quarter with acquisitions averaging \$114,234 per unit, a marginal 13 basis point increase from the previous period of \$114,082 per unit in Q3 2023, and a momentous 28.6 percent decrease from \$159,927 per unit in Q4 2022.
- Acquisitions outpaced dispositions in the final quarter of 2023 led by the private buyer group. Still, for the year, 2023 reflects a market-wide net sell-off that was shown to be a consistent quarterly Houston pattern throughout the year. Private capital buyers purchased a net total of \$246.9 million during Q4 but finished 2023 with more sales than purchases to the tune of \$195.9 million. REITs were the only other investment sector to post positive acquisitions for the quarter for a net total of \$44.9 million, bringing REITs to net even for the year with neither acquisitions nor dispositions outweighing each other.
- International investors finished the quarter and 2023 as net sellers, disposing a net total of \$151.2 million, reversing their Q3 strategy when the group was the only sector to be net buyers and bringing their year-end portfolio to a net \$111.8 million. Institutional investors were the second capital group to be net sellers during the 90-day period, but their strategy was much more tempered by market comparison to the other buyer groups. Institutional investors only disposed of a net \$6.3 million during the quarter, bringing their 2023 portfolio to a net positive \$37.4 million.
- A notable property trade announced during the quarter was from San Diego-based CEG Multifamily, a real estate investment firm, acquiring the Mille Miglia in the Conroe North/ Montgomery submarket. The Class B, 323-unit property, built in 2021, is located at the corner of Drennen Rd and Plantation Dr, and had an estimated 80.0 percent occupancy at the close of the quarter.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



HOUSTON MULTIFAMILY MARKET INDICATORS

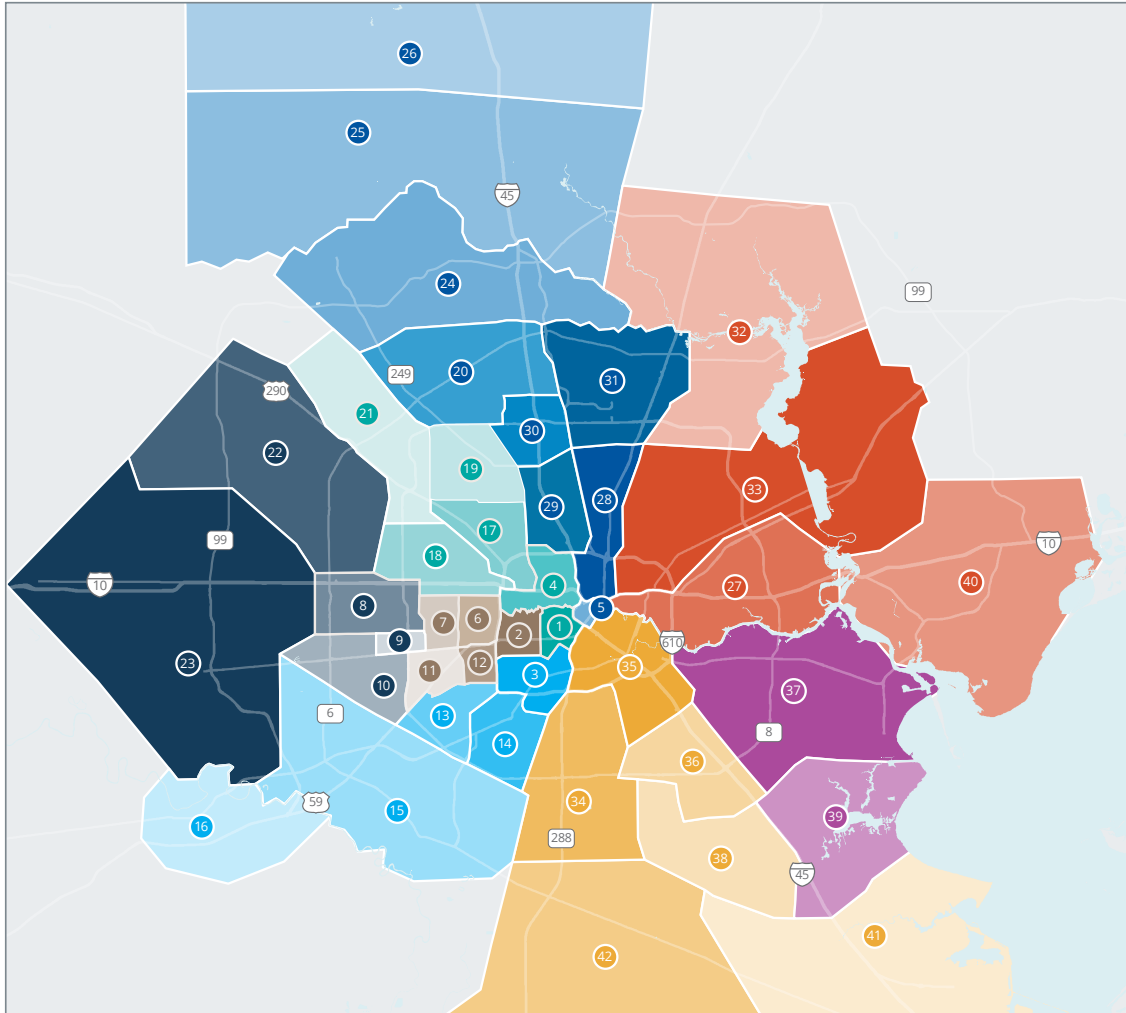
SUBMARKET (# CORRESPONDS TO MAP, PG 10)	# OF APT. COMMUNITIES	# OF APT. UNITS	OCCUPANCY	NET ABSORPTION UNITS	AVERAGE EFFECTIVE RENT	RENT % CHANGE YOY	UNITS UNDER CONSTRUCTION
1. MONTROSE/ MUSEUM/ MIDTOWN	76	18,818	90.2%	77	\$1,899	4.8%	1,723
2. HIGHLAND VILLAGE/ UPPER KIRBY/ WEST U	68	19,167	92.8%	(86)	\$1,903	(3.0%)	209
3. MED CENTER/ BRAES BAYOU	86	25,579	91.6%	(49)	\$1,442	6.3%	825
4. HEIGHTS/ WASHINGTON AVE	77	18,781	90.4%	243	\$1,742	0.7%	2,601
5. DOWNTOWN	30	7,830	83.0%	157	\$2,169	4.1%	1,046
6. GALLERIA/ UPTOWN	104	24,787	91.1%	16	\$1,443	1.7%	398
7. WOODLAKE/ WESTHEIMER	37	12,233	89.4%	26	\$1,157	(2.8%)	145
8. ENERGY CORRIDOR/ CITYCENTRE/ BRIAR FOREST	110	33,973	90.4%	7	\$1,355	3.5%	855
9. WESTCHASE	49	14,928	89.5%	(56)	\$1,154	0.2%	-
10. ALIEF	113	27,589	90.4%	(73)	\$1,073	0.9%	-
11. SHARPSTOWN/ WESTWOOD	106	25,539	93.8%	93	\$906	2.0%	-
12. WESTPARK/ BISSONNET	57	16,881	92.4%	(65)	\$908	9.4%	-
13. BRAESWOOD/ FONDREN SW	84	22,335	89.1%	213	\$939	1.9%	-
14. ALMEDA/ SOUTH MAIN	27	5,351	87.4%	17	\$1,011	1.1%	-
15. SUGAR LAND/ STAFFORD/ SIENNA	70	16,814	89.8%	157	\$1,435	5.3%	770
16. RICHMOND/ ROSENBERG	38	6,895	80.4%	60	\$1,305	(5.5%)	-
17. BROOKHOLLOW/ NORTHWEST CROSSING	99	21,991	90.3%	(33)	\$1,083	0.3%	400
18. MEMORIAL/ SPRING BRANCH	122	25,054	90.1%	88	\$1,218	(0.2%)	604
19. INWOOD/ HWY 249	31	6,030	91.0%	86	\$1,011	4.4%	-
20. WILLOWBROOK/ CHAMPIONS/ ELLA	162	41,344	88.0%	(116)	\$1,127	(2.6%)	586
21. JERSEY VILLAGE/ CYPRESS	69	16,750	92.4%	26	\$1,264	4.3%	349
22. BEAR CREEK/ COPPERFIELD/ FAIRFIELD	80	21,815	84.9%	263	\$1,377	4.6%	868



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	148	41,877	84.4%	605	\$1,489	2.0%	2,175
24. TOMBALL/ SPRING	84	21,301	83.9%	(4)	\$1,403	2.5%	1,075
25. WOODLANDS/ CONROE SOUTH	83	23,190	90.9%	277	\$1,487	5.2%	1,378
26. CONROE NORTH/ MONTGOMERY	63	12,509	85.5%	54	\$1,226	8.5%	1,592
27. I-10 EAST/ WOODFOREST/ CHANNELVIEW	63	12,913	86.8%	101	\$1,043	4.8%	790
28. I-69 NORTH	31	4,999	89.6%	84	\$1,045	9.0%	-
29. NORTHLINE	52	6,936	90.2%	70	\$946	2.1%	327
30. GREENSPPOINT/ NORTHBOROUGH/ ALDINE	69	17,674	86.2%	(80)	\$887	(1.8%)	-
31. FM 1960 EAST/ IAH AIRPORT	49	9,610	90.0%	166	\$1,103	0.7%	-
32. LAKE HOUSTON/ KINGWOOD	75	18,294	90.5%	101	\$1,344	(4.9%)	703
33. NORTHEAST HOUSTON/ CROSBY	21	3,292	90.5%	(25)	\$1,047	(6.5%)	180
34. HWY 288 SOUTH/ PEARLAND WEST	55	13,989	88.6%	37	\$1,426	5.6%	611
35. U OF H/ I-45 SOUTH	123	19,453	91.7%	6	\$891	10.6%	506
36. BELTWAY 8 / I-45 SOUTH	51	14,155	83.9%	17	\$1,060	(0.1%)	154
37. PASADENA/ DEER PARK/ LA PORTE	128	24,747	86.9%	114	\$1,054	2.4%	-
38. FRIENDSWOOD/ PEARLAND EAST	33	6,405	93.0%	98	\$1,226	0.6%	111
39. CLEAR LAKE/ WEBSTER/ LEAGUE CITY	105	26,802	89.9%	152	\$1,269	6.6%	-
40. BAYTOWN	60	11,445	87.7%	5	\$1,078	6.7%	-
41. DICKINSON/ GALVESTON	81	12,840	91.8%	50	\$1,169	2.5%	644
42. ALVIN/ ANGLETON/ LAKE JACKSON	75	12,462	84.5%	106	\$1,049	12.5%	232
GREATER HOUSTON TOTALS	3,144	745,377	89.0%	2,985	\$1,261	0.9%	21,857

Source: MRI Software, Transwestern



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|---|-------------------------------------|--------------------------------------|------------------------------------|
| 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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