



Houston, TX

MARKET INSIGHT REPORT



FALL
2023

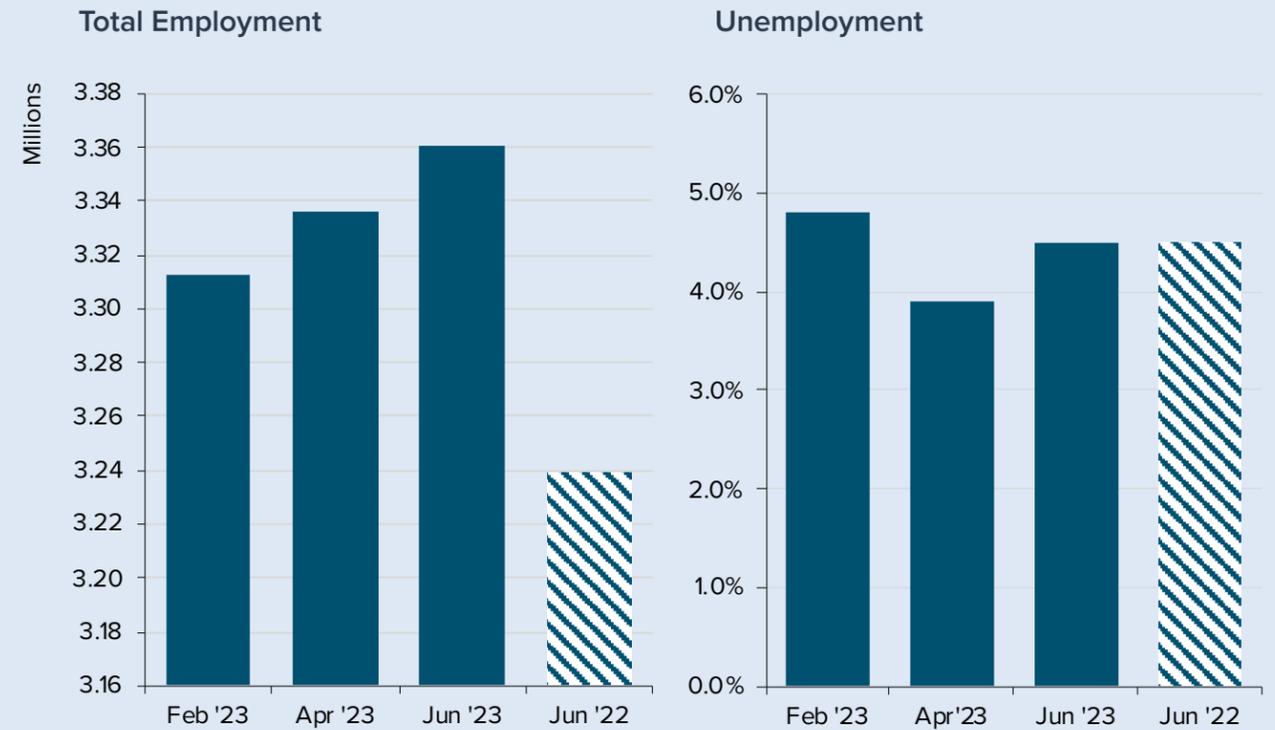
Employment / Unemployment

Greater Houston is the fifth-largest and second fastest-growing metropolitan area in the nation. Houston's population is one of the youngest and most diverse in the world, and its economy ranks among the top largest in the U.S. Houston's economy contains a broad base in the industries of energy, business, technology, international trade, manufacturing, aeronautics, transportation, education, medicine, and research. Houston is home to two international airports, the Ellington Space Port, and the Port of Houston, the nation's largest port for waterborne tonnage. Houston led the nation in exports in 2022, shipping nearly \$192 billion in commodities and goods abroad. Greater Houston is experiencing rapid population growth and a surge in construction, particularly in commercial, multifamily, manufacturing, hospital, and infrastructure projects.



Texas Medical (TMC) is the largest medical center in the world, and over 106,000 area residents are employed at the campus. Construction is underway on the nation's largest life science campus at TMC. The 37-acre development project named TMC3 is backed by \$1.8 billion in financing from leading life science investment and property development teams. TMC3 is expected to create 26,000 permanent jobs and generate an economic impact of \$5.2 billion for the region. The Texas Medical Center welcomes patients from across the globe and is also a significant contributor to the local tourism industry.

- 21,600 net non-farm jobs were added over the past 12 months.
- The education and health services supersector had the largest 12-month job growth rate increase at 6.1% and 25,800 positions added, followed by professional and business services with a job growth rate of 5.2% and 28,100 jobs added. The trade, transportation and utilities sector added 31,600 new jobs, a 4.8% increase.
- 2022 ranked as the best job growth year on record for Houston with 179,000 jobs added, exceeding the previous record set in 2021 when nearly 160,000 jobs were gained.
- The Houston MSA has averaged 65,000 new jobs annually from 2010 to 2019.
- The health care industry will remain strong regardless of potential recession depth and duration.
- Downturns in industries that are most susceptible to rising inflation will be offset by the overall job growth across all sectors.



Metro Area Employment (Thousands)	June 2023	% from June 2022	
		Houston	National
Total Non-farm	3360.8	3.8%	2.4%
Mining, Logging, and Construction	292.4	1.4%	5.5%*
Manufacturing	232.8	4.1%	1.2%
Trade, Transportation, and Utilities	692.9	4.8%	0.7%
Information	33.1	0.3%	0.1%
Financial Activities	184.7	3.6%	1.1%
Professional and Business Services	565.2	5.2%	2.1%
Education and Health Services	446.2	6.1%	4.2%
Leisure and Hospitality	351.1	0.6%	4.7%
Other Services	119	0.2%	3.2%
Government	443.4	3.3%	2.8%

Sources: U.S. BLS, Current Employment Statistics

Houston Rental Market

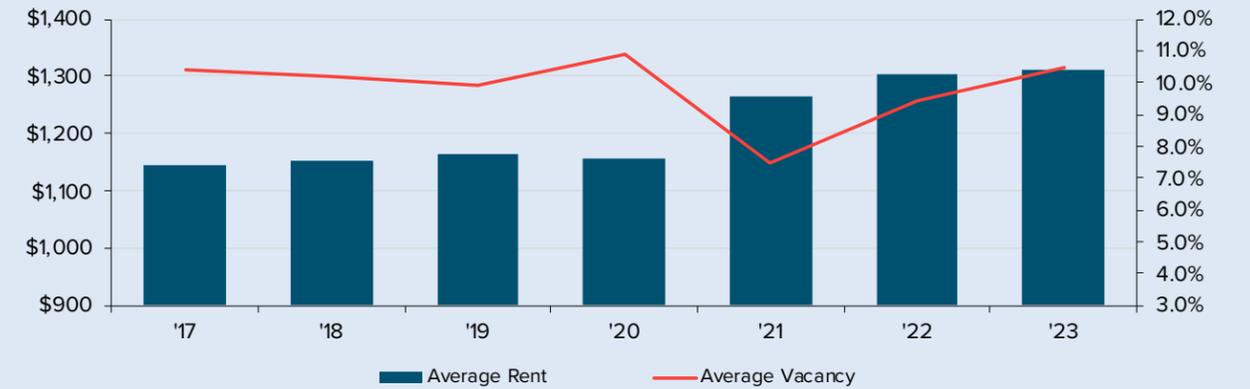
- At the beginning of Q3 2023, year-over-year average asking rent was \$1,320, and year-over-year rent growth was 1.0%.
- Mid-tier / 3-star properties had the largest rent gains with a 12-month rent growth rate of 2.1%. 12-month rent growth in the 4- and 5-star asset class decreased by -0.2%.
- While year-over-year rent growth decelerated significantly from its peak of 9.4% in the fourth quarter of 2021, the Houston MSA is outperforming Austin, Dallas-Fort Worth, and San Antonio. The trend is expected to continue through 2024.
- The number of multifamily properties offering concessions has increased across the metro area from 15% in June 2022 to 27% in June 2023.
- Vacancy rates are expected to continue to rise in the second half of 2023 and into 2024 if demand continues to soften, resulting in lower absorption of new supply.
- Should CoStar's predicated baseline scenario of a moderate recession come to fruition, rent growth would continue to slow in the near term.



+1.0%

Average new lease asking rents are at \$1,320, up 1.0% from the previous year.

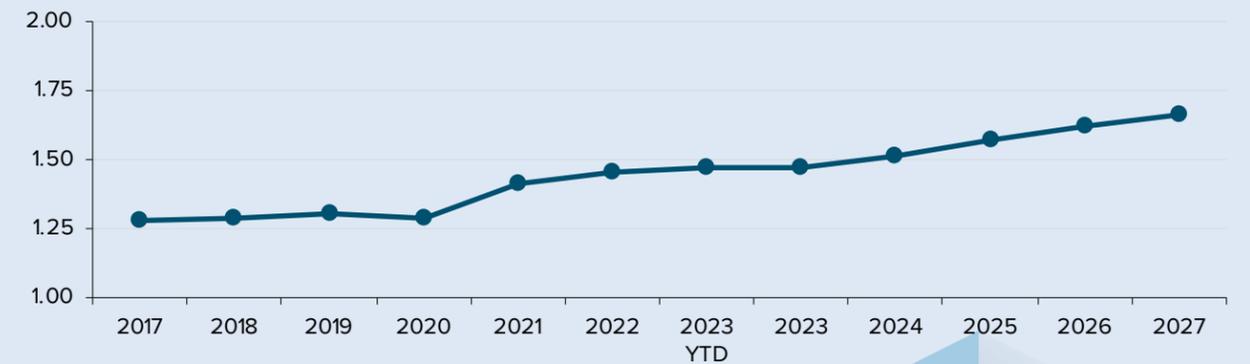
Average Rent / Vacancy



Asking Rent Comparison



Asking Rent / SF



Source: CoStar, GRE Research, *Projected

Multifamily Construction

Houston's surging population and economic growth have triggered a flurry of construction, particularly in the multifamily market. Houston ranked among the top three metros in the U.S. for new supply growth over the past 10 years, adding roughly 160,000 units. Over 88% of those units were in the higher-tier / 4- and 5-star asset categories. The pace of construction remains similar to recent years, despite the economic challenges like higher construction costs and lingering supply chain issues.

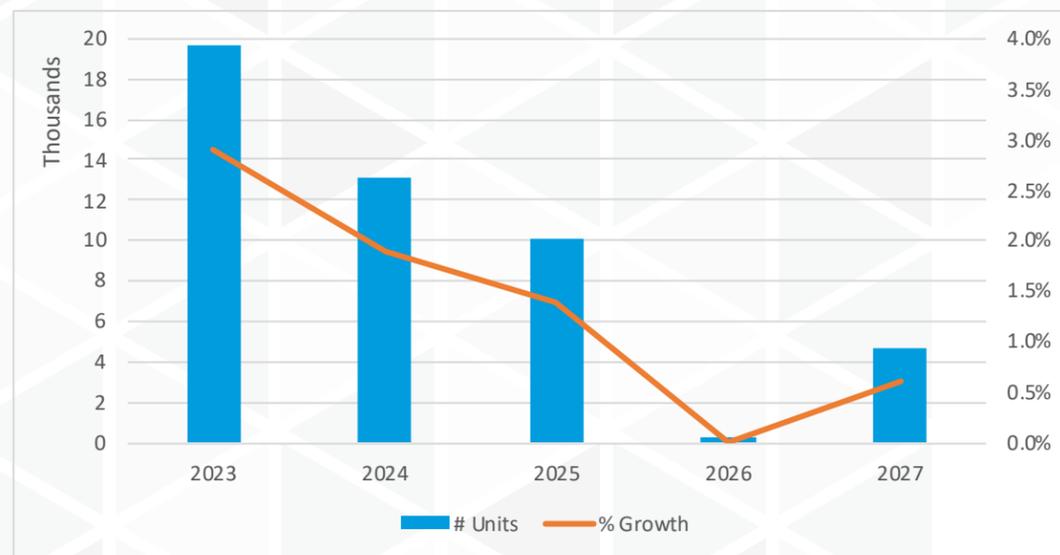
- Approximately 31,000 units are currently under construction compared to the Houston market's five-year historic average of 29,000 units.
- Rapidly expanding, affluent suburban areas like Northwest Houston, Bear Creek / Copperfield, and Richmond / Rosenberg are the primary drivers of construction demand.
- Mixed-use development in the multifamily market is trending in dominant retail areas including Nartown / River Oaks.
- Single family build-to-rent development is making a notable appearance with 3,300 units currently under construction. 1,800 units, or about 10% of the deliveries in 2022 fell this category, and CoStar predicts new single family rentals will comprise 13% of Houston's multifamily deliveries in 2023.



19,723 New Units

2023 Expected Completions
13,102 New Units Will Follow in 2024

Supply & Demand Forecast



Source: YARDI, CoStar, All Figures are Annual Totals, *Projected

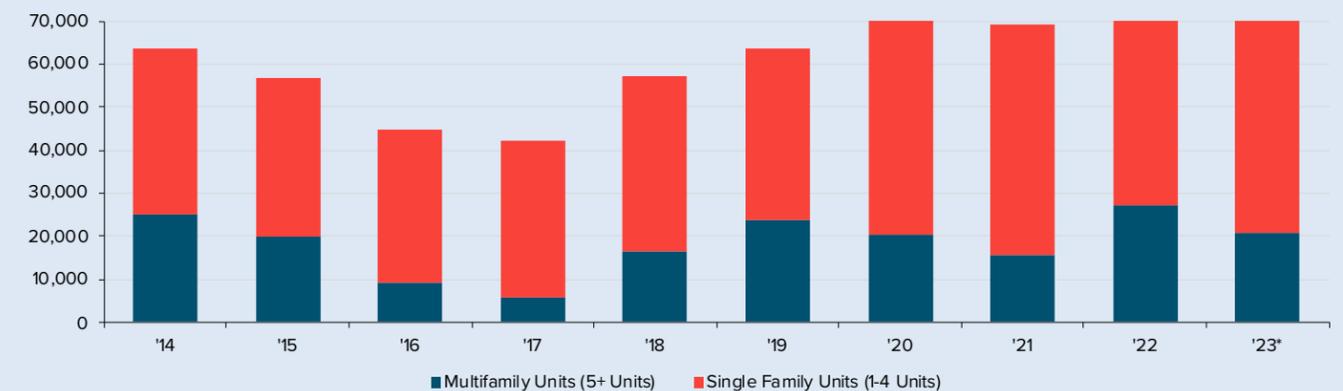
Permits

In June 2023:

- The median sales price for single family homes was \$345,000, down -2.5% YoY
- There were 36,431 single family active listings, an increase of 28.2% Over June 2022
- 8,582 properties were sold, a -12.8% change from June 2022
- The months of Inventory was 3.1, the highest level since June 2020

Source: HAR

Total Residential Building Permits



Source: U.S. Census, Texas A&M University Texas Real Estate Research Center, GREA Research, Multifamily Includes Condos



21,191
Single Family Permits
-56.99% YoY

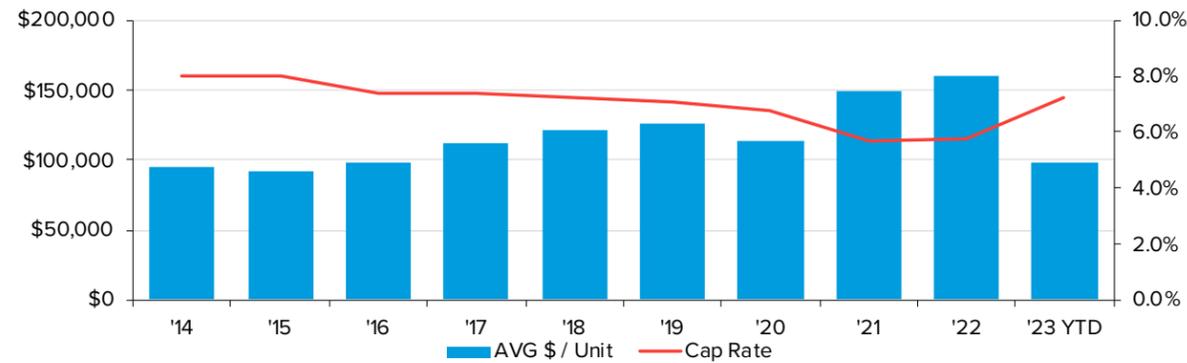
8,688*
Multifamily Permits (5+ Units)
-67.77% YoY



\$345K
Median Single Family Price
-2.5% YoY

Multifamily Sales

Average Sales PPU / Cap Rate



Source: CoStar



\$98,203
Avg. Sold Price / Unit*
-41.91% YoY



7.2%
Avg. Cap Rate*
+22.03% bps YoY





\$1.2B
Sales Volume



86,271
Total # Units Sold

Apartment Sales Transactions



Source: CoStar, GRE Research

NOTE: With Texas being a nondisclosure state and cap rates among various asset classes differing so much; it appears that it's likely newer properties with lower cap rates reported more sales which isn't unusual in the Houston market. REITs are required to report their sales data, and they own a heavier share of the institutional assets. Broadly, we're seeing cap rates in the 4.5% - 6.5% range depending on the asset quality, location, and upside in NOI.

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