



Multifamily Metro Outlook: Houston Spring 2019

Overview

Houston’s apartment market, as well as the area’s economy, was rocked by flooding after Hurricane Harvey. But the scale of the shock for the apartment market turned out to be considerably less than would have been expected, given the scope of the devastation. Estimates vary, but well under 10 percent of the metro’s units were damaged, with some estimates indicating the number was less than 5 percent. The damage is reportedly more concentrated in lower rent properties. The storm actually gave Houston’s apartment market an unexpected boost, because displaced residents added to overall market demand. Vacancy and rent growth improved immediately after the storm, and the metro is now beginning to adjust to a new normal.

Overall, Houston has a somewhat bumpy road ahead, as the metro was in the midst of a significant slow-down due to lower energy prices but will now likely see a medium-term boom as investments in rebuilding stimulate the metro. It also helps that energy prices have risen from the lows reached in 2016.

Once the current turbulence subsides, job growth in Houston is forecasted to be well above average. According to CoStar, job growth is expected to be 1.5 percent annually through 2023, compared to 0.6 percent nationally. Population growth remained above average at 1.6 percent in 2018, compared to 0.6 percent nationally, and is expected to remain at nearly twice the national average through 2023.

Houston has a favorable demographic profile for housing and rental demand. An above average 21.5 percent of the population is in the key age 20-34 renting cohort, compared to 20.6 percent nationally. However volatile energy markets remain an important economic driver in Houston. While the metro is not as dependent on oil as it once was, much of the area’s exceptional growth can be tied back to demand from energy jobs.

Development

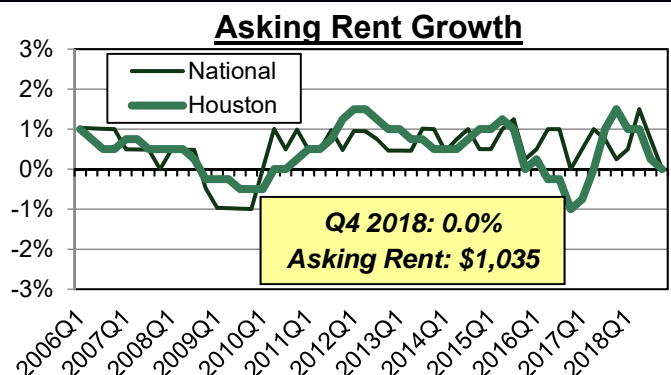
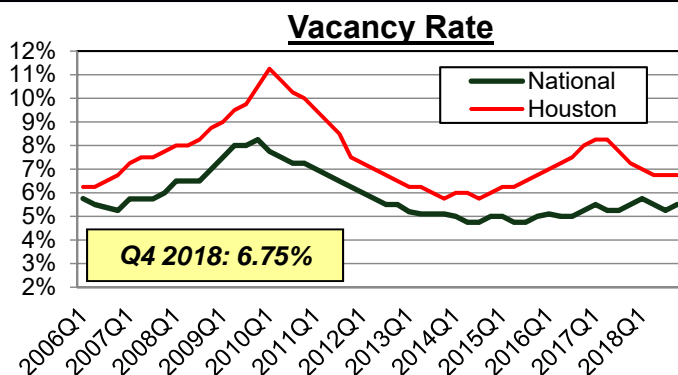
Since there are 175,000 new households in the metro since 2010 and above average job and population growth forecasted through 2023, For-Rent development has probably been necessary. But the level of development might not allow the apartment market to improve dramatically, even if the metro’s economy recovers quickly from the storm and volatile oil prices. According to the Dodge Pipeline, there were nearly 57,200 apartments completed since the start of 2013 and another 10,100 units underway. Currently, the Montrose-River Oaks submarket is the most active, with a total of 3,900 units underway in 14 projects.

Outlook

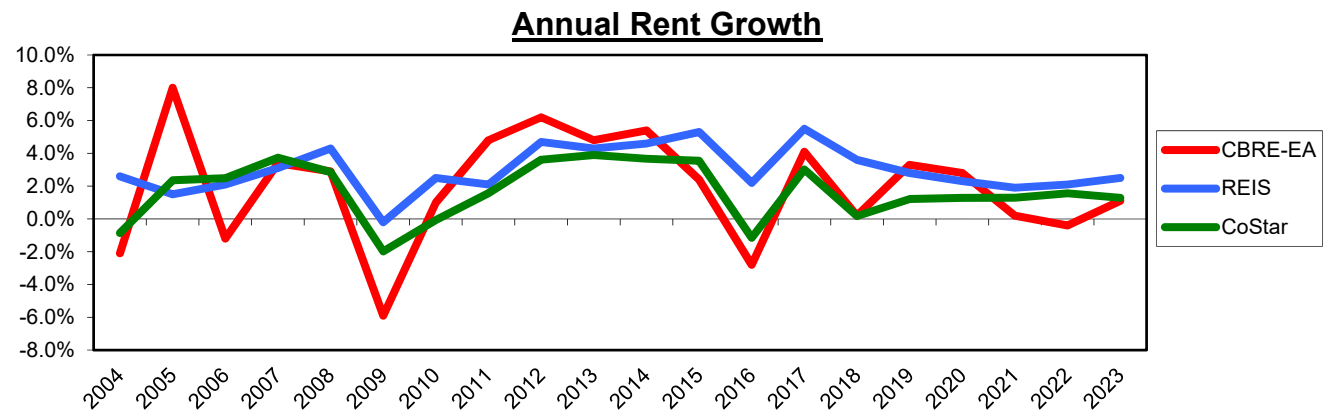
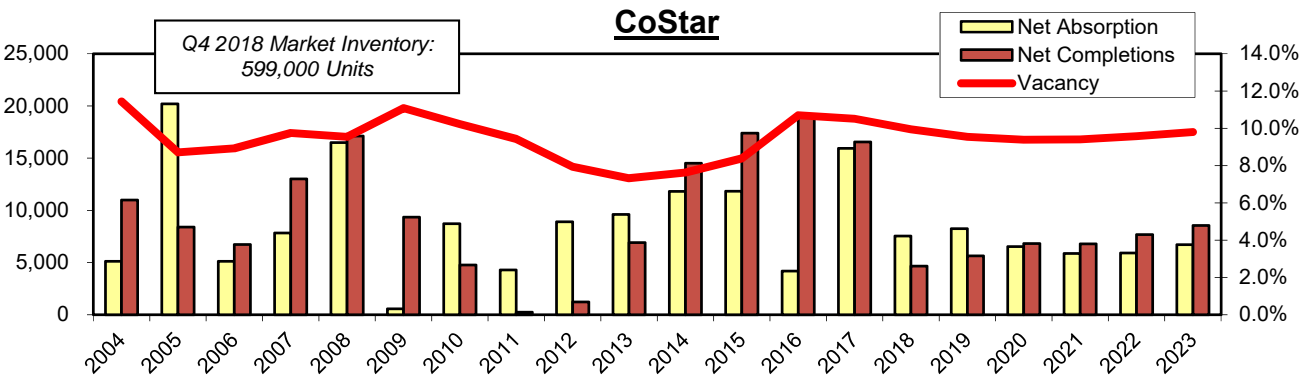
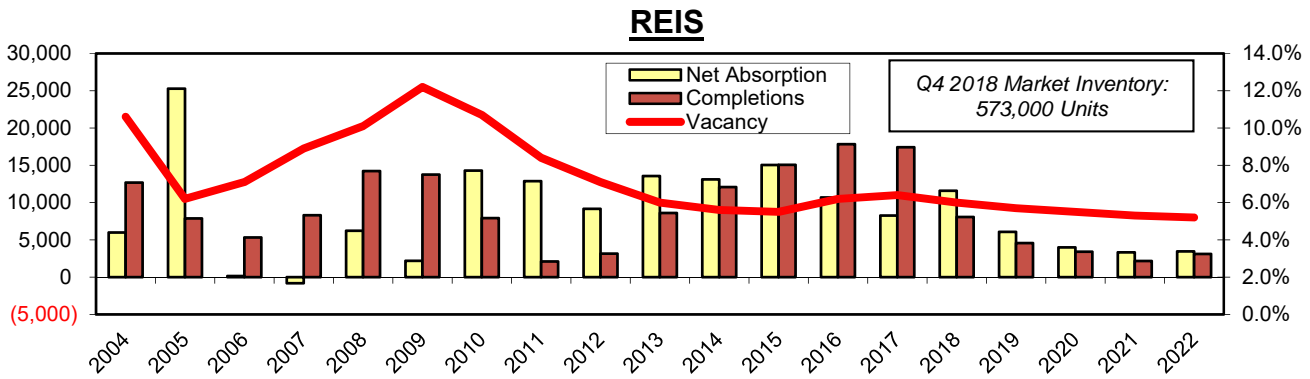
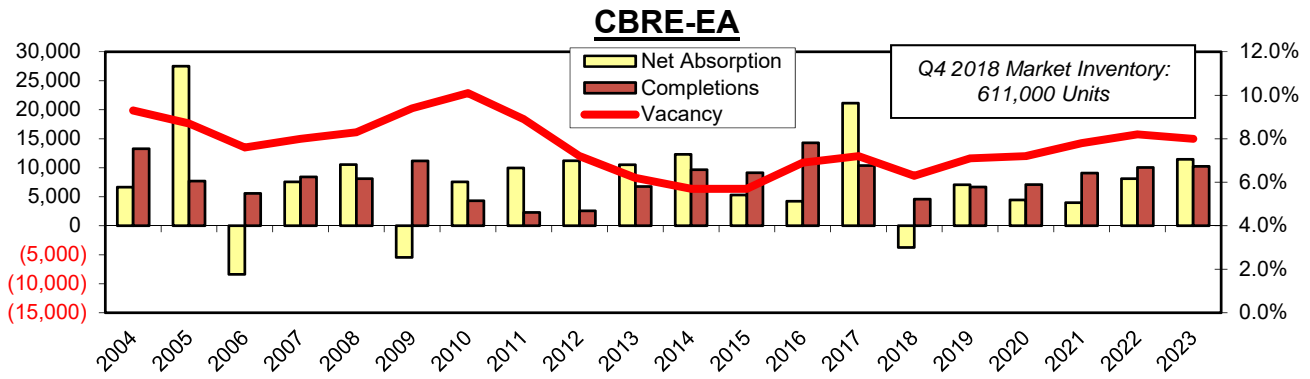
Houston’s rental market will likely remain stable, though some near-term softness is possible as the area swings back from the robust post-storm stimulus. The storm provided an unexpected respite from an over-supply of new units, and may prove to be the medicine the market needed to navigate 2019 without significant deterioration of rents and vacancies.

Some slight economic bumps might be on the horizon, as the area’s economy normalizes after the storm and adjusts to recent oil price volatility. But for an extended period Houston was among the top economies in the nation, and job growth in the metro is forecast to return to being nearly double the national average, with population growth similarly strong. Houston will likely remain a volatile but robustly growing economy for the foreseeable future.

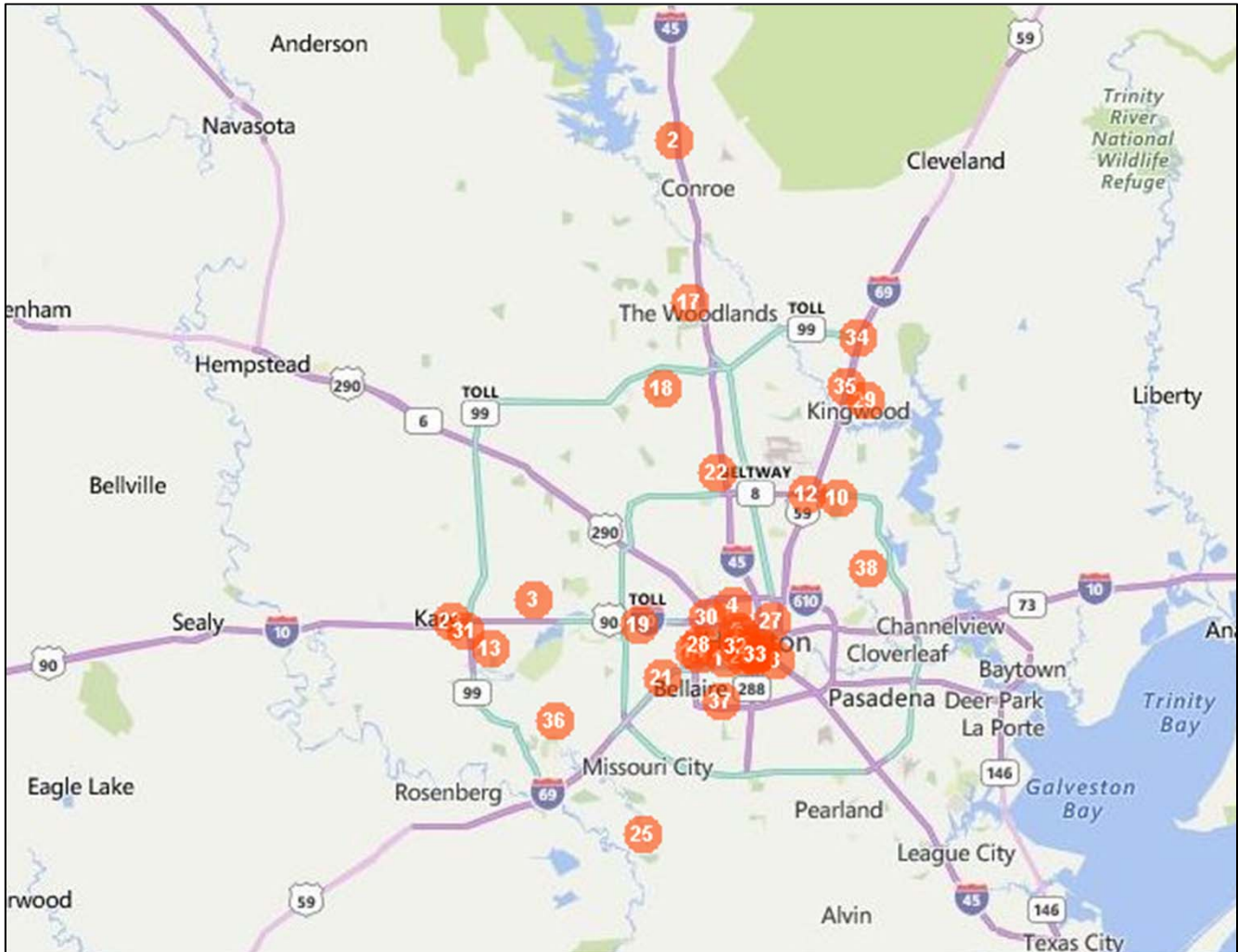
Vacancy and Rent Composite Estimates



Source: Fannie Mae Multifamily and Economics Research



Construction Bidding/Underway
38 projects/10,300 Units/12.9 M Sq. Feet



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Bear Creek/Katy	4	1020	1206
Braeswood/Bellaire	1	147	147
Briar Grove/Westchase	1	575	327
Champions/FM 1960	1	330	330
Far NW/Montgomery County	4	1374	1319
Ft. Bend County	2	413	388
Interloop/South Houston	1	136	80
Inwood/Near Northwest	2	802	495
Montrose/River Oaks	14	5899	3886
North/Northeast Houston	5	1641	1497
Northborough/Cranbrook	1	184	135
Sharpstown/Westwood	1		170
Spring/Humble/Far Northeast	1	331	331



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Fannie Mae Multifamily Economics and Market Research

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Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics SupplyTrack
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

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