

Multifamily Metro Outlook:

Houston - Q1 2022

Overview:

- Houston has had a rough few years, though it managed to be a leader in job growth for some of them. The area was hit hard economically by the rapid drop in energy prices in 2015-16, then by Hurricane Harvey in 2017, then another oil price drop in 2018, and finally the simultaneous shock of COVID and another oil price decline. Only in 2016 did the area experience net job losses on annual basis, with remarkable strength in 2019. But 2020 was likely one of the weakest years in Houston's history. The local economy experienced a solid rebound in 2021, which has continued into 2022, though the pace of the rebound is somewhat slower than the national average since the area was not hit as hard as many metro areas from the pandemic.
- Houston's apartment market held up quite well during this turbulent period. The market was directly shocked by Harvey's flooding in 2017, but the scale of the shock for the apartment market turned out to be considerably less than would have been expected. Vacancy and rent growth improved immediately after the storm and stayed relatively strong into early 2020. The market softened with the outbreak in 2020 but saw solid improvement begin in 2021 and continue into 2022.

Market Strengths:

- Job growth in Houston is forecasted to be well above average once the current problems subside. According to Moody's, job growth is expected to be +1.8% annually through 2026, compared to +1.1% nationally. Population growth remained above average at +1.5% in 2021, compared to +0.3% nationally, and is expected to remain at nearly three-times the national average through 2026.
- Houston has a favorable demographic profile for housing and rental demand. An above average 21.4% of the population is in the key age 20-34 renting cohort, compared to 20.5% nationally.

Market Weaknesses:

- Oil prices have been high in 2022, and volatile energy markets remain an important but unreliable 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.
- Single family housing is relatively affordable in Houston. The typical household earns 33% more than is required to buy the median priced home, though climbing prices in 2021 and 2022 may dish some affordability. And rental obsolescence coupled with the ease of new supply is an ongoing feature in Houston.
- Given 175,000 new households since 2010 and above average job and population growth forecasted into 2025, For-Rent development has been necessary. But the level of development will not allow the apartment market to improve dramatically, even if the metro's economy returns to the fastest growing major metro area in the nation.

Development:

- According to the Dodge Pipeline, there were nearly 61,600 apartments completed since the start of 2017 and another 21,700 units underway. Currently, the Montrose-River Oaks submarket is the most active, with a total of 2,700 units underway in 9 projects.

Outlook:

- Houston's rental market had noteworthy improvement in 2021 as the metro recovers from COVID and was boosted by rising oil prices. While these favorable conditions have supported fundamentals, a surge in supply is on the way that will probably soften the environment. The supply will likely result in rising vacancies, but rents may hold steady due to economic growth. As it always has been, Houston will remain a growth market, with booms and busts along the way, with little predictability as to when a contraction might occur, especially in the local apartment rental markets. But in the near term, many signs point to a healthily expanding apartment market in support of the expanding local job market.
- For an extended period Houston was among the top economies in the nation, and it likely will be again. Job growth in the metro is forecast to return to being nearly double the national average, with population growth similarly strong, once the current problems subside. However, Houston will likely remain a volatile but robustly growing economy, as it has been for the past several decades.

Five Year Metro Area Growth Forecast

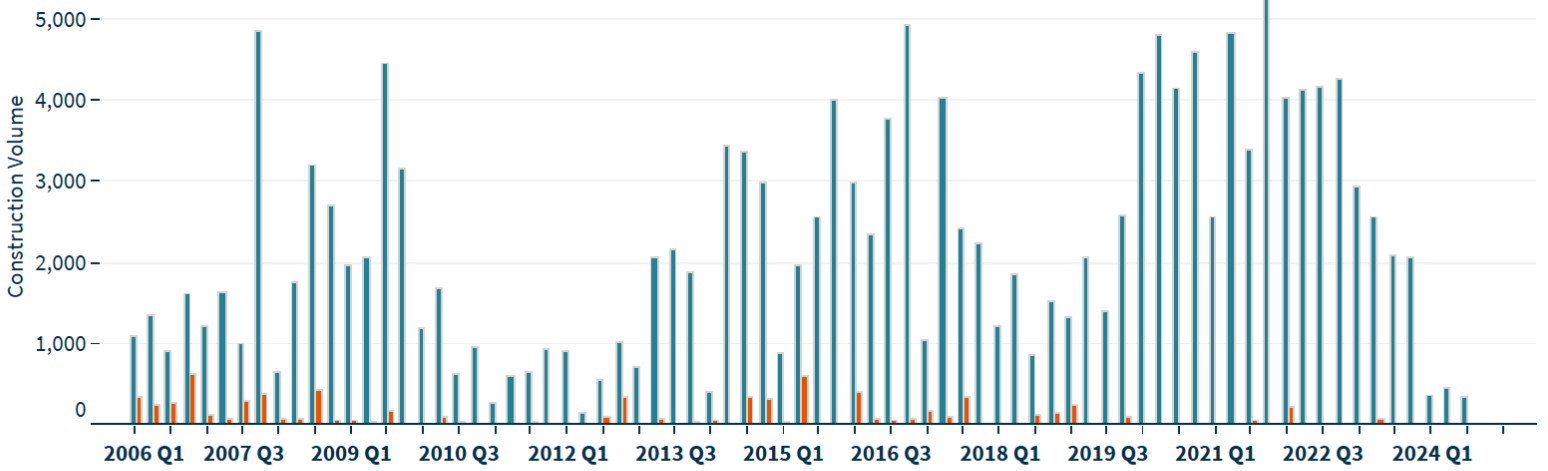
	Q4 2021	Q4 2026	Houston (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	7,285	7,782	1.33%	0.47%
Households (000s)	2,603	2,837	1.74%	0.90%
Renting Cohort (Ages 20-34) (000s)	1,560	1,663	1.29%	-0.30%
Total Employment (000s)	3,095	3,389	1.83%	1.08%
Median Household Income	\$72,770	\$86,630	3.55%	3.30%
Median SF Home Price	\$311,757	\$308,123	-0.23%	1.93%
Net Migration	54,004	46,940		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



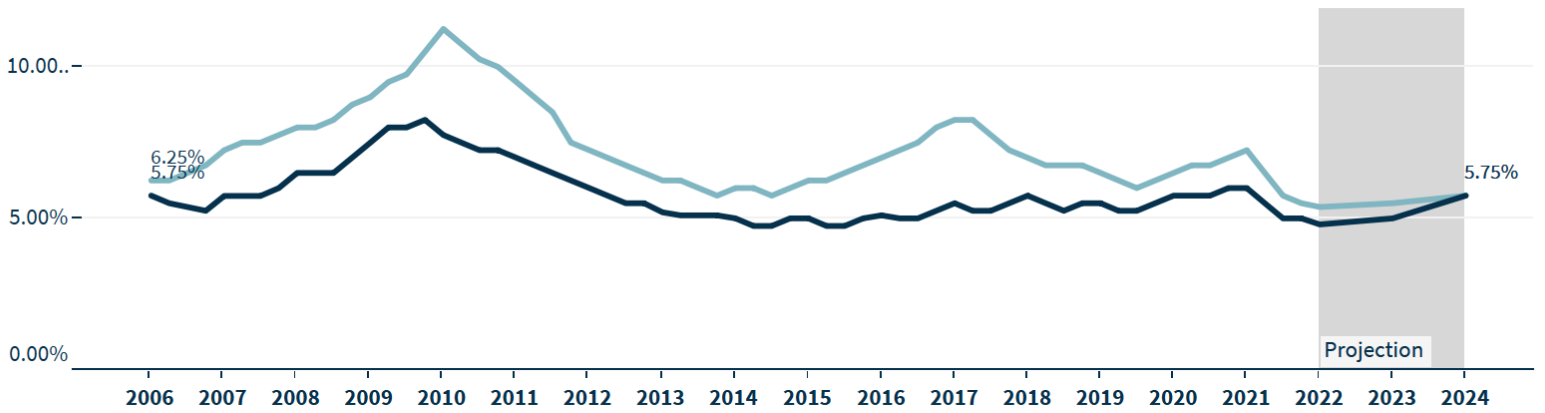
Vacancy & Rent Composite Estimates

Vacancy Rates

Houston | National

Q1 2022 Vacancy Rate:

5.38%

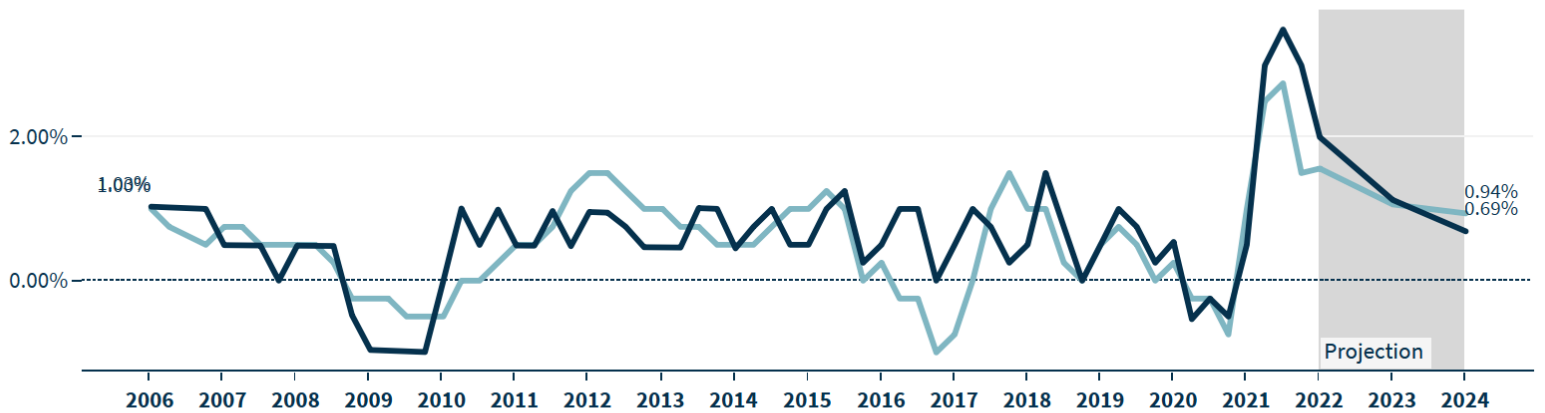


Asking Rent Growth

Houston | National

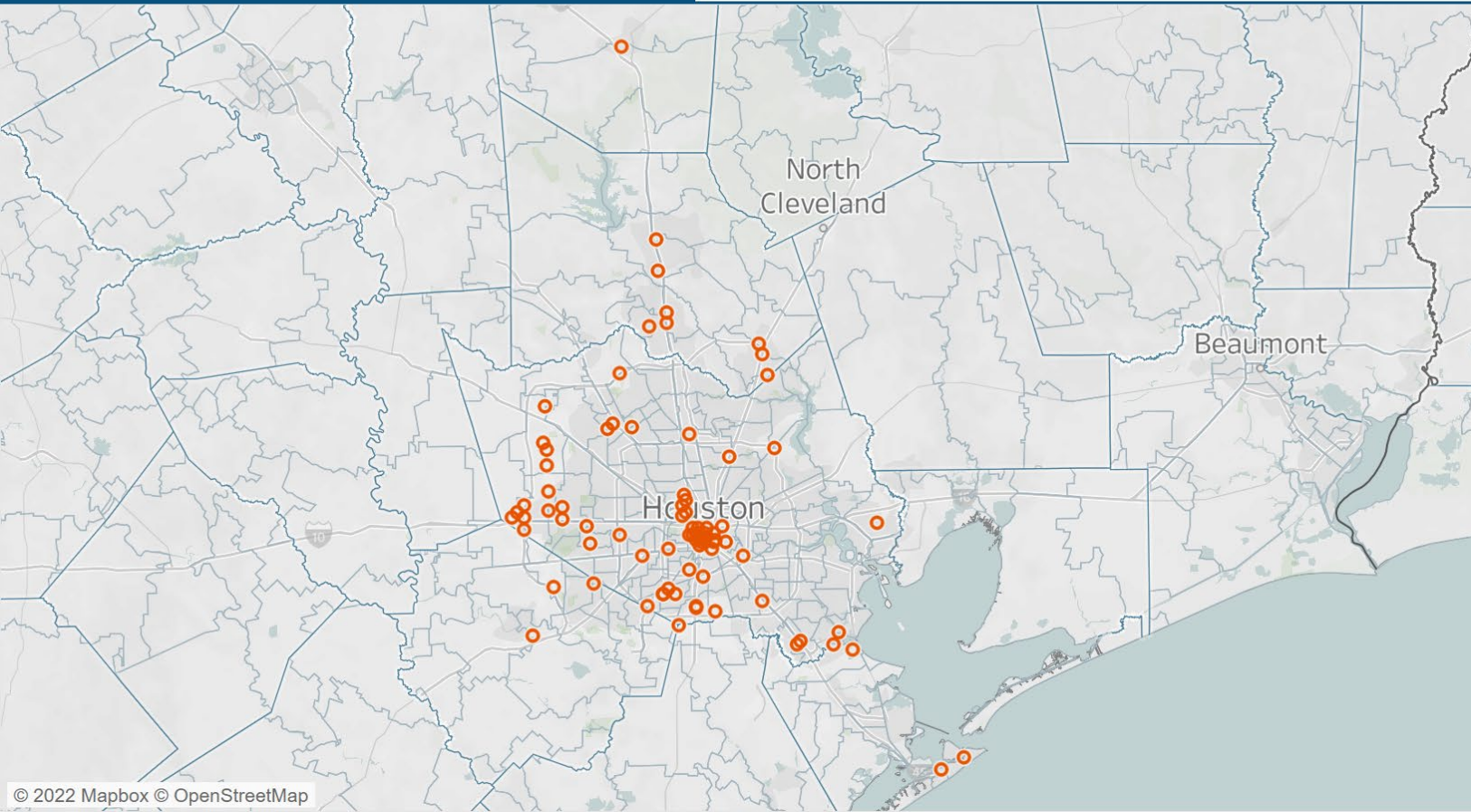
Q1 2022 Asking Rent:

\$1,140



Source: Multifamily Economics and Research

Construction: Bidding & Underway



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TWR Submarket Name	Apartments	Building U..	Building Ar..
Alief	1	100	0.10M
Baytown	1	238	0.25M
Bear Creek	2	505	0.61M
Braeswood Place/Astrodome/South Union	1	281	0.25M
Champions East	1	360	0.43M
Champions West	2	431	0.31M
Clear Lake	4	1,036	1.26M
Conroe/Montgomery County	4	1,115	1.17M
Cypress/Waller	4	1,344	1.38M
Downtown/Montrose/River Oaks	9	2,747	3.85M
East Inner Loop	7	1,190	1.26M
Far West Houston	1	318	0.40M
Friendswood/Pearland	1	291	0.38M
Galveston/Texas City	2	644	0.80M
Greater Heights/Washington Avenue	4	741	1.12M
Greenway/Upper Kirby	1	257	0.41M
Gulfton/Westbury	5	1,111	1.19M
Hobby Airport	6	1,395	1.60M
Humble/Kingwood	1	330	0.39M
Huntsville, TX	1	132	0.23M
Katy	7	2,013	2.28M
Memorial	1	326	0.57M
North Central Houston	2	576	0.61M
Northeast Houston	1	278	0.33M
Northwest Houston	3	908	1.19M
Pasadena/Southeast Houston	1	106	0.11M
Rosenberg/Richmond	2	825	0.77M
Sharpstown/Fondren Southwest	1	120	0.16M
Spring/Tomball	1	288	0.29M
The Woodlands	3	982	1.20M
West University/Medical Center/Third Ward	3	476	0.26M
Westchase	1	330	0.39M
Grand Total	84	21,794	25.56M

Multifamily: ESR Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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