Multifamily Metro Outlook: Houston Spring 2018

Overview

Houston's apartment market, as well as the area's economy, was heavily damaged by Harvey's flooding. But the scale of the damage is turning out to be considerably less than expected, given the scope of the devastation. Estimates vary, but well under 10 percent of the metro's units were damaged, with some estimates indicting the number to be less than 5 percent, though the damage is reportedly more concentrated in lower rent properties.

Prior to the storm, Houston's apartment market was poised for a period of easing. Concessions were rising and vacancies were growing due to voluminous new supply and a weaker job market. The storm has temporarily reversed these trends, with both vacancy and rent growth improving. Interestingly, landlords have not used the storm to dramatically raise rents; instead, many have cut concessions.

Overall, Houston has a 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 stimulates metro.

Once the current turbulence subsides, job growth in Houston is forecasted to be above average. According to Moody's Analytics, job growth is expected to average 2.0 percent annually through 2022, compared to 0.8 percent nationally. Population growth remained above average at 1.8 percent over the past year, compared to 0.7 percent nationally, and is expected to remain at nearly twice the national average through 2022.

If oil prices do rise more significantly over the next several years, Houston will probably have to further adjust to the new energy market. While the metro is not as dependent on oil as it once was, much of the exceptional growth in the area can be tied back to demand from energy jobs.

Development

Given 175,000 new households since 2010 and above average job and population growth forecasted through 2022, for-rent development has probably been necessary. However, the level of development will not allow the apartment market to improve dramatically, even if the metro's economy recovers quickly from the storm and low oil prices.

According to the Dodge Pipeline, there were nearly 54,500 apartments completed since the start of 2012 and another 7,000 units underway, in addition to 16,000 units completed in 2009-2010. Currently, the Montrose-River Oaks submarket is the most active, with a total of 1,900 units underway in 8 projects.

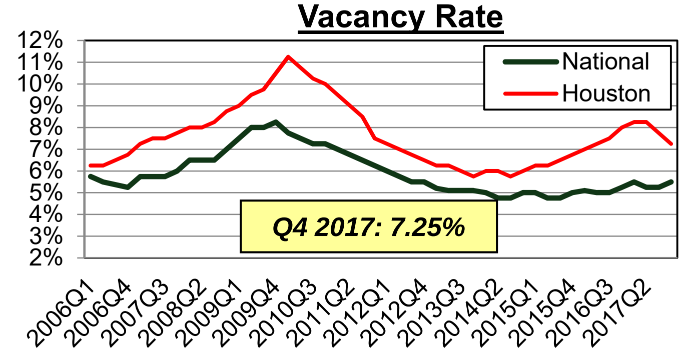
Outlook

Houston's rental market has tightened recently and will likely remain fairly stable as it recovers from Harvey. This unexpected respite from an oversupply of new units may prove to be the medicine the market needed to navigate 2018-2019 without significant deterioration of rents and vacancies. Job market growth will also likely be better than was expected a few months ago, as rebuilding creates jobs.

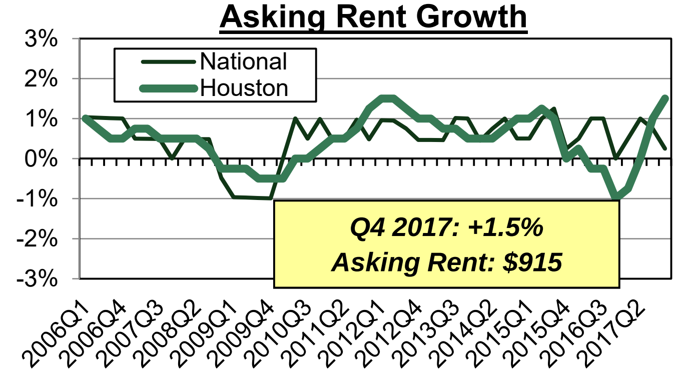
For an extended period Houston was among the top economies in the nation, and job growth in the metro is forecasted to return to nearly double the national average, with population growth similarly strong. Once the current oil price and storm shocks are history, Houston should return to being an economic leader. But ongoing apartment development will likely leave excess supply in the rental market for the long term, likely preventing it from meaningful tightening.

Vacancy and Rent Composite Estimates

Vacancy Rate



Asking Rent Growth



Source: Fannie Mae Multifamily and Economics Research

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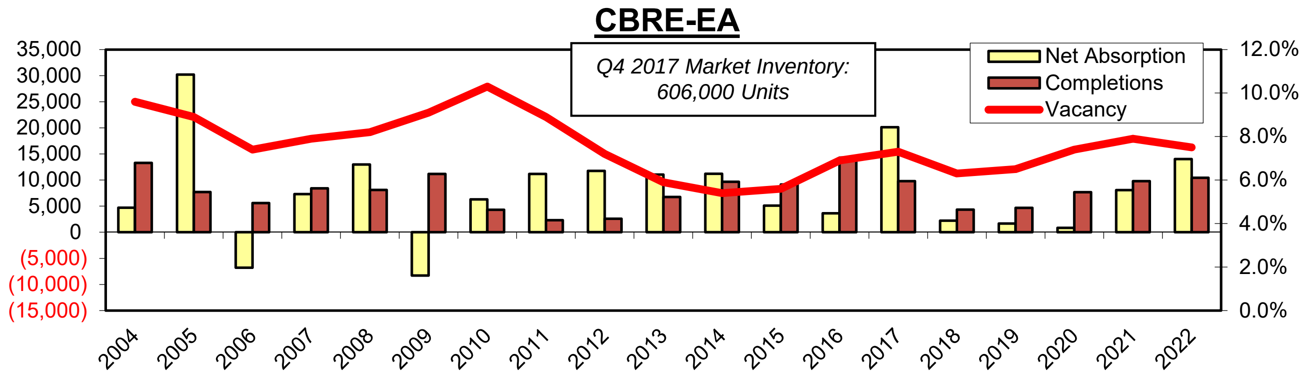
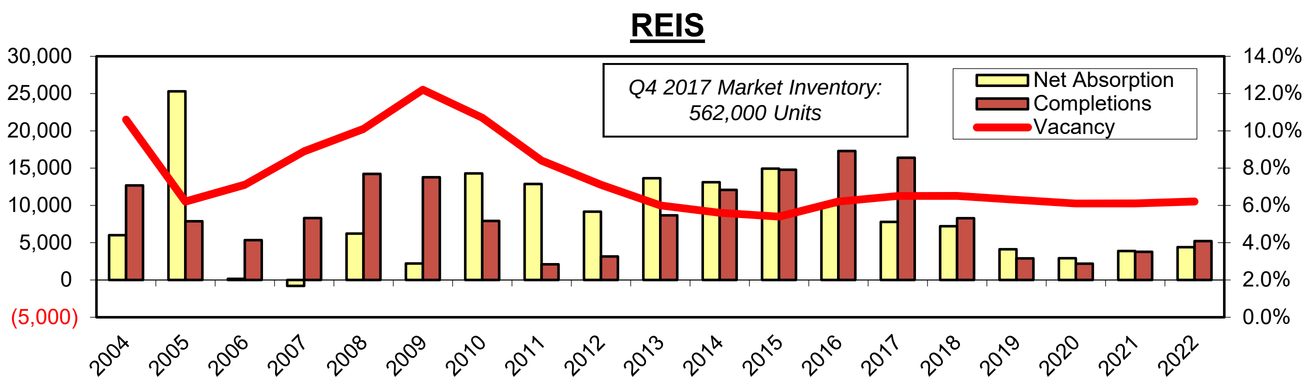
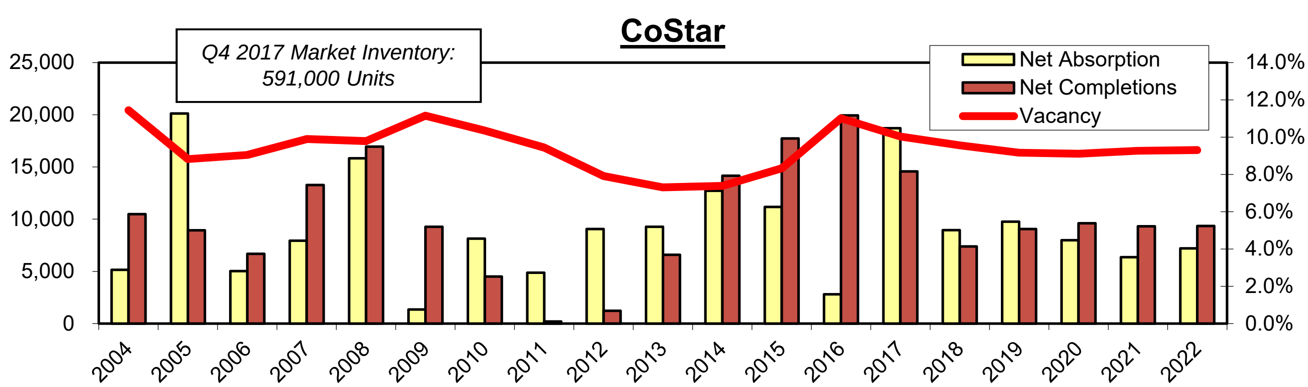
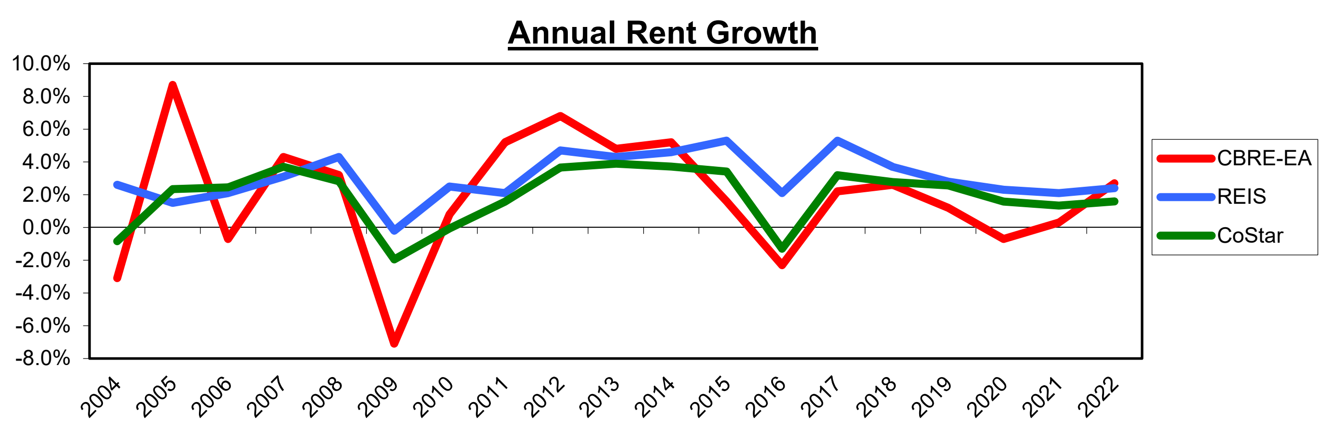
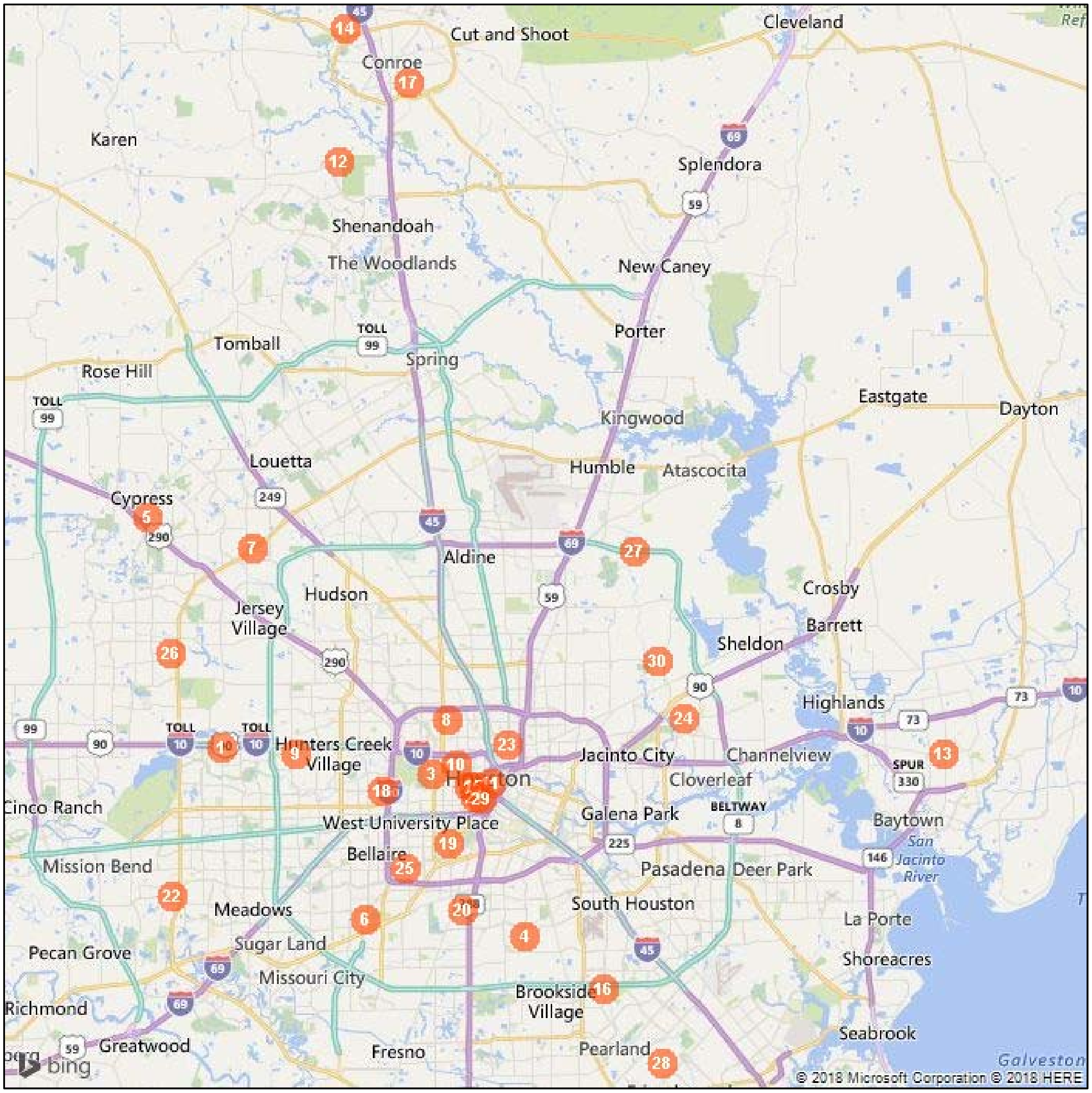

CBRE-EA
Q4 2017 Market Inventory:
606,000 Units
Net Absorption
Completions
Vacancy
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
(5,000)
(10,000)
(15,000)
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022


REIS
Q4 2017 Market Inventory:
562,000 Units
Net Absorption
Completions
Vacancy
30,000
25,000
20,000
15,000
10,000
5,000
0
(5,000)
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022


CoStar
Q4 2017 Market Inventory:
591,000 Units
Net Absorption
Net Completions
Vacancy
25,000
20,000
15,000
10,000
5,000
0
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022


Annual Rent Growth
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
-8.0%
CBRE-EA
REIS
CoStar
2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

Construction Bidding/Underway
(30 projects/7,000 Units/8.5 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Baytown/San Jacinto River East	1	348	384
Bear Creek/Katy	1	200	126
Braeswood/Bellaire	2	744	763
Briar Forest/Ashford	1	310	312
Briar Grove/Westchase	1	575	327
Cloverleaf/Channelview	1	88	84
Cypress/Fairbanks	2	412	389

CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Far NW/Montgomery County	3	706	740
Fondren/Westbury	1	6	5
Ft. Bend County	1	136	132
Galveston County	1	114	108
Interloop/South Houston	3	774	686
Montrose/River Oaks	8	2950	1861
North/Northeast Houston	4	1146	1072

Source: Dodge Data & Analytics

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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
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

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