Multifamily Metro Outlook:

Houston – Q3 2024

Overview:

- Over the last few years, Houston has seen the some of the highest in-migration in the country. Job and population growth have been exceptional as companies choose to relocate to this thriving economy. Furthermore, Texas has a favorable tax structure for corporations, which is only accelerating this trend.
- Recently, multifamily supply has been outpacing demand — particularly in Class A markets — which has ticked up vacancy rates and pushed down rent growth. With many buildings coming online simultaneously and relatively low supply barriers, this surge of new units is likely to persist for several more quarters. Demand is projected to catch up, as a recent increase in oil prices, along with a young dynamic population and the presence of a few major universities, will likely increase the renter population going forward.
- Although the metro's economy was historically dependent on oil and energy, its reliance on energy is steadily diminishing, with financial and professional services taking an outsized role, and with a growing world-class health care sector.

Market Strengths:

- Job growth in Houston is forecasted to be well above average once current national volatility subsides and the country enters a period of sustained growth. Job growth is expected to be slightly over +0.8% annually through 2029, compared to +0.6% nationally. Population growth in Houston in the year ending Q3 2024 was +1.5%, which remains above the national average of +0.5%, and it is expected to remain at nearly three times the national average through 2029.
- Houston has a favorable demographic profile for housing and rental demand. An above-average 21% of the population is in the key age 20-34 renting cohort, compared to 20% nationally.

Market Weaknesses:

- Oil and volatile energy markets remain an important but unpredictable economic driver in Houston. While the metro is not as dependent on oil as it once was, much of the area's exceptional growth over the prior decade can be tied back to demand from energy jobs. As the country makes the shift toward renewables, this is an area for long-term concern, though companies in the metro are endeavoring to adapt to the transition.
- Single-family housing is relatively affordable in Houston. The typical household earns 37% more than is required to buy the median-priced home, though climbing interest rates in 2023 diminished some affordability. Rental obsolescence coupled with the easing of new supply is an ongoing feature, as well as a recent surge of build-to-rent single-family communities.
- Given Houston's annual average job growth of +1.6% and population growth over +1.5% over the past 10 years, for-rent development has been necessary. But the level of development now underway will probably not allow the apartment market to improve dramatically, even if the metro's economy returns to being the fastest-growing major metro in the U.S.

Development:

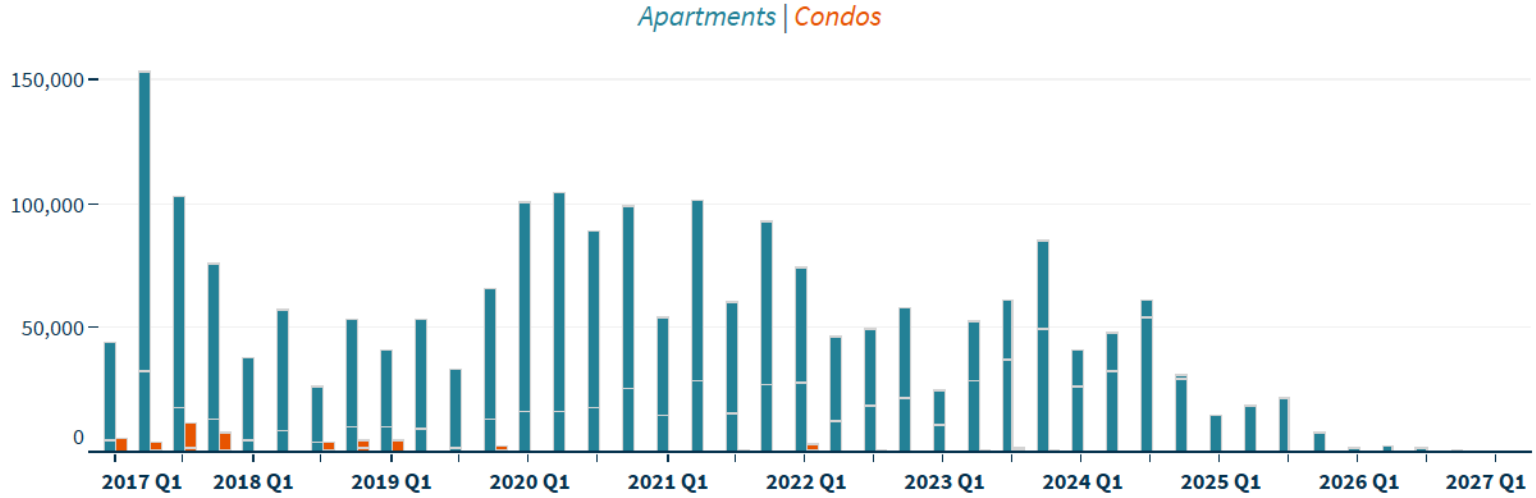
- According to the Dodge Pipeline, there are nearly 109,000 apartments completed since 2017 and another 22,700 units currently underway in Houston. This level of development will likely put pressure on owners to increase concessions, and possibly cut asking rents in the short term. But Houston's growth prospects indicate this development is probably necessary to meet the needs of the metro's growing population.

Outlook

- Houston's rental market remained stable through 2023 and into 2024 as the metro finished recovering from the pandemic and was boosted by rising oil prices. While these favorable conditions supported demand, high inflation, interest rates, and a surge in apartment supply has begun to modestly soften the market. The supply will likely result in rising vacancies, but rents may hold steady due to moderate economic growth. As it always has been due to its reliance on energy, Houston will remain a growth market, with booms and busts along the way, and 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 stable, albeit cooling apartment market that is easing after the recent rebound.
- 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 forecasted to return to being well above the national average, with population growth exceptionally strong once the nation enters a sustained expansion and has lower inflation. However, Houston will likely remain a volatile but robustly growing economy, as it has been for the past several decades.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway



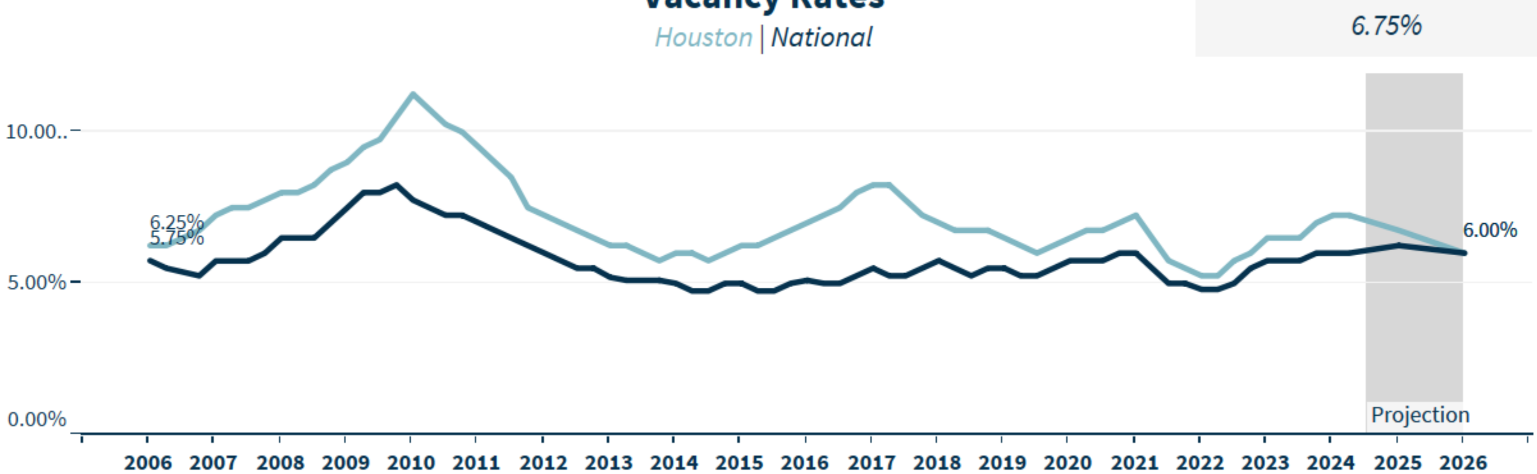
Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily Vacancy & Rent Estimates

Vacancy Rates

Q3 2024 Vacancy Rate:

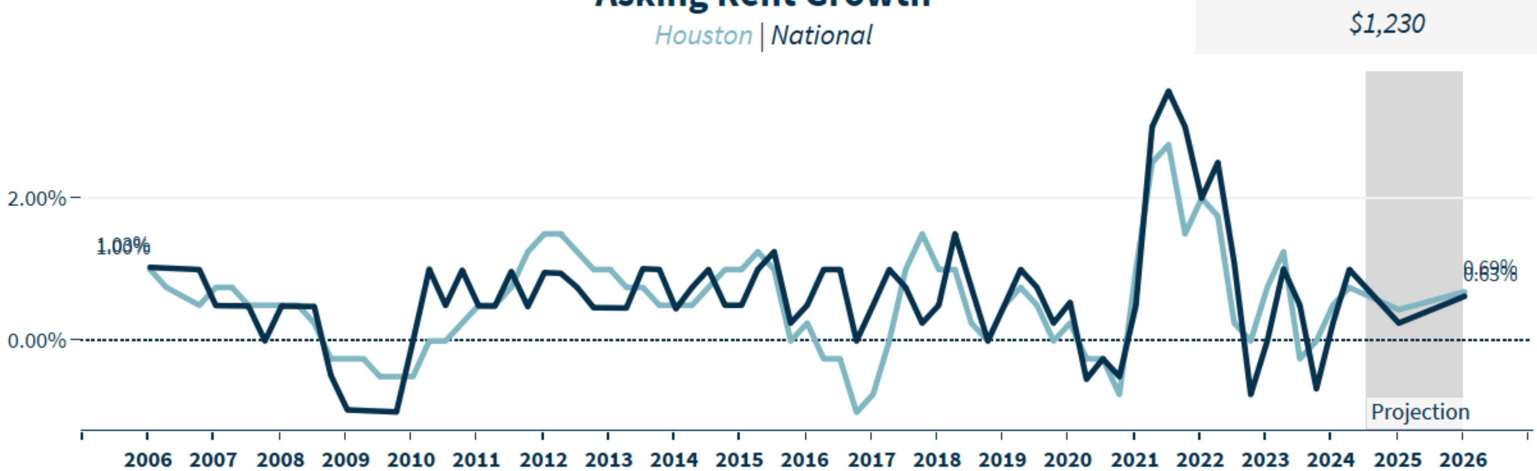
6.75%



Asking Rent Growth

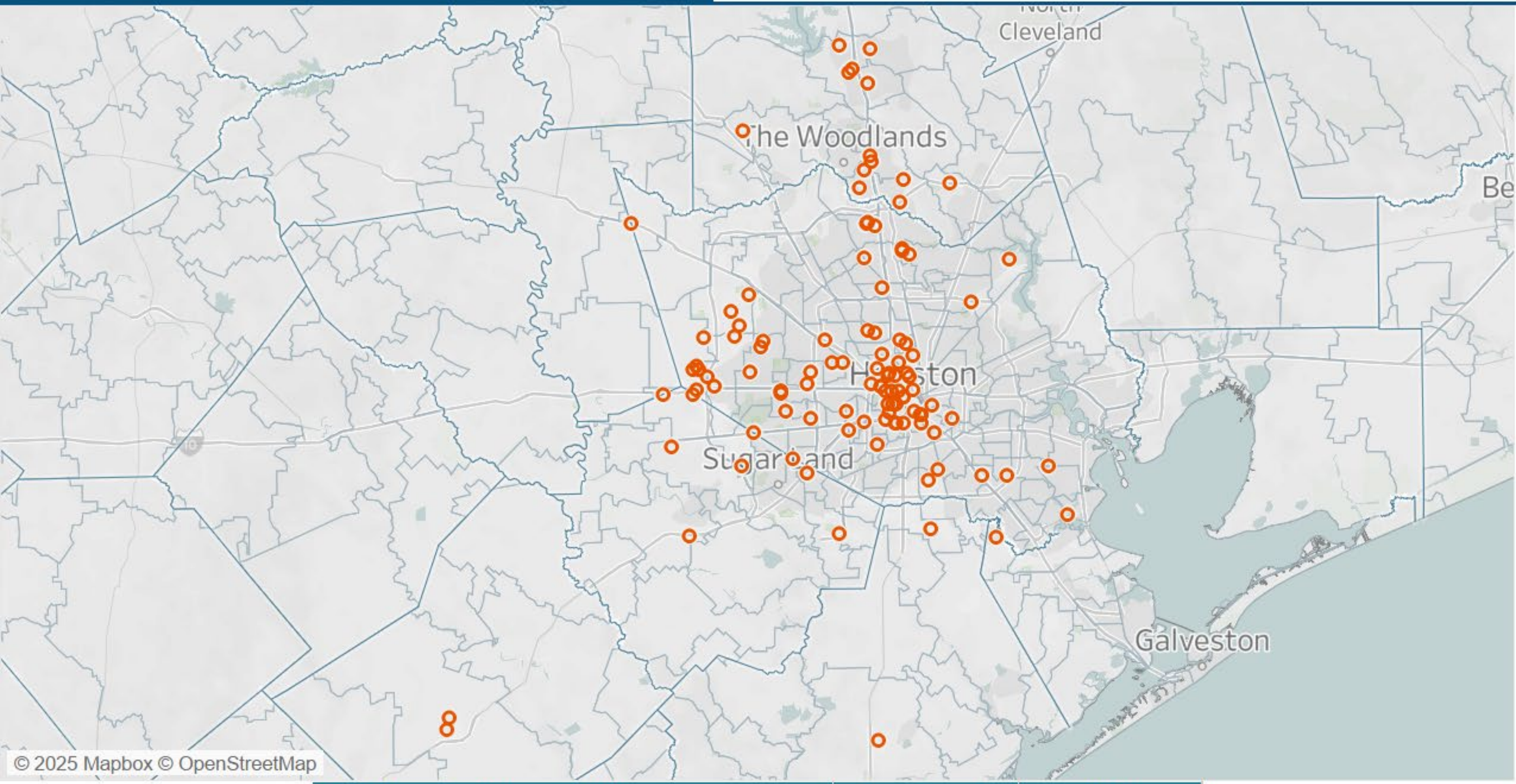
Q3 2024 Asking Rent:

$1,230



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Alief	1	180
Bear Creek	3	192
Braeswood Place/Astrodome/South Union	1	310
Brazoria County	1	60
Champions East	2	218
Clear Lake	2	392
Conroe/Montgomery County	7	1,265
Cypress/Waller	4	1,031
Downtown/Montrose/River Oaks	2	657
East Inner Loop	9	1,879
Far West Houston	2	593
Friendswood/Pearland	2	470
Galleria/Uptown	2	570
Greater Heights/Washington Avenue	11	2,278
Greenway/Upper Kirby	2	209
Gulfton/Westbury	1	77
Hobby Airport	2	369
Humble/Kingwood	3	838
Katy	10	2,530
Memorial	3	956
NA	2	464
North Central Houston	6	541
Northwest Houston	5	410
Pasadena/Southeast Houston	3	416
Rosenberg/Richmond	3	925
Spring Branch	5	985
Spring/Tomball	3	945
Sugar Land/Stafford	2	587
The Woodlands	6	1,346
West University/Medical Center/Third Ward	4	965
Westchase	1	16
Grand Total	**110**	**22,674**

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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