

Multifamily Metro Outlook:

Houston - Q4 2023

Overview:

- Over the last few years, Houston has seen 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 young dynamic population and the presence of a few major universities, will likely increase the renter population going forward.
- Although historically the Houston economy was dependent on oil and energy, the metro's reliance on energy is steadily diminishing with financial and professional services taking an outsized role, as well as having 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. According to Moody's, job growth is expected to be slightly over +1.0% annually through 2028, compared to +0.5% nationally. Population growth decreased slightly from last quarter to +1.5%, but remains above the national average of +0.2, and is expected to remain at nearly three-times the national average through 2028.
- 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 declined since their peak in 2022, but remain higher than pre-pandemic levels, 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 over the prior decade can be tied back to demand from energy jobs. As the country makes the shift towards renewables, this is an area for long-term concern, though the 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 have diminished some affordability. And rental obsolescence coupled with the ease of new supply is an ongoing feature in Houston, as well as a recent surge of build-to-rent single-family communities.
- Given an average job growth of +1.0% and population growth over +1.3% forecasted into 2028, 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 over 92,000 apartments completed since 2017 and another 39,000 units currently underway. This level of development will likely put pressure on owners to increase concession, 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

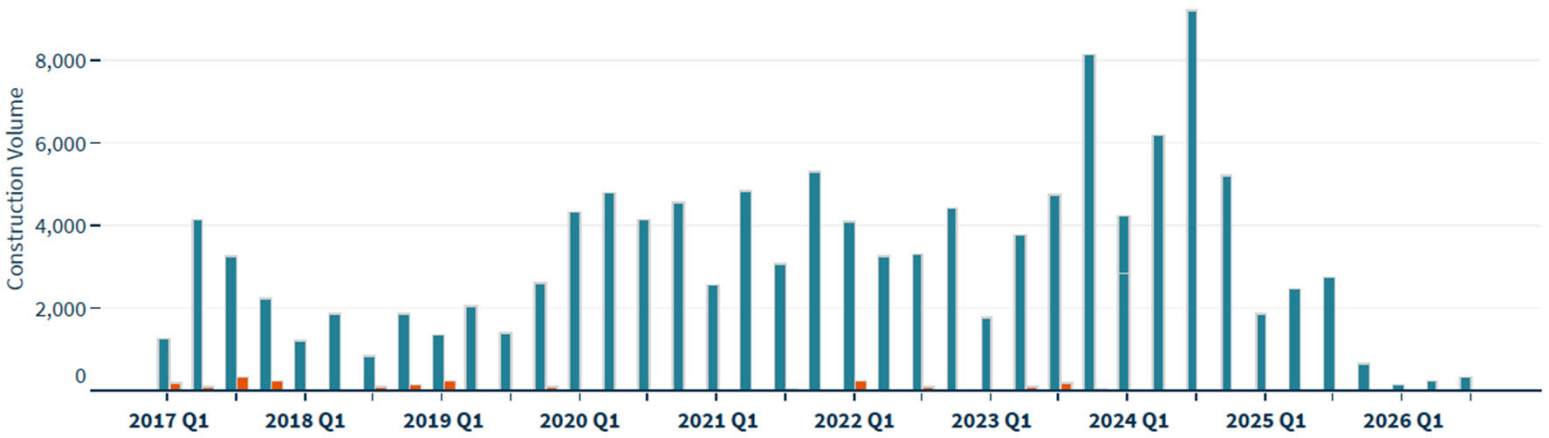
- Houston's rental market remained stable through 2023 as the metro finished recovering from COVID and was boosted by rising oil prices. While these favorable conditions supported demand, high-inflation, interest rates, and a surge in apartment supply has begun to soften the market. The supply will likely result in rising vacancies, but rents may hold steady due to moderate economic growth. As it always has been due to its reliance on a single commodity, Houston will probably 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 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 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.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

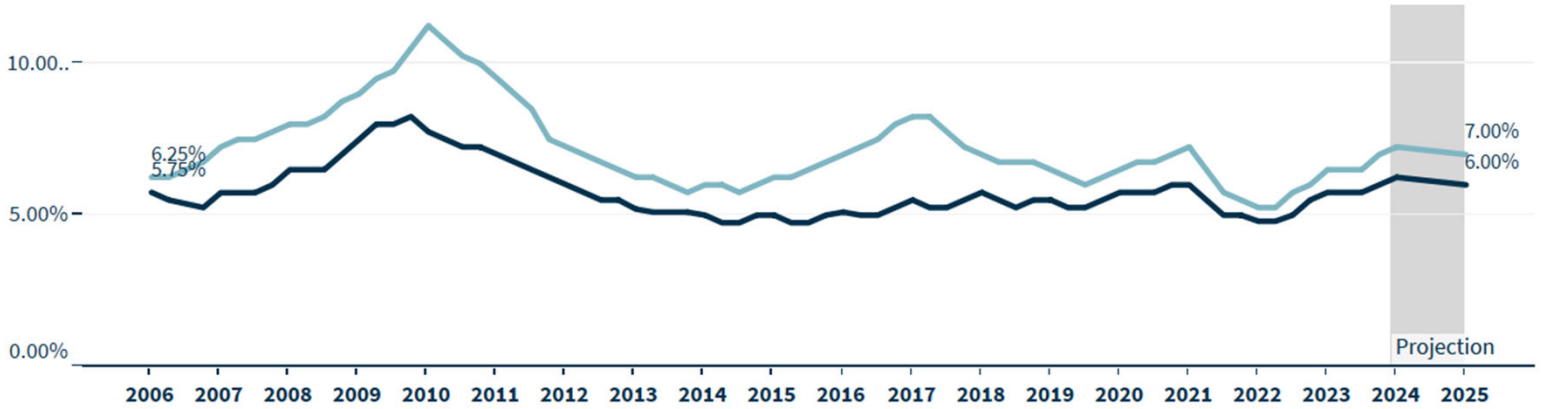
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Houston | National

Q4 2023 Vacancy Rate:

7.00%

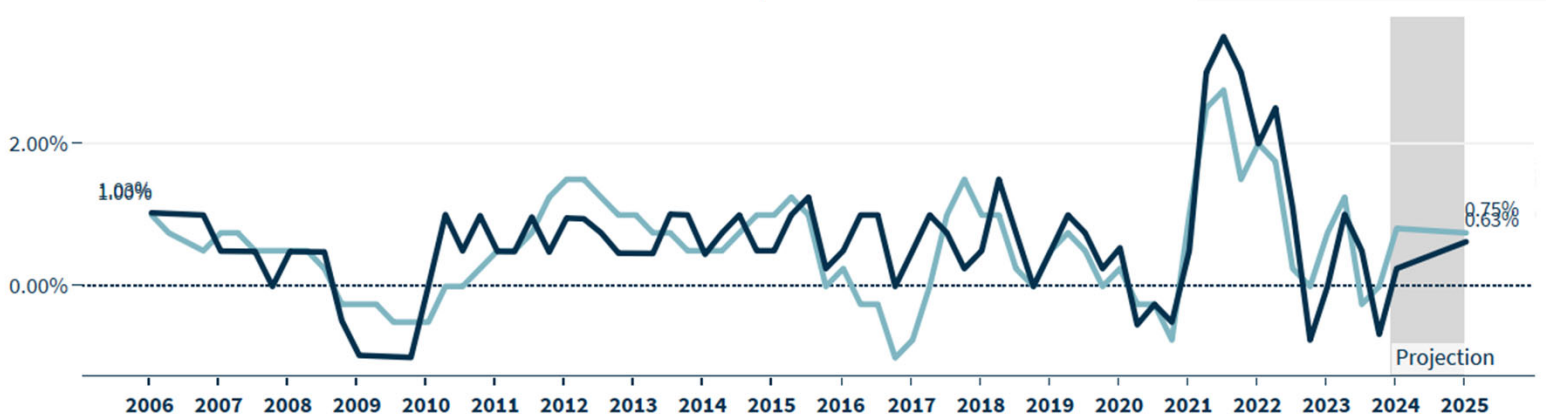


Asking Rent Growth

Houston | National

Q4 2023 Asking Rent:

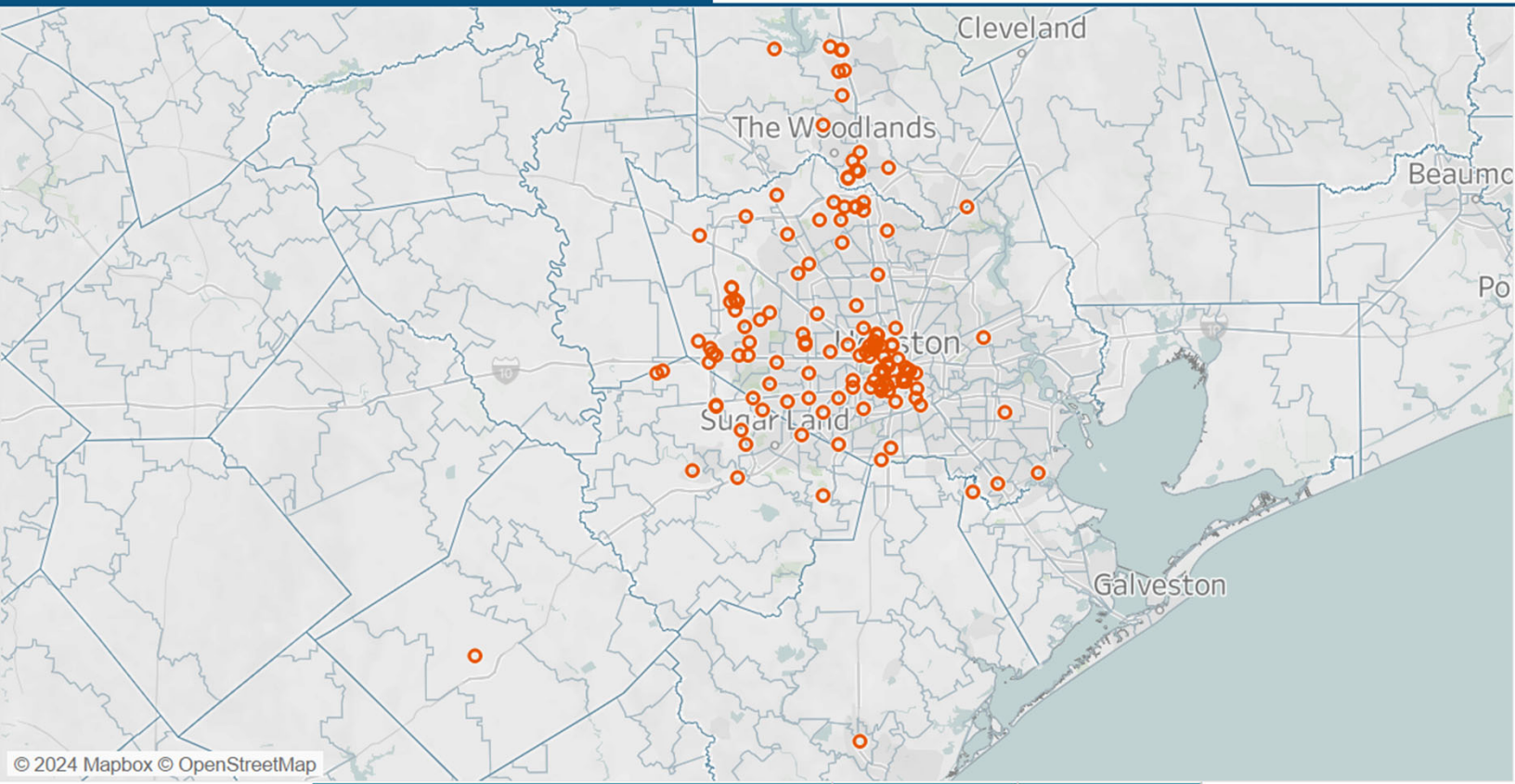
\$1,210



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Alief	3	244
Bear Creek	6	1,996
Braeswood Place/Astrodome/South Union	2	310
Brazoria County	1	15
Champions East	1	336
Champions West	2	350
Clear Lake	3	534
Conroe/Montgomery County	7	1,717
Cypress/Waller	6	1,731
Downtown/Montrose/River Oaks	4	1,287
East Inner Loop	14	3,318
Far West Houston	2	761
Friendswood/Pearland	1	112
Galleria/Uptown	2	520
Greater Heights/Washington Avenue	11	2,411
Greenway/Upper Kirby	3	511
Gulfton/Westbury	2	77
Hobby Airport	3	577
Humble/Kingwood	1	204
Katy	8	2,583
Memorial	1	334
NA	1	232
North Central Houston	3	721
Northeast Houston	1	378
Northwest Houston	6	999
Rosenberg/Richmond	6	1,690
Sharpstown/Fondren Southwest	1	80
Spring Branch	6	1,557
Spring/Tomball	11	3,236
Sugar Land/Stafford	2	302
The Woodlands	8	1,477
West University/Medical Center/Third Ward	4	1,038
Westchase	1	221
Grand Total	133	31,859

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

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