

# MULTIFAMILY MARKET



## Suburban Markets See Boost as Leasing Activity Returns Occupancy Increases on Strong Quarterly Absorption, Construction Remains Red Flag

### OVERVIEW

#### Activity Increases as Pandemic Becomes New Normal

Leasing activity picked up measurably over the third quarter as social distancing measures loosened and residents became more comfortable resuming traditional activities despite the ongoing pandemic. As such, metrics across the multifamily sector received a boost, led by strong positive absorption. Over 5,000 units were absorbed during the period, up over 150% year-over-year. This led to an increase in occupancy of 160 bps to an average of 89% across the Houston metro for all classes of property. Suburban submarkets were responsible for the market growth with hi-rise urban properties seeing modest negative absorption. Class A occupancy registered a 20 bps increase to 80.9% - still well below the stabilized threshold of 90.0% for the sector. The development pipeline continues to be the largest challenge facing the class of property as nearly 17k units remain under construction and set to deliver over the coming months. Class B occupancy saw an uptick of 40 bps, closing the third quarter at 92.1%. Meanwhile, rental rates across both Class A and Class B communities remained flat at \$1.18 per SF. With respect to investment sales, activity remained muted as investors seek clarity on the impacts of coronavirus; however, interest in the asset type remains stable.

### DEMAND

#### Absorption Tops 5k Units Over Q3

Absorption picked up considerably over the third quarter, totaling 5,015 units across the Houston metro area. This is a 144% increase over the quarter and brings the rolling 12-month total absorption to 10,321 units. Suburban submarkets saw the largest improvements, led by Katy/Cinco Ranch/Waterside with 1,184 move-ins and the Tomball/Spring submarket with 480 units absorbed. Absorption in Downtown Houston remained in negative territory over the quarter, with 68 units coming back to the market, bringing trailing four quarter absorption to -342 units.

### OCCUPANCY

#### Occupancy Increases on Positive Absorption

Occupancy climbed 160 bps over the third quarter to 89.0%, which led to a year-over-year decrease of 130 bps. 23 out of the 42 submarkets recorded occupancy rates of 90% or above while 28 submarkets saw increases in occupancy over the quarter. The Friendswood/Pearland East submarket has the highest occupancy rate across Houston after increasing 350 bps over the quarter to 94.2%. The I-69 North submarket has the second highest occupancy rate of 93.9%, followed by the Hwy 288 South/Pearland West submarket with a rate of 93.2%. The Alvin/Angleton/Lake Jackson submarket recorded the lowest occupancy rate at 78.4%. The Heights/Washington Ave submarket experienced the largest increase in occupancy of 2,780 bps over the quarter to 81.6%.

### TRENDLINES

5-YEAR TREND    CURRENT QUARTER

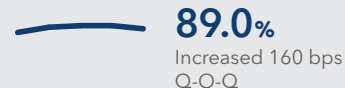
#### JOB GROWTH



#### ABSORPTION



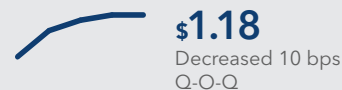
#### OCCUPANCY



#### UNDER CONSTRUCTION



#### RENTAL RATE



#### INVESTMENT SALES



**SUPPLY AND DEVELOPMENT**

**Pipeline Remains Elevated Despite Deliveries**

Over the past 12 months, the Houston metro has seen 82 apartment communities comprised of 23,040 units deliver to the market. In the third quarter alone, 19 apartment communities totaling 5,586 units delivered across the Houston metro. The Katy/Cinco Ranch/Water-side submarket saw 3,700 units across 11 communities come to market, leading the Houston metro. The Tomball/Spring submarket did not trail far behind as 9 communities delivered totaling 2,641 units. The Heights/Washington Ave submarket saw a second consecutive quarter of robust expansion with 8 communities totaling 2,437 units delivering to the market. Despite these deliveries, the construction pipeline remains elevated with 58 communities with a total of 16,927 units. The Heights/Washington Ave and Katy/Cinco Ranch/Water-side submarkets lead the Houston metro with 3,211 and 2,610 units under construction, respectively.

**RENTAL RATES**

**Rental Rates Remain Flat Q-O-Q**

Overall asking rental rates remained flat over the quarter at \$1.18. 25 out of the 42 submarkets experienced increases in rental rates over the quarter compared to only 14 submarkets last quarter. Class A average asking rental rates closed the third quarter at \$1.54 per SF, also remaining constant since the end of the second quarter. Class B asking rates experienced an uptick to \$1.17 from \$1.16 over the quarter. The I-69 North submarket experienced the biggest climb in average asking rates of 1,960 bps, closing the quarter at \$1.04 per SF. On the other hand, the Downtown submarket suffered the steepest decline for the second consecutive quarter as it saw asking rates fall 4,390 bps to \$1.83 per SF. The Highland Village/Upper Kirby/West U submarket also saw rates fall a considerable 2,290 bps over the quarter to \$1.65 per SF.

**INVESTMENT SALES**

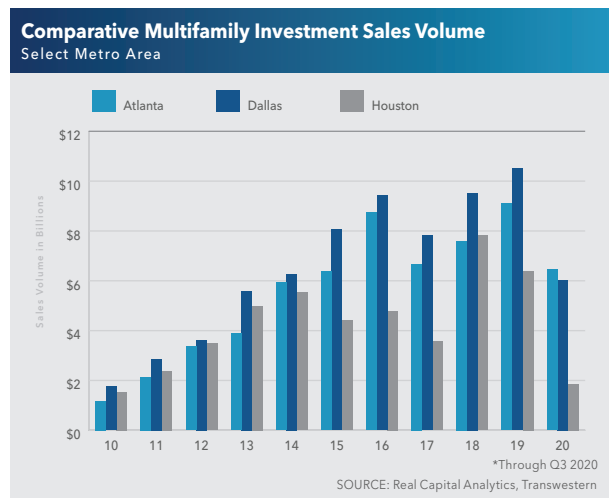
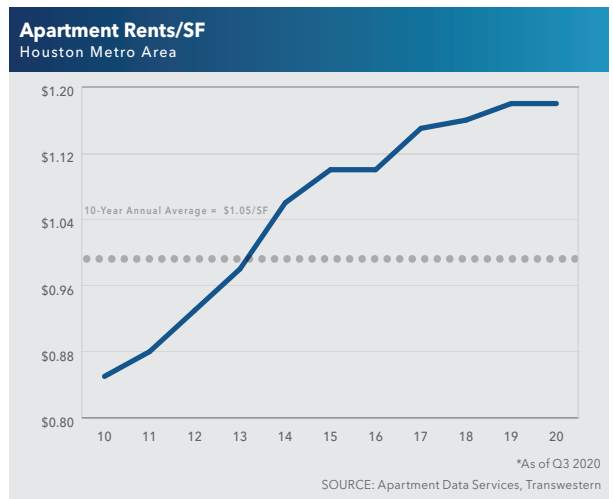
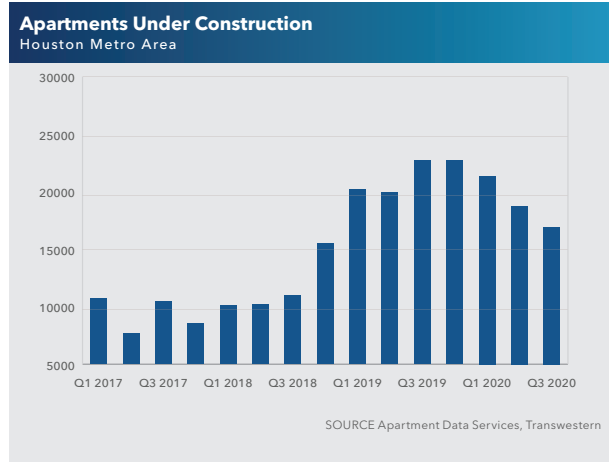
**Sales Market Remains on Pause**

According to Real Capital Analytics, 9 communities totaling 2,314 units sold over the quarter for a total of \$320.3 million. This dollar amount represents a year-over-year decline of 78.4%. Sales activity in the third quarter was very similar to what we saw in the second quarter where 7 communities comprised of 2,055 units sold for a total of \$364.9 million. Transaction activity has been heavily impacted by COVID-19 as well as the upcoming election.

**OUTLOOK**

**Tale of Two Markets**

Demand is anticipated to remain strong in the multifamily sector as underlying market fundamentals such as strong population growth point to continued expansion. Despite this, Class A properties will continue to navigate headwinds as construction outpaces demand. Class B and C properties remain stabilized with investor interest elevated in the stability of the assets. As a result, rents will remain relatively flat as Class A properties offer generous rent concessions, while price sensitivity limits rent growth in stabilized Class B and C assets.



Houston Multifamily Market Indicators

Submarket	# Of Apt. Communities	# Of Apt. Units	Q3 Occ	% Change QOQ	Avg Unit SF	Average Effective Rent/Month	Average Effective Rent/SF	Units Under Const.	Units Absorbed Q3 2020	Absorption Trailing 4 Qtrs
1 Montrose/Museum/Midtown	64	15,644	83.9%	0.1%	936	\$1,655.00	\$1.77	1,759	168	343
2 Highland Village/Upper Kirby/West U	64	17,863	84.3%	-11.2%	978	\$1,609.00	\$1.65	917	-35	-311
3 Med Center/Braes Bayou	83	24,649	88.9%	5.3%	876	\$1,229.00	\$1.40	326	288	-53
4 Heights/Washington Ave	56	13,697	81.6%	27.8%	882	\$1,491.00	\$1.69	3,211	588	908
5 Downtown	24	6,222	83.4%	-5.1%	967	\$1,767.00	\$1.83	1,204	-68	-342
6 I-10 East/Woodforest/Channelview	59	11,984	89.9%	0.5%	834	\$879.00	\$1.05	352	30	150
7 I-69 North	29	4,032	93.9%	-1.9%	846	\$883.00	\$1.04	300	-18	240
8 Northline	50	6,672	91.1%	3.3%	842	\$822.00	\$0.98	243	51	44
9 Greenspoint/Northborough/Aldine	66	17,198	91.3%	1.3%	794	\$766.00	\$0.97	177	65	-1
10 FM 1960 East/IAH Airport	48	9,275	91.9%	9.1%	897	\$932.00	\$1.04	0	185	282
11 Lake Houston/Kingwood	63	16,070	81.4%	3.3%	943	\$1,142.00	\$1.21	257	438	1,052
12 Northeast Houston/Crosby	21	3,278	87.2%	-5.8%	889	\$858.00	\$0.97	0	-30	22
13 Brookhollow/Northwest Crossing	92	20,579	89.2%	2.0%	824	\$882.00	\$1.07	628	110	346
14 Memorial/Spring Branch	111	22,569	89.5%	0.9%	916	\$979.00	\$1.07	888	49	309
15 Inwood/Hwy 249	31	5,822	92.5%	2.9%	882	\$840.00	\$0.95	0	36	60
16 Willowbrook/Champions/Ella	159	39,969	89.8%	0.4%	886	\$950.00	\$1.07	179	68	327
17 Jersey Village/Cypress	63	15,582	91.8%	0.1%	908	\$1,022.00	\$1.13	229	-8	137
18 Bear Creek/Copperfield/Fairfield	68	18,119	90.5%	9.5%	909	\$1,101.00	\$1.21	0	381	803
19 Katy/Cinco Ranch/Waterside	109	30,744	87.4%	14.2%	952	\$1,216.00	\$1.28	2,610	1,184	2,644
20 Tomball/Spring	71	17,272	79.4%	-2.7%	948	\$1,147.00	\$1.21	676	480	1,149
21 Woodlands/ Conroe South	73	21,145	87.1%	-7.6%	941	\$1,182.00	\$1.26	0	213	178
22 Conroe/ Montgomery	49	9,039	92.0%	10.4%	897	\$967.00	\$1.08	1,026	201	151
23 Hwy 288/Pearland West	48	12,370	93.2%	5.9%	968	\$1,180.00	\$1.22	0	176	392
24 U of H/I-45 South	113	18,384	90.3%	-0.1%	795	\$770.00	\$0.97	144	0	400
25 Beltway 8/I-45 South	49	13,714	90.2%	-1.7%	860	\$923.00	\$1.07	0	-72	296
26 Pasadena/Deer Park/La Porte	126	23,926	89.2%	-0.9%	852	\$887.00	\$1.04	0	-47	-118
27 Friendswood/Pearland East	30	5,745	94.2%	3.5%	861	\$1,045.00	\$1.21	0	42	-80
28 Clear Lake/Webster/League City	98	25,020	90.9%	2.7%	885	\$1,095.00	\$1.24	0	130	281
29 Baytown	59	11,205	86.1%	0.6%	863	\$906.00	\$1.05	0	10	414
30 Dickinson/Galveston	76	11,676	91.9%	5.7%	845	\$962.00	\$1.14	235	154	-53
31 Alvin/Angleton/Lake Jackson	71	11,398	78.4%	-11.1%	829	\$870.00	\$1.05	0	-92	-803
32 Galleria/Uptown	103	24,425	89.2%	-0.3%	901	\$1,217.00	\$1.35	351	-25	-143
33 Woodlake/Westheimer	37	12,233	91.4%	-0.7%	889	\$993.00	\$1.12	0	-17	13
34 Energy Corridor/CityCentre/Briar Forest	105	33,164	89.5%	0.9%	948	\$1,142.00	\$1.21	120	85	130
35 Westchase	49	14,927	91.4%	-2.2%	840	\$985.00	\$1.17	0	-46	-9
36 Alief	110	26,979	91.5%	0.4%	872	\$884.00	\$1.01	308	56	103
37 Sharpstown/Westwood	106	25,538	91.4%	0.9%	790	\$742.00	\$0.94	0	31	195
38 Westpark/Bissonnet	57	16,898	90.5%	-2.6%	809	\$759.00	\$0.94	0	-92	-389
39 Braeswood/Fondren SW	83	21,975	90.0%	1.7%	837	\$812.00	\$0.97	0	75	362
40 Almeda/South Main	26	4,770	91.7%	-1.3%	843	\$855.00	\$1.01	336	-4	-16
41 Sugar Land/Stafford/Sienna	58	14,384	90.9%	6.6%	950	\$1,205.00	\$1.27	142	222	681
42 Richmond/Rosenberg	31	5,126	92.6%	4.9%	880	\$1,009.00	\$1.15	309	53	227
<b>43 Greater Houston Totals</b>	<b>2,888</b>	<b>681,281</b>	<b>89.0%</b>	<b>1.6%</b>	<b>885</b>	<b>\$1,043.00</b>	<b>\$1.18</b>	<b>16,927</b>	<b>5,015</b>	<b>10,321</b>

SOURCE Apartment Data Services, Transwestern

### Houston Multifamily Communities Recently Opened

SUBMARKET	PROPERTY	UNITS	MOVE-INS
Tomball/ Spring	Stone Loch	384	07/2020
Bear Creek/ Copperfield/ Fairfield	Alys Crossing	360	07/2020
Baytown	Vic At Southwinds, The	265	07/2020
Woodlands/ Conroe South	The Mill	201	07/2020
Bear Creek/ Copperfield/ Fairfield	Ivy Point Cypress	136	07/2020
Willowbrook/ Champions/ Ella	Broadstone Vintage Park	386	08/2020
Katy/ Cinco Ranch/ Waterside	Ascend At Tamarron	351	08/2020
Heights/ Washington Ave	15th Street Flats	337	08/2020
Sugar Land/ Stafford/ Sienna	Broadstone Sienna	330	08/2020
Lake Houston/ Kingwood	The Rosemary	328	08/2020
Montrose/ Museum/ Midtown	Driscoll At River Oaks, The	318	08/2020
Highland Village/ Upper Kirby/ West U	Reverie At River Hollow	304	08/2020
Montrose/ Museum/ Midtown	Residences At La Colombe d'Or	265	08/2020
Tomball/ Spring	Allora Spring Cypress	351	09/2020
Lake Houston/ Kingwood	Dryden	327	09/2020
Jersey Village/ Cypress	Winward At Telge Crossing	303	09/2020
Willowbrook/ Champions/ Ella	Smart Living At Cypress Creek	300	09/2020

SOURCE Apartment Data Services, Transwestern; list includes communities with openings through 9/30/2020

### Recent Houston Multifamily Sales

Property Name	Submarket	Year Built	Units	Close Date
Circuit	Downtown	2015	311	Jul-20
The Pines at Woodcreek	FM 1960 East/IAH Airport	2015	330	Jul-20
Broadstone Park West	Katy/Cinco Ranch/Waterside	2013	370	Jul-20
Scott Plaza Apartments	Hwy 288 South/Pearland West	1970	150	Sep-20
Kings Row	Hwy 288 South/Pearland West	1985	180	Sep-20
The Fairmont on San Felipe	Galleria/Uptown	2009	361	Sep-20

SOURCE Real Capital Analytics, Transwestern

## Houston Multifamily Under Construction - Communities Delivering Q4 2020

Submarket	Property	Units	Move-ins
Heights/ Washington Ave	Taylor Heights	363	October-20
Heights/ Washington Ave	Alta Washington	204	October-20
Katy/ Cinco Ranch/ Waterside	Cyan Cinco Ranch	250	October-20
Heights/ Washington Ave	Slate Heights	281	November-20
Katy/ Cinco Ranch/ Waterside	San Tierra	303	November-20
Lake Houston/ Kingwood	Balcara At Balmoral	163	November-20
Montrose/ Museum/ Midtown	Alta River Oaks	364	November-20
Richmond/ Rosenberg	Lofts At Brazos Town Center	309	November-20
Willowbrook/ Champions/ Ella	Mera Vintage Park	179	November-20
Brookhollow/ Northwest Crossing	Somerset Lofts	120	December-20
Conroe North/ Montgomery	Cottage Green	197	December-20
Energy Corridor/ CityCentre/ Briar Forest	Hartwood At Briarwest (Afford)	120	December-20
Galleria/ Uptown	Aspire Post Oak (High Rise)	351	December-20
Heights/ Washington Ave	Alexan Memorial	356	December-20
Highland Village/ Upper Kirby/ West U	Novel River Oaks	300	December-20
Katy/ Cinco Ranch/ Waterside	Haven At Bellaire	297	December-20
Lake Houston/ Kingwood	Clearwater At Balmoral	94	December-20
Memorial/ Spring Branch	Bridges At Bingle	258	December-20
Tomball/ Spring	Ariza Gosling	316	December-20

SOURCE Apartment Data Services, Transwestern; list includes communities delivering through 12/2020

SOURCE Apartment Data Services, Transwestern; list includes communities with move-ins through 03/2020

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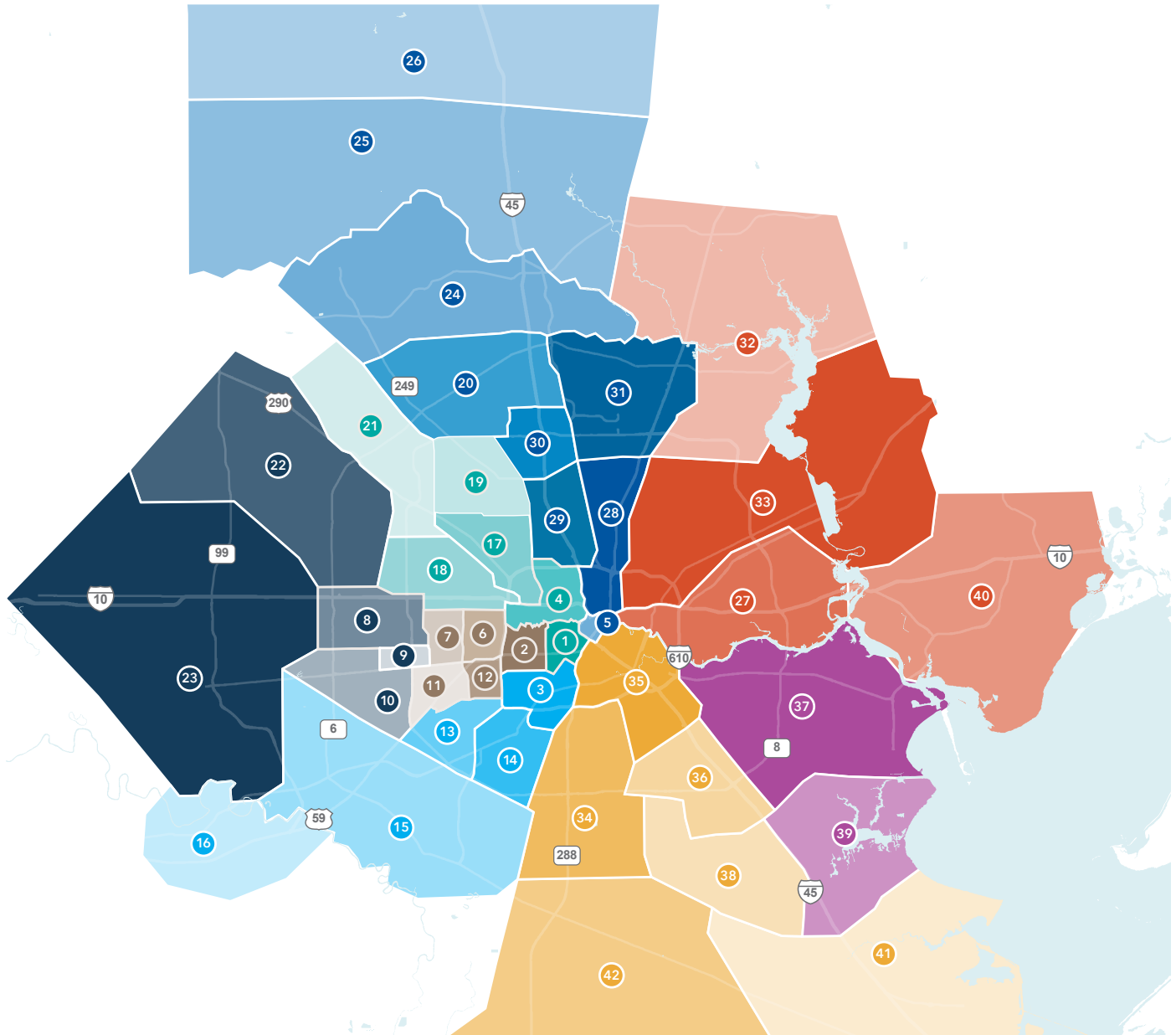
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### METHODOLOGY

The information in this report is the result of a compilation of information on office, industrial, retail, multifamily and healthcare properties located in the Houston metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned and occupied by a government agency.

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# Q3 2020 | HOUSTON | MULTIFAMILY MARKET



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|--|--|---|---|
| <b>1</b> Montrose/Museum/Midtown                 | <b>12</b> Westpark/Bissonnet               | <b>23</b> Katy/Cinco Ranch/Waterside        | <b>34</b> Hwy 288 South/Pearland West     |
| <b>2</b> Highland Vlg/Upper Kirby/West U         | <b>13</b> Braeswood/Fondren SW             | <b>24</b> Tomball/Spring                    | <b>35</b> U of H/I-45 South               |
| <b>3</b> Med Center/Braes Bayou                  | <b>14</b> Almeda/South Main                | <b>25</b> Woodlands/Conroe South            | <b>36</b> Beltway 8/I-45 South            |
| <b>4</b> Heights/Washington Ave                  | <b>15</b> Sugar Land/Stafford/Sienna       | <b>26</b> Conroe North/Montgomery           | <b>37</b> Pasadena/Deer Park/La Porte     |
| <b>5</b> Downtown                                | <b>16</b> Richmond/Rosenberg               | <b>27</b> I-10 East/ Woodforest/Channelview | <b>38</b> Friendswood/Pearland East       |
| <b>6</b> Galleria/Uptown                         | <b>17</b> Brookhollow/Northwest Crossing   | <b>28</b> I-69 North                        | <b>39</b> Clear Lake/ Webster/League City |
| <b>7</b> Woodlake/Westheimer                     | <b>18</b> Memorial/Spring Branch           | <b>29</b> Northline                         | <b>40</b> Baytown                         |
| <b>8</b> Energy Corridor/CityCentre/Briar Forest | <b>19</b> Inwood/Hwy 249                   | <b>30</b> Greenspoint/Northborough/Aldine   | <b>41</b> Dickinson/Galveston             |
| <b>9</b> Westchase                               | <b>20</b> Willowbrook/Champions/Ella       | <b>31</b> FM 1960 East/IAH Airport          | <b>42</b> Alvin/ Angleton/Lake Jackson    |
| <b>10</b> Alief                                  | <b>21</b> Jersey Village/Cypress           | <b>32</b> Lake Houston/Kingwood             |   |
| <b>11</b> Sharpstown/Westwood                    | <b>22</b> Bear Creek/Copperfield/Fairfield | <b>33</b> Northeast Houston/Crosby          |   |