Houston 2024 Market Forecast

MARKET SNAPSHOT

AVERAGE RENT
$1,301 4Q 2023
$1,333 4Q 2024

2024 RENT CHANGE
2.5%

OCCUPANCY RATE
91.0% 4Q 2023
90.7% 4Q 2024

2024 OCCUPANCY CHANGE
-30 points

EMPLOYMENT*
3.35M 2023
3.42M 2024

UNEMPLOYMENT RATE**
4.4% 2023
4.2% 2024

** Please note that these employment figures have been adjusted for seasonal variations and are based on Moody's Analytics forecast as of January 1, 2024.*

*** Please note that these unemployment rates are estimates that have not been adjusted for seasonal variations, and they are derived from Moody's Analytics forecast as of January 1, 2024.*

KEY TAKEAWAYS

- Houston's development pace is manageable with the share of existing inventory under construction at 3.7%, which is significantly lower than rates in other Sun Belt markets.
- In 2024, the growing demand for cost-effective housing is expected to drive rent growth, particularly benefiting lower tier properties.
- Houston's status as a premier multifamily investment market presents substantial opportunities for investors to reinvigorate transaction activity, with attractively priced deals and abundant institutional capital signaling a likely upswing in investment activity this year.
- Houston's selection as one of the seven regional clean hydrogen hubs in the U.S. by the Department of Energy, and the ensuing $1.2 billion investment in the HyVelocity Hydrogen Hub from the Bipartisan Infrastructure Law, significantly bolsters the local economy, highlighting the region's expanding prominence in the energy sector.

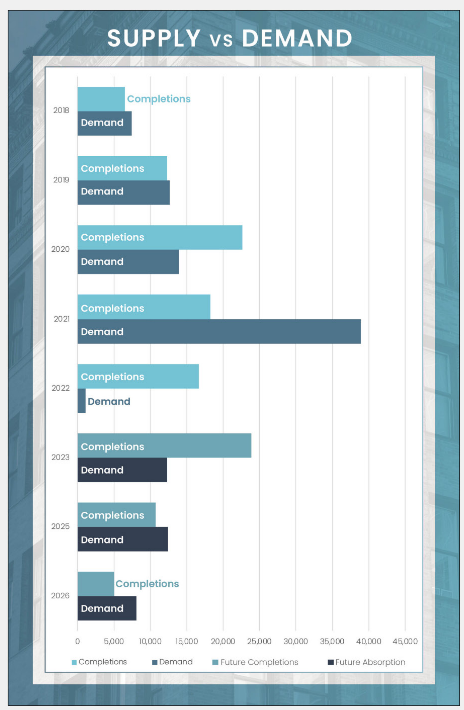
Supply & Demand

2024 FULL YEAR FORECAST

12,539 Units
FORECASTED ABSORPTION

13,307 Units
FORECASTED NEW SUPPLY

Annual Demand Vs Completions



Demand / Occupancy Outlook

Houston's multifamily market demonstrated strong demand throughout 2023, with total annual absorption exceeding 12,000 units, surpassing the pre-COVID five-year average by over 10%. Despite this robust leasing momentum, it couldn't fully match the pace of nearly 24,000 new units introduced, leading to a slight decrease in occupancy to 91.0% in the final quarter of 2023.

For 2024, unit absorption in Houston is expected to slightly surpass 2023's performance, with a forecast of 12,539 units. This demand is likely to be driven by the absorption of new inventory, especially in supply-heavy areas like Bear Creek/Copperfield, Neartown/River Oaks, and Sugar Land/Missouri City, which displayed strong absorption figures in 2023. The metro's 25,000 units currently under construction will continue to challenge the occupancy rate, but it's not expected to decrease significantly, instead remaining in the vicinity of 91%. Beyond 2024, the Houston multifamily market is poised for a shift due to a decrease in new construction starts, which hit a six-year low in 2023, largely due to high interest rates. This reduction in supply-side pressure is likely to lead to higher occupancy rates and an acceleration in rent growth starting in 2025.

New Supply Outlook

In Houston, despite its leadership in net deliveries, the development pace is relatively restrained, with only 3.7% of its inventory currently underway, below the national average of 5.0%. This is contrasted by other rapidly growing Sun Belt markets like Austin, and Miami, where the percentages of inventory under construction is significantly higher at 14%, and 17%, respectively, posing a greater risk of overbuilding.

In recent years, developers in Houston have redirected their focus, with a noticeable shift towards fast-growing suburban areas in the north and west, contrasting with the previous concentration on urban areas that characterized the post-Great Financial Crisis rebound period. This change in development strategy has been particularly pronounced in suburban areas that boast affluent demographics and lower barriers to entry, such as Northwest Houston, and Bear Creek/Copperfield. These areas are now at the forefront of construction activity, reflecting and supporting the core areas of Houston's population growth.

Although the current 25,789 units under construction is noteworthy, this figure is below the five-year average of 30,000 units. Moreover, a significant slowdown in construction starts last year suggests a lighter pipeline ahead. In fact, new construction starts in 2023 dropped to their lowest since 2017, indicating a shift in the market dynamics and potentially influencing future supply and demand dynamics.

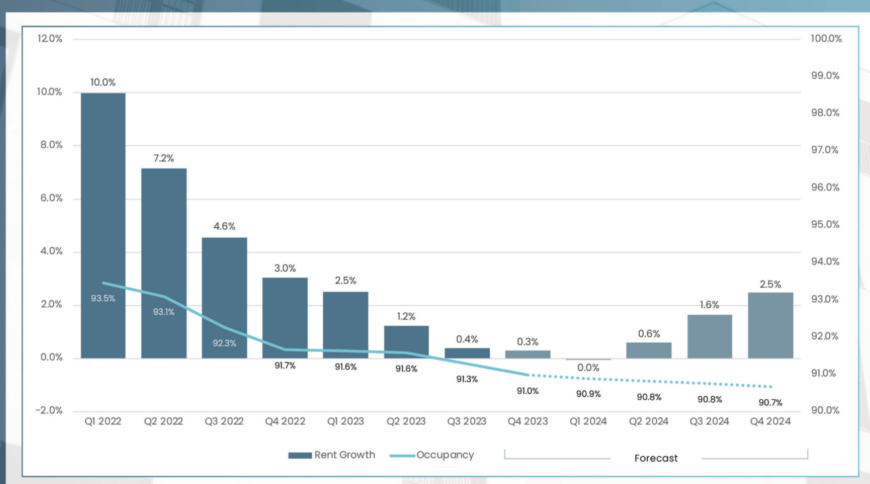
Occupancy & Rent Trends

RENT VS OWN MONTHLY PAYMENT

$2,568
Average Monthly Mortgage Payment

$1,301
Average Monthly Rent

RENT vs OCCUPANCY



2024 RENT TRENDS OUTLOOK

As 2023 ended, Houston's year-over-year rent growth slowed to 0.3%, the lowest since 2020 and significantly below the 10-year average of 2.6%. This deceleration was particularly noticeable in Downtown and The Heights, which witnessed rent declines on an annual basis in 4Q 2023 due to an influx of new supply.

In the face of this new supply, Class A properties are likely to continue offering attractive concessions to entice renters, potentially suppressing rent increases. Despite this, Class A properties are expected to record decent rent growth performance in 2024. The demand for more cost-effective housing options is also expected to rise, potentially benefiting lower-tier properties. In 2024, Class C properties are predicted to lead in rent growth, followed by Class A, while Class B properties may see comparatively slower growth. This indicates a market bifurcation: Class B renters with financial flexibility might shift to Class A properties, drawn by rent concessions, whereas those under economic strain might opt for more affordable Class C units.

Submarket Rent & Occupancy

Submarket	Q4 2023 Stabilized Occupancy	Q4 2024 Stabilized Occupancy (f)	Annual Occupancy Change (2024/2023)	Q4 2023 Average Monthly Rent	Q4 2024 Average Monthly Rent (f)	Annual Rent Change (2024/2023)
Alief	89.6%	89.3%	-0.4%	$1,029	$1,056	2.6%
Austin County	93.1%	93.1%	0.0%	$1,086	$1,110	2.2%
Baytown	87.4%	86.9%	-0.5%	$1,034	$1,058	2.3%
Bear Creek/Copperfield	93.1%	93.0%	-0.1%	$1,440	$1,472	2.2%
Briar Forest/West Memorial	91.4%	91.1%	-0.3%	$1,311	$1,342	2.4%
Brookhollow/Inwood	92.0%	91.8%	-0.3%	$1,089	$1,117	2.6%
Chambers County	87.6%	87.3%	-0.3%	$1,401	$1,438	2.6%
Cinco Ranch	93.2%	93.0%	-0.2%	$1,555	$1,589	2.2%
Downtown Houston	90.7%	90.7%	0.0%	$2,283	$2,336	2.4%
East End Houston	95.2%	95.0%	-0.2%	$1,258	$1,290	2.6%
Galleria/Uptown	91.1%	90.8%	-0.3%	$1,491	$1,531	2.7%
Greenspoint/IAH Airport	91.5%	91.2%	-0.3%	$926	$952	2.8%
Heights	91.9%	91.6%	-0.2%	$1,625	$1,666	2.5%
Lake Houston Area	91.6%	91.3%	-0.3%	$1,283	$1,316	2.6%
Liberty County	92.5%	92.1%	-0.4%	$930	$953	2.4%
Medical Center/West University	91.1%	90.9%	-0.2%	$1,565	$1,606	2.6%
Neartown/River Oaks	92.4%	92.2%	-0.2%	$1,902	$1,952	2.6%
North Galveston County	90.5%	90.2%	-0.3%	$1,369	$1,399	2.2%
Northeast Houston	92.4%	92.0%	-0.3%	$1,191	$1,226	3.0%
Northwest Houston	90.1%	89.8%	-0.3%	$1,280	$1,311	2.4%
Outlying Montgomery County	91.4%	91.1%	-0.3%	$1,275	$1,304	2.2%
Pearland	93.2%	93.0%	-0.2%	$1,501	$1,536	2.3%
Richmond/Rosenberg	92.7%	92.4%	-0.3%	$1,372	$1,401	2.1%
South Brazoria County	86.6%	86.1%	-0.5%	$1,094	$1,115	2.0%
South Central Houston	90.3%	89.8%	-0.5%	$1,164	$1,198	2.9%
South Galveston County	90.0%	89.6%	-0.3%	$1,195	$1,225	2.5%
Southeast Houston	87.9%	87.5%	-0.4%	$1,080	$1,106	2.4%
Southeast Montgomery County	94.0%	93.9%	-0.2%	$1,434	$1,470	2.5%
Southwest Houston	92.3%	92.0%	-0.3%	$994	$1,021	2.8%
Spring Branch	90.9%	90.6%	-0.3%	$1,170	$1,202	2.7%
Sugar Land/Missouri City	94.3%	94.1%	-0.2%	$1,445	$1,479	2.3%
The Woodlands	93.4%	93.2%	-0.2%	$1,559	$1,596	2.4%
Waller County	86.9%	86.3%	-0.6%	$1,111	$1,137	2.3%
Westchase/Woodlake	89.4%	89.0%	-0.4%	$1,227	$1,258	2.6%
Market	**91.0%**	**90.7%**	**-0.3%**	**$1,301**	**$1,333**	**2.5%**

Submarket Construction Pipeline

700,007
4Q 2023 Unit Inventory

25,789
Number of Units Under Construction

13,307
Number of Units UC Delivering In the Next 4 Quarters

Submarket	Unit Inventory: 4Q 2023	Units Under Construction	% of Existing Inventory UC	% of Total UC	Units UC Delivering In the Next 4 Quarters
Alief	15,551	120	0.8%	0.5%	98
Austin County	700	0	0.0%	0.0%	0
Baytown	9,328	0	0.0%	0.0%	0
Bear Creek/Copperfield	30,840	3,365	10.9%	13.0%	1,232
Briar Forest/West Memorial	30,279	0	0.0%	0.0%	0
Brookhollow/Inwood	24,811	665	2.7%	2.6%	630
Chambers County	968	0	0.0%	0.0%	0
Cinco Ranch	19,509	782	4.0%	3.0%	468
Downtown Houston	6,716	301	4.5%	1.2%	291
East End Houston	4,638	1,769	38.1%	6.9%	1,173
Galleria/Uptown	24,118	0	0.0%	0.0%	0
Greenspoint/IAH Airport	21,230	0	0.0%	0.0%	-29
Heights	11,975	1,346	11.2%	5.2%	760
Lake Houston Area	25,297	780	3.1%	3.0%	424
Liberty County	1,001	200	20.0%	0.8%	198
Medical Center/West University	27,730	475	1.7%	1.8%	436
Neartown/River Oaks	47,663	1,711	3.6%	6.6%	665
North Galveston County	10,152	538	5.3%	2.1%	410
Northeast Houston	3,438	0	0.0%	0.0%	0
Northwest Houston	71,662	2,468	3.4%	9.6%	291
Outlying Montgomery County	12,269	1,357	11.1%	5.3%	388
Pearland	8,752	0	0.0%	0.0%	-12
Richmond/Rosenberg	8,711	1,569	18.0%	6.1%	432
South Brazoria County	12,563	362	2.9%	1.4%	344
South Central Houston	5,206	0	0.0%	0.0%	0
South Galveston County	13,181	320	2.4%	1.2%	301
Southeast Houston	75,356	1,104	1.5%	4.3%	847
Southeast Montgomery County	5,572	883	15.8%	3.4%	873
Southwest Houston	69,430	1,372	2.0%	5.3%	640
Spring Branch	22,246	568	2.6%	2.2%	277
Sugar Land/Missouri City	19,524	1,977	10.1%	7.7%	1,432
The Woodlands	16,561	1,413	8.5%	5.5%	450
Waller County	1,464	0	0.0%	0.0%	0
Westchase/Woodlake	41,566	344	0.8%	1.3%	288
Market	**700,007**	**25,789**	**3.7%**	**100%**	**13,307**

Sales Activity

Preliminary data from MSCI indicates that the sales volume for conventional multifamily assets concluded 2023 on a subdued note. Although it is common for sales to be recorded up to the final days of the year and for data services to take several weeks to consolidate these transactions, it is improbable that the expected uptick in volume will significantly alter the overall trend. The final quarter of 2023 saw sales volume of $549.2 million, marking the lowest fourth quarter total in over a decade. In turn, annual transaction volume amounted to $2.21 billion over 61 sales, a 69% decrease from the previous year and only higher than 2020's $1.88 billion in the past decade.

The traded assets skewed towards Class B and C properties, as evidenced by the decreased price per unit (PPU) compared to 2022. This trend aligns with the current cautious stance of institutional capital, which remains largely on the sidelines. However, looking forward to 2024, if interest rates stabilize or decrease, Houston's continued appeal as a prime multifamily investment market could offer significant opportunities for inventors jump starting transaction activity. The potential for attractively priced deals, combined with the considerable institutional capital currently inactive, suggests a resurgence in investment activity is likely this year.

Most Active Buyers (Previous 24 Months)

1. Applesway Investment Group
2. SB Properties
3. 29th Street Capital
4. Aspen Oak
5. Civitas Capital Group

Most Active Sellers (Previous 24 Months)

1. Alliance Residential
2. Wood Partners
3. Crow Holdings
4. Allen Harrison Company
5. Cortland

**Most Active Buyers and Sellers are based on the sale volume of apartment units.*

TRANSACTION VOLUME

$2.2B (p)

2023 Transaction Volume

-69%

Y-O-Y Change

61 YTD

Individual Transaction Count

$143.5k*

Price Per Unit

-16%

Annual PPU Price Change

** Trailing 4Q average PPU*

** Preliminary Data from RCA – Individual transaction $2.5M +*

P=Preliminary

Employment Forecast

EMPLOYMENT SECTOR FORECAST

Forecasted 2024 Employment Sector Growth

Sector	Employment Change 2023 to 2024	Percent Change
Overall Employment	**75,000**	**2.2%**
Manufacturing	6,100	2.6%
Construction	0	0.0%
Trade, Transport., & Utilities	19,300	2.8%
Information	800	2.4%
Financial Activities	4,100	2.2%
Professional & Business Services	7,000	1.3%
Education & Health Services	14,900	3.3%
Government	6,500	1.5%
Lesuire & Hospitality	10,300	3.0%
Natural Resources & Mining	5,100	7.3%
Other Services	1,000	0.8%

Economic **Outlook**

Houston's economy, having surged post-pandemic, is set for a phase of moderation in 2024, though it remains resilient and healthy. The region is on track to add75,000 jobs in 2024, which, while lower than recent years, still represents a robust increase. A significant boost to the local economy came in October when Houston was chosen as one of seven regional clean hydrogen hubs in the U.S. by the Department of Energy. The HyVelocity Hydrogen Hub, with a consortium of seven industry giants, is slated to receive up to $1.2 billion from the Bipartisan Infrastructure Law funding, underscoring the region's growing energy sector prominence.

The energy industry, a cornerstone of Houston's economy, is expected to see modest growth in 2024. The U.S. Energy Information Administration forecasts WTI, to average $91 per barrel. This is projected to result in a slight increase in exploration activities and a consequent modest rise in employment in the sector, adding about 5,000 jobs by year-end. Healthcare continues to be Houston's most resilient industry, driven by factors such as population and job growth, extended life expectancy, and an increase in the number of insured individuals.

In 2024, Houston's economic growth is expected to slow down, appearing sluggish only in comparison to the exceptional growth of the past three years. This period of adjustment is akin to a distance runner finding a sustainable pace after a sprint. By 2025, growth is likely to resume at a more moderate, sustainable rate, aligning with the region's long-term economic trajectory.

Sources: Costar; Yardi Matrix; BLS; MSCI; Moody's Analytics

TO GAIN FURTHER INSIGHTS INTO THE HOUSTON MARKET PLEASE REACH OUT TO OUR LOCAL TEAM

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