Q1 2018

Multifamily Insight

Houston

No slowdown for Houston multifamily market in Harvey aftermath

- Eight months after Hurricane Harvey, multifamily occupancy inches upward to 89.7 percent market-wide, up 30 basis points from last quarter
- The Houston metro created 62,900 jobs in 2017, per the Texas Workforce Commission's revised benchmark
- Rental rates continue to climb, up 4.5% quarter-over-quarter and 5.2% year-over-year

On the heels of a quarter that saw over 9,000 units absorbed, Q1 2018 saw a more normalized level of absorption of roughly 3,000 units. As some continue to move back into their homes throughout the year, one may expect absorption and occupancy to taper off. However, the Texas Workforce's revised studies show that nearly 63,000 jobs had been created in Houston in 2017, while U-Haul reports that Texas was the top ranked state in terms of growth for two consecutive years. With a rapidly growing population and an improving economy, occupancy levels are likely to continue its current trajectory to hit 90%, or the stabilized level.

The first quarter saw only 986 units deliver, a significant drop off from the 5-year quarterly average of 4,276 units. The construction pipeline of over 10,000 units should amount to a higher delivery in the upcoming quarters than Q1 2018, and the market is poised to take on additional supply as occupancy rises across all the multifamily classes. Of note, class A apartments saw 1,440 units absorbed in the first quarter, accounting for nearly half of total absorption.

Houston's multifamily market, which was given a boost during Hurricane Harvey, has continued its positive momentum eight months after the storm. Strong demand and slowing construction has resulted in rising prices and fewer concession packages for tenants.

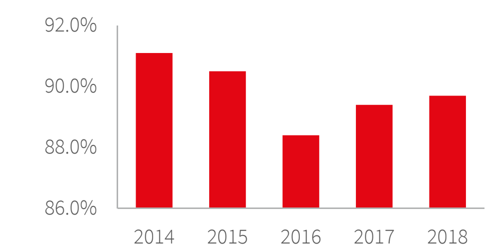
Outlook

While recent interest rate hikes may raise concerns about the potential impacts on property investment, others have asserted otherwise. According to the Regional Head of Freddie Mac, cap rates and underwriting have not been effected thus far. It remains to be seen what further rate hikes would mean for investment, but in the interim, the capital markets remain steady and attractive to investors.

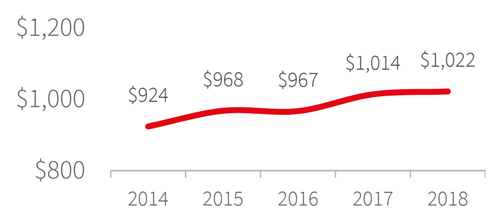
Source: JLL Research, Apartment Data Services

Fundamentals		Forecast
Total inventory	642,037 units	▲
Q1 net absorption	2,971 units	▲
Total occupancy	89.7%	▲
Under construction	10,114 units	▼
Average asking rents	$1,022 per unit	▲

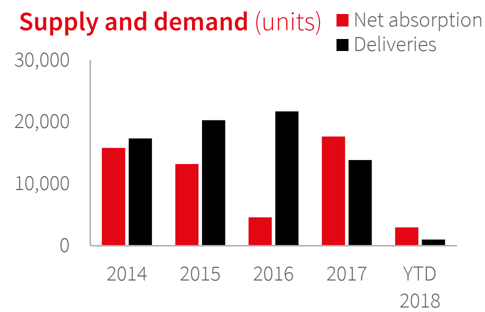
Occupancy (%)



Rents (all classes)



Supply and demand (units)



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