CBRE

Houston's Multifamily Pipeline Feeds Strong Demand

▼ **$1,261**/mo.
Avg. Rental Rate

▼ **2,985** units
Net Absorption

▼ **22,617** units
Under Construction

▼ **89.0%**
Occupancy Rate

▼ **5,396** units
Deliveries

Note: Arrows indicate change from previous quarter.

Key Takeaways

- Houston multifamily reported positive absorption for 2023 – a total of 10,805 units, which is slightly below the 15yr average of 12,400.

- Supply ramped up with over 22,200 deliveries, but is a relatively low 3% of total inventory

- Suburban expansion continued to drive development, with the most active submarkets being Katy, The Heights, Cypress/Fairfield, Tomball/Spring, and Montgomery County

The Houston multifamily market continued to grow steadily throughout 2023, driven by strong demand due to population growth, a robust job market, and affordable living costs. In addition, higher mortgage interest rates and inflated home prices have kept more newly formed households and first-time homebuyer wannabees in rentals. Despite macroeconomic uncertainty, the market delivered a relatively high number of units, had near average absorption rates, stable occupancy rates, and a modest rent decrease. Supply is projected to taper off as demand remains strong.

Figure 1: Historical Average Annual Rent Growth

Rental Growth (%)
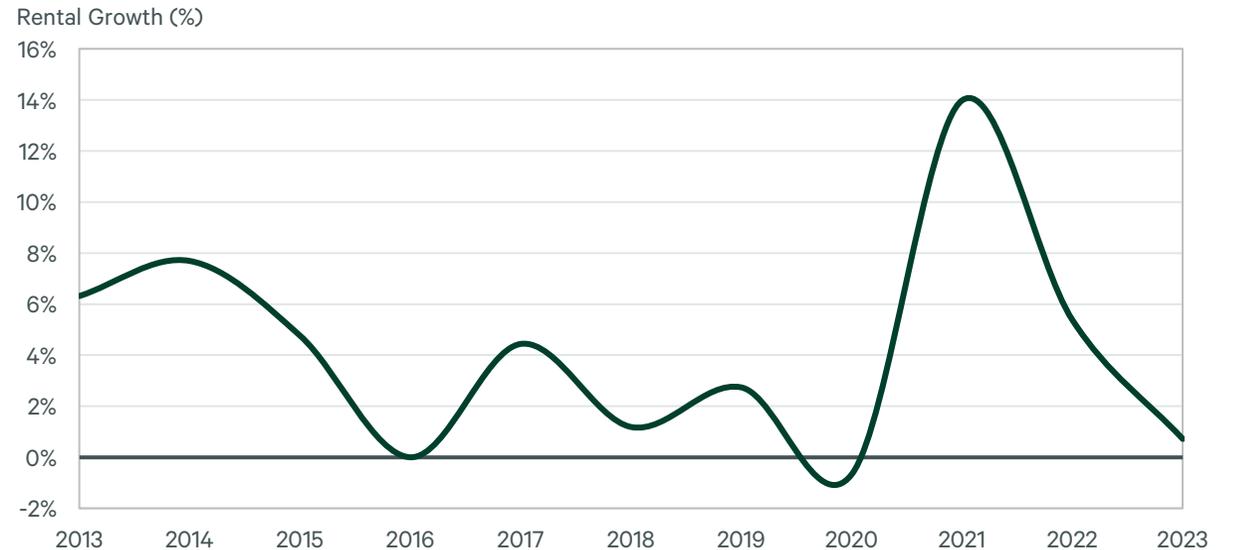
Source: CBRE Research, ApartmentData, Q4 2023.

Population and Job Growth in Houston

Growth continues to be a big part of the Houston narrative. Houston's population surpassed 7.4 million during 2023 according to census-based estimates and is projected to add over 520,000 people in the next five years, which is the highest percentage population growth of large metros. About half of this population growth is from natural increase (i.e., births minus deaths) and half is from net migration (i.e., number of people moving in minus moving out). Houston is ranked second in net migration for metros in the next five years. In global Houston, over half of the net migration is international. This population growth has translated to strong multifamily demand.

The Houston labor market remained relatively strong in 2023 with greater job gains in nearly all sectors compared to the U.S. Despite economic headwinds, over 70,000 jobs were added year-over-year to the Houston MSA in 2023, which is above the 51,000 ten-year annual average. Over 60% of these jobs were in high growth sectors that have above average wages. The fastest growing sector in 2023 was Healthcare with a gain of nearly 23,000 jobs, up 6.2%. Since 2019 (pre-covid), the greatest gains have been made in Professional and Business Services, up nearly 50,000 jobs, and Transportation and Warehousing jobs (e-commerce related) up by nearly 23%, or 33,000 jobs. The unemployment rate in Houston dropped from 4.4% in September to 3.8% in December, which is below the trailing 12-month average of 4.4%.

Economic Overview

The combination of continued economic momentum with a likelihood that the Fed's dramatic tightening cycle is now complete makes a 'soft landing' appear more likely for early 2024. However, the pace of growth will be more modest than in recent quarters. Lower and middle-income households no longer have the luxury of excess savings and the rate of wage growth, although still high, is slowing down. This nuance with wage growth is important. Higher wages contribute to maintaining a higher, but slowing, core inflation. This backdrop will likely translate into the Fed only slowly lowering its target rate in 2024. (CBRE expects 75 – 100 basis points worth of rate cuts in 2024.) The outlook might discourage some spending; however, it should provide a clearer direction for real estate capital markets. The combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

Figure 2: Deliveries and Job Growth
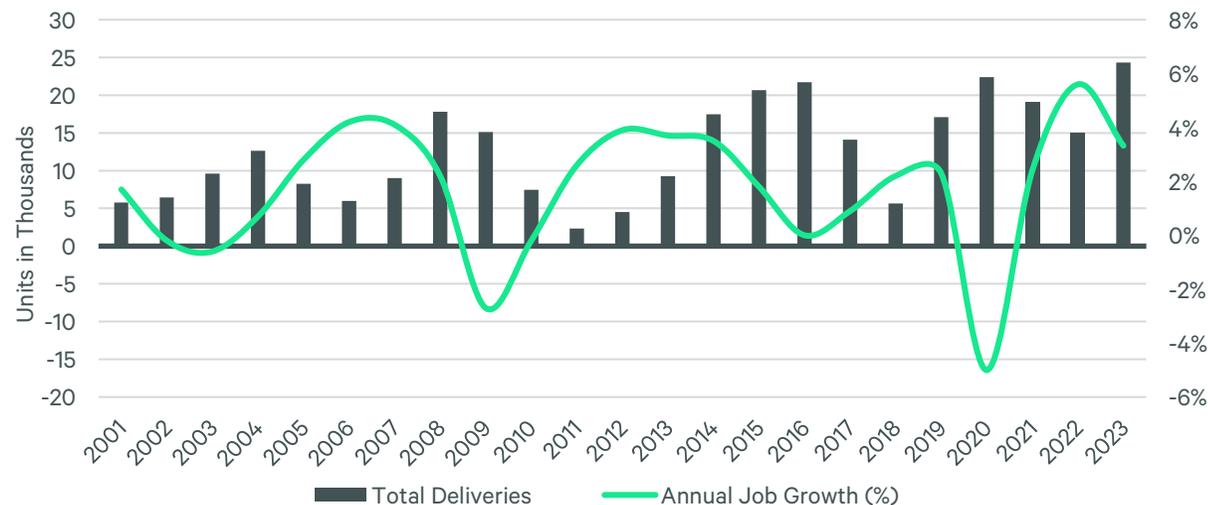
Source: Oxford Economics, ApartmentData, Q4 2023.

Figure 3: Investment Sales Volume and Average Cap Rate
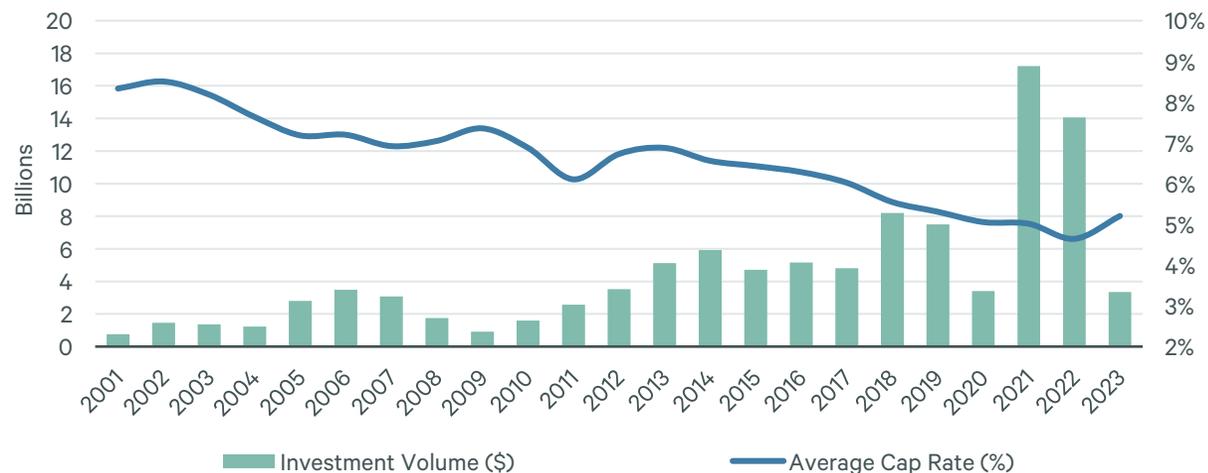
Source: Real Capital Analytics Q4 2023.

Supply & Demand

While Houston saw a relatively high increase in multifamily deliveries in 2023 to help meet demand, it amounted to only 3% of total inventory. The Northwest dominated 2023 openings with over 52% of total – the Katy submarket, alone, had nearly 20%.

Over half of the absorption in 2023 was in the suburban sprawl of the Northwest submarkets with Katy contributing over 23% and Bear Creek/Copperfield/Fairfield accounting for over 11%. The trendy urban Heights submarket was over 10% of total absorption. Willowbrook and Greenspoint had the largest negative absorption with a combined loss of nearly 800 units. In addition, a handful of near Southwest submarkets netted a loss of over 1,000 units.

The demand for multifamily housing in Houston is projected to remain strong. The Houston metro grew by another 100,000+ people in 2023. The reasons why people move to Houston are all related to improving one's quality of life: a favorable cost of living, no state income tax, world-class hospitals, quality universities, warm climate, diverse population, and a healthy economy with jobs available in all sectors. These motivations are projected to continue and support Houston's top ranking projected population growth and, in turn, multifamily demand. In addition, Houston's demographic makeup, which is highly diverse and young, is favorable towards multifamily development.

CBRE Econometrics Advisors projects that over 20,000 units will be absorbed in 2024 followed by an average of 8,500 units in the next five years. Rental rates are projected to grow at an average rate of 2.1% annually, or 11.2%, over the next five years.

Construction Activity

Although the multifamily development pipeline has been slowed by higher interest rates and construction costs, Houston had a healthy 22,000+ units under construction at the end of 2023. Yet, like 2023 total deliveries, that is only 3% of total inventory. The Northwest accounts for over 40% of the construction activity with 30 new projects. Central Houston is the next highest with nearly 30% of development. More than one-third of Houston's 42 submarkets have at least 600 units currently underway with greatest activity in Katy and The Heights.

Figure 4: Net Absorption and Occupancy
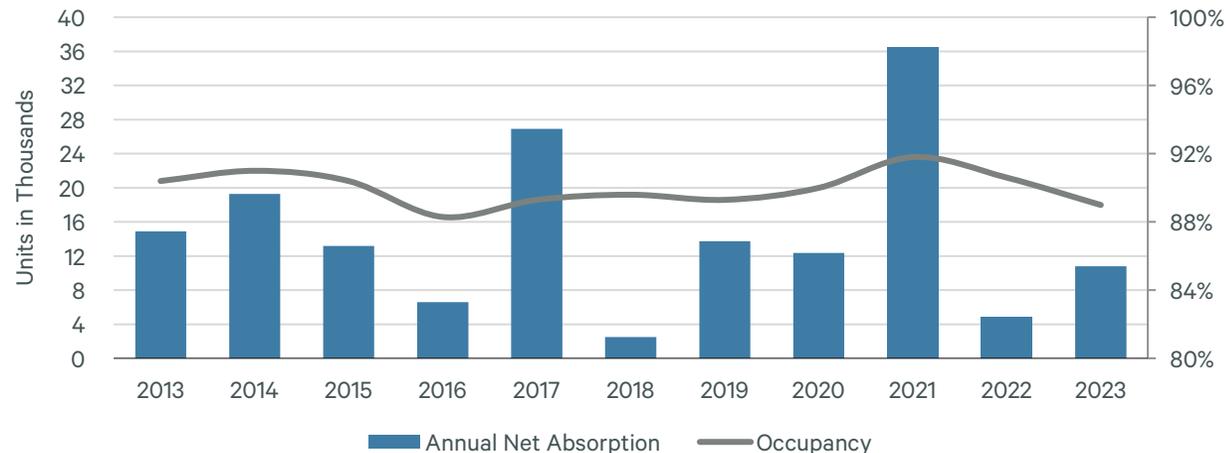
Source: CBRE Research, ApartmentData, Q4 2023.

Figure 5: Historical & Forecasted Deliveries
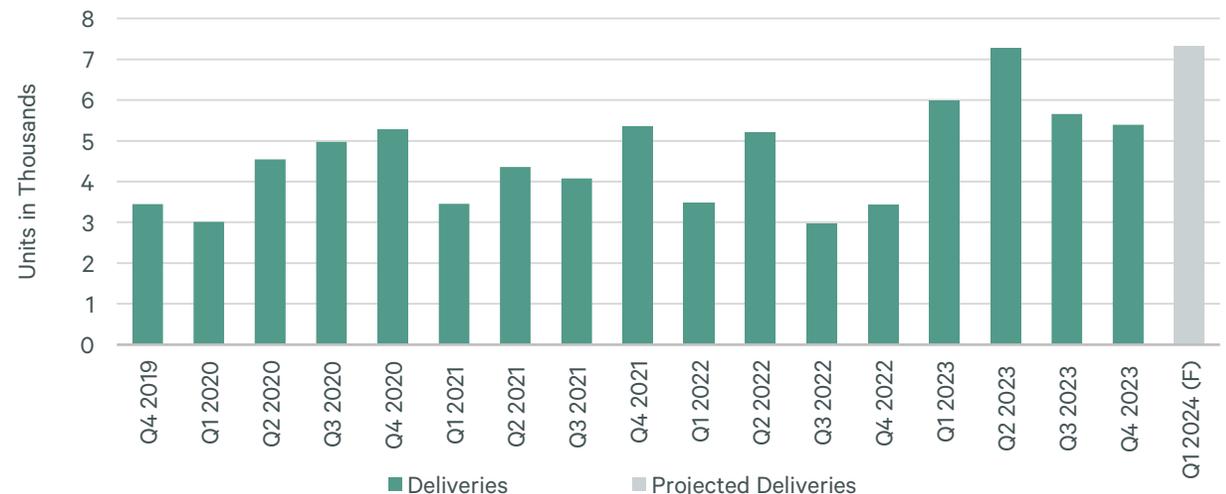
Source: ApartmentData, Q4 2023.

Figure 6: Market Overview

|	Submarket	Inventory (units)	Effective Rent ($/mo)	Occupancy Rate (%)	Net Absorption (Units)	Delivered Q4 2023	Under Construction
Central	Montrose / Museum / Midtown	18,818	$1,899	90.2%	77	-	1,723
	Highland Village / Upper Kirby / West U	19,167	$1,903	92.8%	-86	-	209
	Med Center / Braes Bayou	25,579	$1,442	91.6%	-49	-	825
	Heights / Washington Ave	18,781	$1,742	90.4%	243	197	2,404
	Downtown	7,830	$2,169	83.0%	157	631	1,015
	CENTRAL TOTAL	**90,175**	**$1,761**	**90.6%**	**342**	**828**	**6,176**
Southwest	Galleria / Uptown	24,787	$1,443	91.1%	16	-	398
	Woodlake / Westheimer	12,233	$1,157	89.4%	26	-	145
	Energy Corridor / CityCentre / Briar Forest	33,973	$1,355	90.4%	7	-	855
	Westchase	14,928	$1,154	89.5%	-56	-	-
	Alief	27,589	$1,073	90.4%	-73	-	-
	Sharpstown / Westwood	25,539	$906	93.8%	93	-	-
	Westpark / Bissonnet	16,881	$908	92.4%	-65	-	-
	Braeswood / Fondren SW	22,335	$939	89.1%	213	-	-
	Almeda / South Main	5,351	$1,011	87.4%	17	-	-
	Sugar Land / Stafford / Sienna	16,814	$1,435	89.8%	157	-	770
	Richmond / Rosenberg	6,895	$1,305	80.4%	60	348	348
	SOUTHWEST TOTAL	**207,325**	**$1,161**	**90.3%**	**395**	**348**	**2,516**
Northwest	Brookhollow / Northwest Crossing	21,991	$1,083	90.3%	-33	-	400
	Memorial / Spring Branch	25,054	$1,218	90.1%	88	324	604
	Inwood / Highway 249	6,030	$1,011	91.0%	86	-	-
	Willowbrook / Champions / Ella	41,344	$1,127	88.0%	-116	250	336
	Jersey Village / Cypress	16,750	$1,264	92.4%	26	-	157
	Bear Creek / Copperfield / Fairfield	21,815	$1,377	84.9%	263	593	1,150
	Katy / Cinco Ranch / Waterside	41,877	$1,489	84.4%	605	637	2,523
	Tomball / Spring	21,301	$1,403	83.9%	-4	1,157	1,053
	Woodlands / Conroe South	23,190	$1,487	90.9%	277	189	1,378
	Conroe North / Montgomery	12,509	$1,226	85.5%	54	354	1,592
	NORTHWEST TOTAL	**231,861**	**$1,295**	**87.7%**	**1,246**	**3,504**	**9,193**

Source: CBRE Research, ApartmentData, Q4 2023.

Market Overview Continued

	Submarket	Inventory (units)	Effective Rent ($/mo)	Occupancy Rate (%)	Net Absorption (Units)	Delivered Q4 2023	Under Construction
	I-10 East / Woodforest / Channelview	12,913	$1,043	86.8%	101	-	789
	I-69 North	4,999	$1,045	89.6%	84	-	-
	Northline	6,936	$946	90.2%	70	-	327
Northeast	Greenspoint / Northborough / Aldine	17,674	$887	86.2%	-80	-	-
	FM 1960 East / IAH Airport	9,610	$1,103	90.0%	166	-	-
	Lake Houston / Kingwood	18,294	$1,344	90.5%	101	-	703
	Northeast Houston / Crosby	3,292	$1,047	90.5%	-25	-	180
	NORTHEAST TOTAL	**73,718**	**$1,079**	**88.7%**	**417**	**0**	**1,999**
	Hwy 288 South / Pearland West	13,989	$1,426	88.6%	37	210	821
	U of H / I-45 South	19,453	$891	91.7%	6	-	613
	Beltway 8 / I-45 South	14,155	$1,060	83.9%	17	94	248
	Pasadena / Deer Park / La Porte	24,747	$1,054	86.9%	114	298	298
	Friendswood / Pearland East	6,405	$1,226	93.0%	98	-	111
Southeast	Clear Lake / Webster / League City	26,802	$1,269	89.9%	152	-	-
	Baytown	11,445	$1,078	87.7%	5	-	-
	Dickinson / Galveston	12,840	$1,169	91.8%	50	-	296
	Alvin / Angleton / Lake Jackson	12,462	$1,049	84.5%	106	114	346
	SOUTHEAST TOTAL	**142,298**	**$1,129**	**88.6%**	**585**	**716**	**2,733**
	HOUSTON TOTAL	**745,377**	**$1,261**	**89.0%**	**2,985**	**5,396**	**22,617**

Source: CBRE Research, ApartmentData, Q4 2023.

Market Area Overview
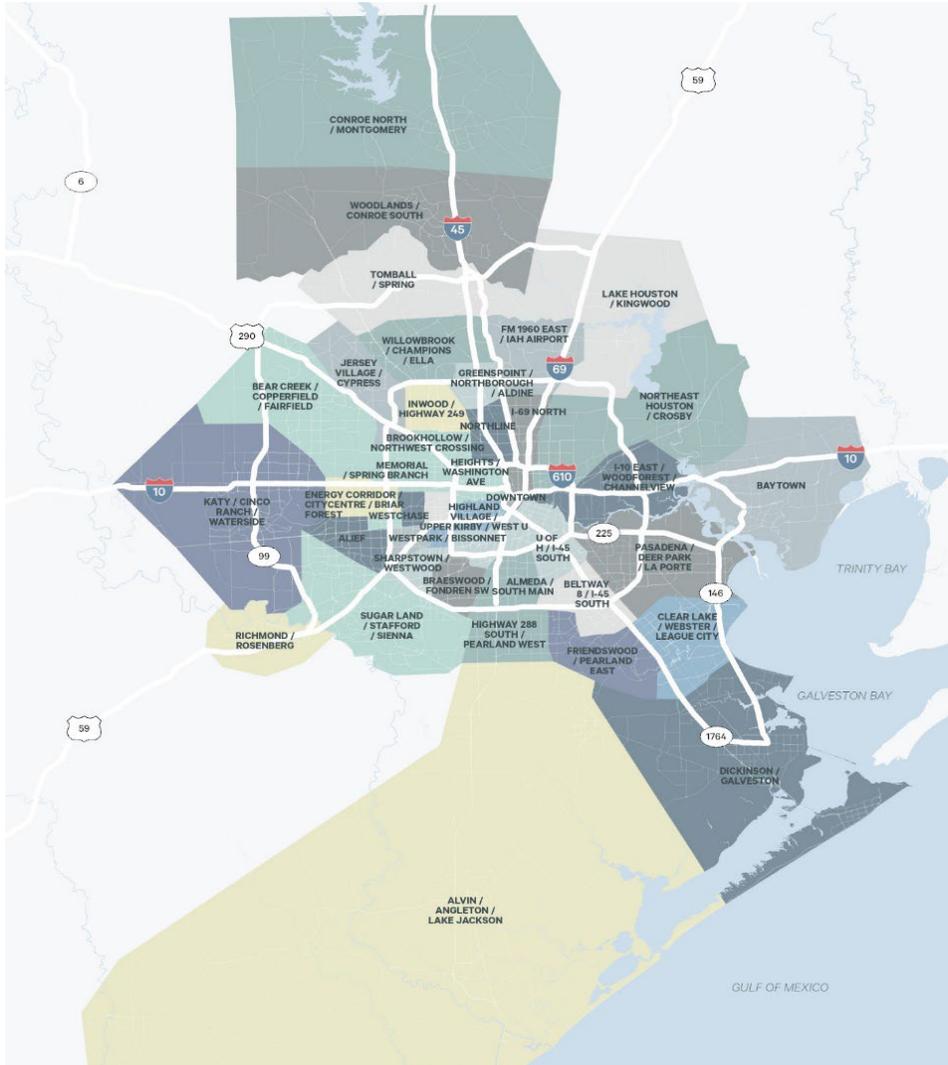
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