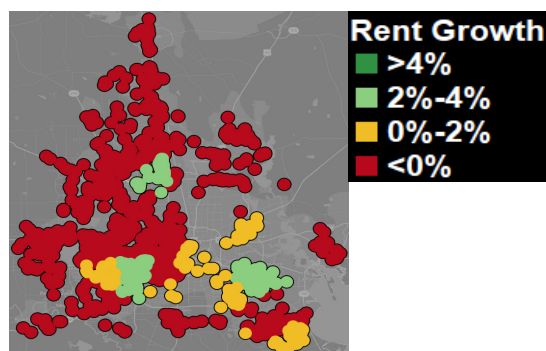


APARTMENT ADVISORY

FEBRUARY 2017

Houston Annual Rent Growth (January 2017)

**HOUSTON – IS THE WIND STARTING TO CHANGE DIRECTION?**

Houston's urban core was also on the watch list early in this cycle for overdevelopment, but it was the economy that was the real game changer. New supply or not, most areas of town experienced a sharp decline in performance as job growth plummeted in 2015 and remained anemic in 2016.

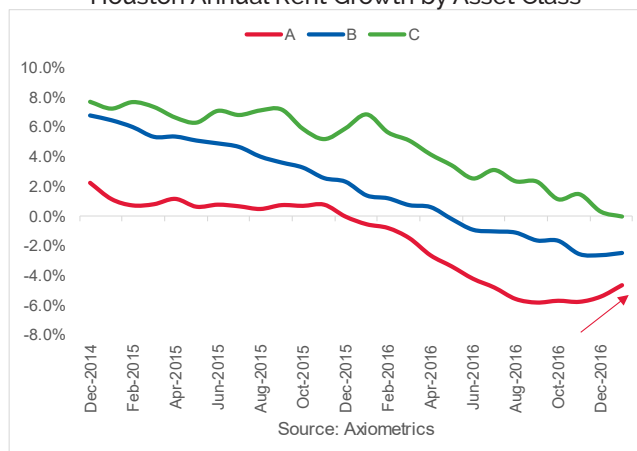
While the overall market remains sluggish, there are a few positive signs worth watching in Houston. The biggest is on the supply front. Despite expectations that the economy would worsen, Census data showed multifamily permitting peaking at more than 26,000 units in the 12 months ending July 2015, approximately one year after oil prices began to fall. In 2016, just 9,070 multifamily units were permitted, and the trend was on a downward slope.

If the economy can improve by even a small amount relative to the giant growth seen a few years ago, Houston has a chance to be one of the best markets in the country in 2018 and 2019. No other market has seen this type of pullback in supply. The potential upside would be even brighter if single-family supply would follow suit. Practically as many single-family units are being permitted today (35,397) as the peak in 2015 (38,566).

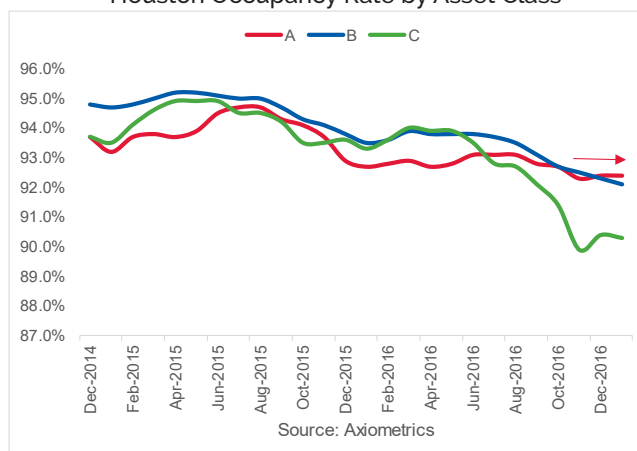
Are there any early signs that the market could be improving? It tends to be a good thing when class A properties hit a floor for performance, and that might have happened this winter. While annual rent growth is still negative, it has improved from -5.8% to -4.6%. The current pace of growth is not impressive, but the trend is heading in the right direction, at least for now. Additionally, class A properties now have the best occupancy rate in the market, 92.4%, after trailing the other asset classes the past few years.

It might not be time to call it a comeback, but things could be shaping up for a market that has been struggling.

Houston Annual Rent Growth by Asset Class



Houston Occupancy Rate by Asset Class



Houston Permitting

