



# Houston Apartment Market Update

Edited by Kathryn Koepke

\$399/year

3rd Quarter 2007

## Employment Justifies Construction in Houston

Houston's apartment construction activity has picked up following a slowdown in 2006 when only 32 projects containing 7,323 units were developed. 2007 has already been an active year, as 21 projects with 5,489 units have already been completed, and an additional 82 projects containing 21,903 units are underway.

Among the reasons for the increase in construction are employments gains, particularly in well-paying jobs. According to the Texas Workforce Commission, the Houston economy has added 64,400 jobs over the past year. This represents a 2.6% increase over last year's total nonagricultural employment. The majority of the new jobs added over the past year can be found in the working upper-class sector of Professional & Business Services. Annually, there has been an increase of 14,400 jobs, or 4.0%, in Professional & Business Services.

With the upper-class employment growing like it is, it is not surprising that there has been a solid flow in construction of Class A developments in the Houston area. Construction activity of these developments was high during the early part of the decade. From 2001 through 2005, 135 projects containing 35,643 units were delivered to market. Activity tapered off only slightly in 2006, as 15 developments containing 4,260 units were completed last year. So far in 2007, 14 projects, totaling 4,101 units have been completed. However, another 69 projects containing 19,598 units are currently under-construction. These construction projects are throughout the Houston area, with a large number being built in the Far West, Medical Center, and Galleria sectors of town. There are currently over 4,000 units being built in these sectors alone. This comes as no surprise as Houston's job growth continues to be in the energy, medical, and engineering fields. In addition to the projects currently under-construction, there are 53 Class A apartment projects with a total of 14,744 units proposed for development.

As the Houston Class A apartment market continues to grow at record levels, the same trend is true for the Class A rental rates. Between the years of 2001 and 2005, rental rates increased from \$1.010 to \$1.085, or \$0.075 per square foot. In 2006, rental rates averaged \$1.099 per square foot and at the end of the third quarter 2007, Class A rental rates stood at \$1.120 per square foot.

As employment in the Houston area continues to grow at its steady pace, the demand for Class A projects will remain for those business professionals wanting to live in the ever expanding Houston area without the burden and responsibilities of home ownership.

By: [Amanda Vasquez](#)

### Houston Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	90.84%	90.00%	86.07%	85.02%	88.89%	▲	▲
Rent/Unit	\$1,059	\$664	\$563	\$532	\$721	▲	▲
Rent/SF	\$1.120	\$0.819	\$0.696	\$0.606	\$0.845	▲	▲
Absorption	1,668	1,556	304	48	3,576	▲	▲

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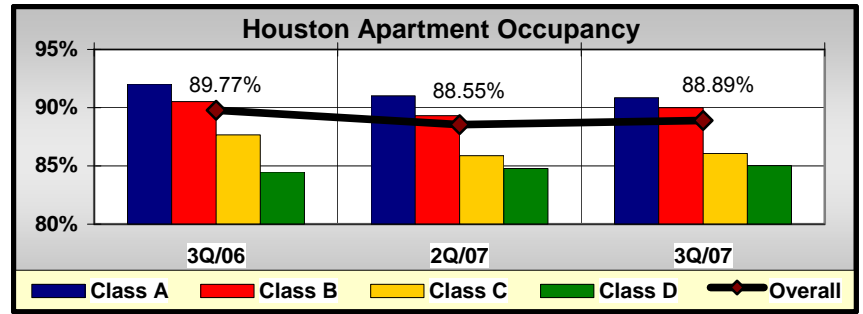
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## Metro Occupancy Overview

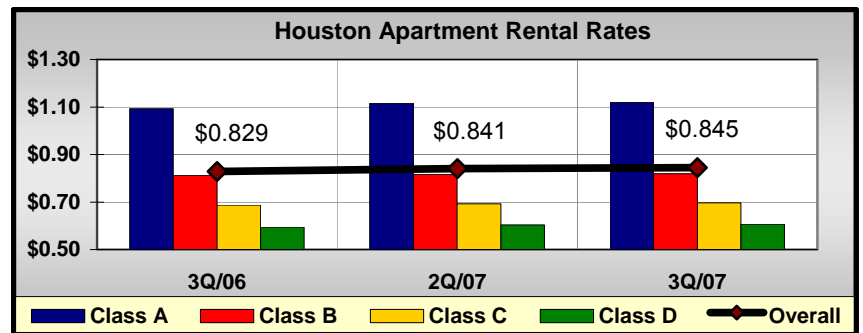
Despite a quarterly loss in the Class A market, overall occupancy increased for the first time in ten quarters. At 88.89%, overall occupancy is up 0.34 points over the quarter, but down 0.88 points over the year. A loss of 0.19 points over the quarter brings **Class A** occupancy to 90.84%, the strongest of all classes. With the loss, Class A occupancy remains 1.18 points below last year's level. **Class B** posted the biggest quarterly increase in occupancy, increasing 0.69 points to 90.00%. Class B occupancy has fallen 0.51 points over the last year. **Class C** posted an increase in occupancy, of 0.20 points to 86.07%. Class C occupancy was up 0.55 points over the last year, the only annual increase of all classes. **Class D** recorded the weakest occupancy of all classes at 85.02%. Class D occupancy was up 0.23 points over the quarter, but down 0.55 points over the year.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/06	92.02%	90.51%	87.66%	84.47%	89.77%
2Q/07	91.03%	89.31%	85.87%	84.79%	88.55%
3Q/07	90.84%	90.00%	86.07%	85.02%	88.89%

## Metro Rent Overview

Overall Houston-area rental rates gained \$0.004 per square foot (psf) over the quarter, and are up \$0.016 psf over the year to \$0.845 psf. The **Class A** market posted the biggest quarterly rental increase, rising \$0.005 psf to \$1.120 psf. With the quarterly gain, Class A rents are \$0.027 psf above last year's level. **Class B** rents rose \$0.003 psf over the quarter to \$0.819 psf, and have gained \$0.007 psf over the year. Rents in the **Class C** market, at \$0.696 psf, posted a quarterly increase of \$0.004 psf and an annual increase of \$0.009 psf. **Class D** rents increased \$0.002 psf over the quarter, reaching \$0.606 psf. Class D rents are up \$0.012 psf over the last 12 months.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/06	\$1.093	\$0.812	\$0.687	\$0.594	\$0.829
2Q/07	\$1.115	\$0.816	\$0.692	\$0.604	\$0.841
3Q/07	\$1.120	\$0.819	\$0.696	\$0.606	\$0.845

## Submarket Performance

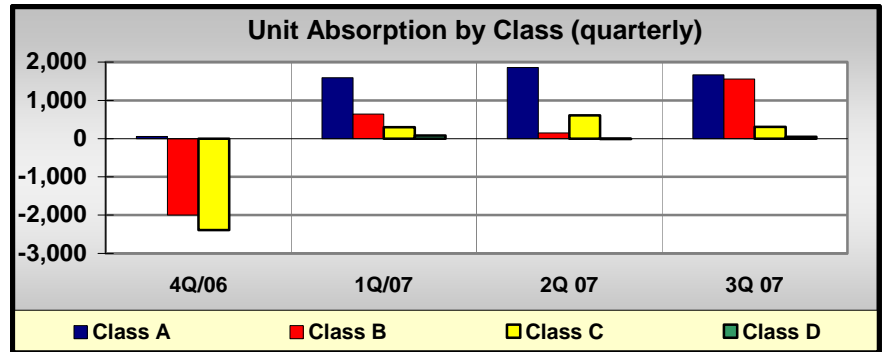
Of the 53 Houston submarkets, overall occupancy was highest in the **Montrose/Memorial Heights** submarket at 95.34%, while the lowest occupancy was found in the **Bellaire/West University** submarket at 77.26%. The **Downtown** submarket posted the highest rental rates at \$2.005 psf, while the lowest rents were found in the **Sharpstown/Westwood** submarket at \$0.680 psf.

Of the submarkets with more than one property, **Bryan/College Station** reported the highest Class A occupancy at 98.53%, while the lowest Class A occupancy was found in **Spring Branch** at 51.97%. The **River Oaks** submarket led the way in the Class B market at 100%, while the **Brookhollow** submarket posted the lowest Class B occupancy at 81.50%. The strongest Class C occupancy was posted by the **Kingwood/Lake Houston** and **Downtown** submarkets both at 100%, while the **Far West** submarket posted the weakest at 74.79%. **Conroe** reported the highest Class D occupancy at 100.00%, with **Katy** recording the lowest occupancy at 48.00%.

The highest Class A rents were found in the **Downtown** submarket at \$2.084 psf, while the lowest were found in **Texas City/Dickinson** at \$0.861 psf. The **River Oaks** submarket posted the highest Class B rents at \$1.047 psf, while the lowest rents were found in **Northline/Aldine** at \$0.661 psf. In Class C, **The Woodlands** posted the highest rents at \$0.994 psf, while the **Tomball** submarket reported the lowest rents at \$0.602 psf. The **Montrose/Memorial Heights** submarket reported the highest Class D rents at \$1.052 psf, while the lowest rents were found in **Champions-West** at \$0.504 psf.

## Metro Absorption Overview

For the third quarter in a row, overall quarterly absorption was in the black, as 3,576 units were absorbed. The positive quarterly figure brings annual absorption to 4,442 units. All Classes posted positive quarterly figures, with **Class A** recording the strongest absorption, with 1,668 units absorbed. Annual Class A absorption stands at 5,173 units. For the third consecutive quarter, **Class B** absorption was positive, as 1,556 units were absorbed over the quarter. Class B absorption over the past 12 months totals 341 units. Quarterly absorption in the **Class C** market registered 304 units, while absorption over the past year stands at -1,182 units, the weakest of all classes. The **Class D** market absorbed 48 units over the quarter, bringing annual absorption to 110 units.



12-mo Ending	Class A	Class B	Class C	Class D	Overall
3Q/05	12,078	7,174	901	-428	19,725
3Q/06	479	865	-168	259	1,435
<b>3Q/07</b>	<b>5,173</b>	<b>341</b>	<b>-1,182</b>	<b>110</b>	<b>4,442</b>

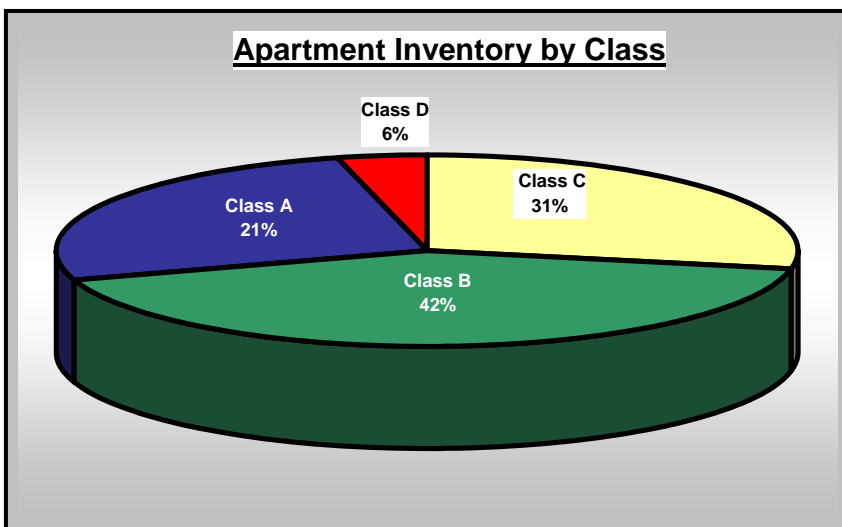
## Submarket Performance

Of the 53 Houston submarkets, the **Richmond/Rosenberg** submarket recorded the strongest absorption over the quarter at 408 units, followed by the **Bryan/College Station** submarket at 398 units. The weakest figures were found in the **Champions- East** and **Gulf Freeway** submarkets, which absorbed -376 and -110 units over the quarter, respectively.

The **Richmond/Rosenberg** submarket recorded the strongest Class A absorption over the quarter at 364 units, while the weakest was found in **Bellarie/ West University** at -75 units. The **Inner Loop West** submarket posted the highest figures in the Class B market, absorbing 381 units, while the **Champions- East** submarket posted the lowest at -184 units. The highest Class C absorption was found in the **Pasadena** submarket, which absorbed 241 units, while the weakest absorption was found in the **Champions- East** submarket at -139 units. The strongest Class D absorption was found in the **Spring Branch** submarket at 55 units, while the **Braeswood** submarket posted the weakest at -71 units.

## Apartment Inventory

There are a total of 2,615 operating or under-construction projects in the Houston area market (greater than 25 units) with a total of 542,393 units. Approximately 28% of the total units are Class A units, 42% are Class B units, 26% are Class C units, and 4% are Class D units. The chart below displays market inventory by class.



Operating	Projects	Units
Class A	506	133,721
Class B	1,061	224,548
Class C	808	140,580
Class D	159	21,921
<b>TOTAL</b>	<b>2,534</b>	<b>520,770</b>

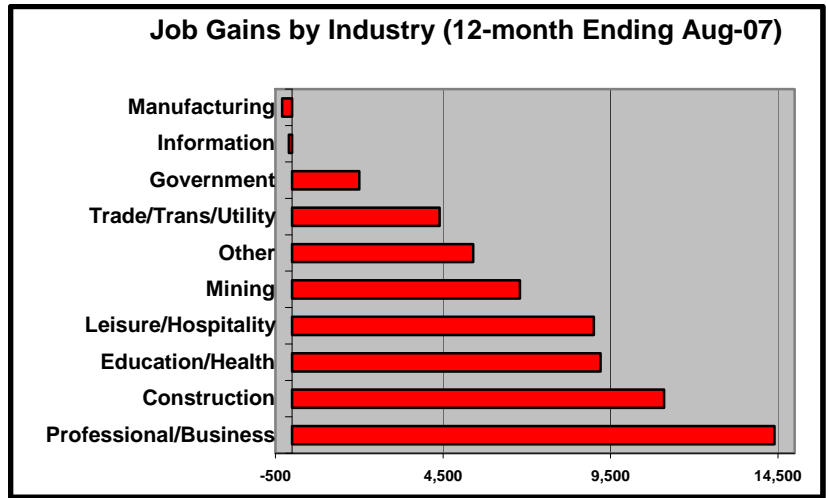
Under Cons.	Projects	Units
Class A	69	19,598
Class B *	12	2,025
<b>TOTAL**</b>	<b>66</b>	<b>21,623</b>

\* Class B projects are primarily Tax Credit developments

\*\* There are additional Unclassified (Class U) projects

## Job Growth

The civilian labor force unemployment rate in the ten-county Houston MSA was flat at 4.1%, while the total number of nonagricultural wage and salary jobs increased to 2,519,000 in August 2007, according to the **Texas Workforce Commission**. This month's total is 64,400 jobs more than at this time last year. Of the nonagricultural employers, Mining gained 6,800 jobs over the previous 12 months; Trade, Transportation, & Utilities gained 4,400 jobs; Education & Health Services is up 9,200 jobs; Construction added 11,100 jobs; Government added 2,000 jobs; Manufacturing lost 300 jobs; Other Services gained 5,400 jobs; and Leisure and Hospitality added 9,000 jobs; and the Information sector lost 100 jobs. The largest monthly gain was in the Professional & Business Services sector with 14,400 jobs.

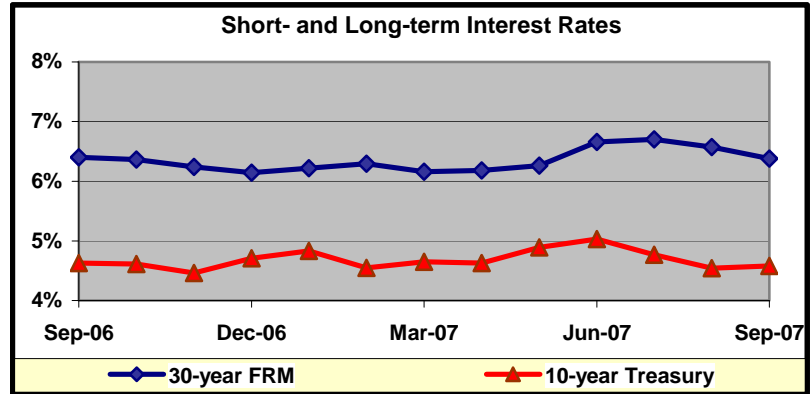


## Interest Rates

The yield on the **10-year Treasury** note fell to 4.58% in September 2007, down 0.05 points from its 4.63% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 56.38% in September 2007. One year ago, the 30-year FRM was at 6.40%. The average for the **15-year FRM** in September was 6.05%, down 0.03 points from a year ago.

The **Prime Rate** in September was reported in the Wall Street Journal at 7.75%, up 1.00 points from a year ago.



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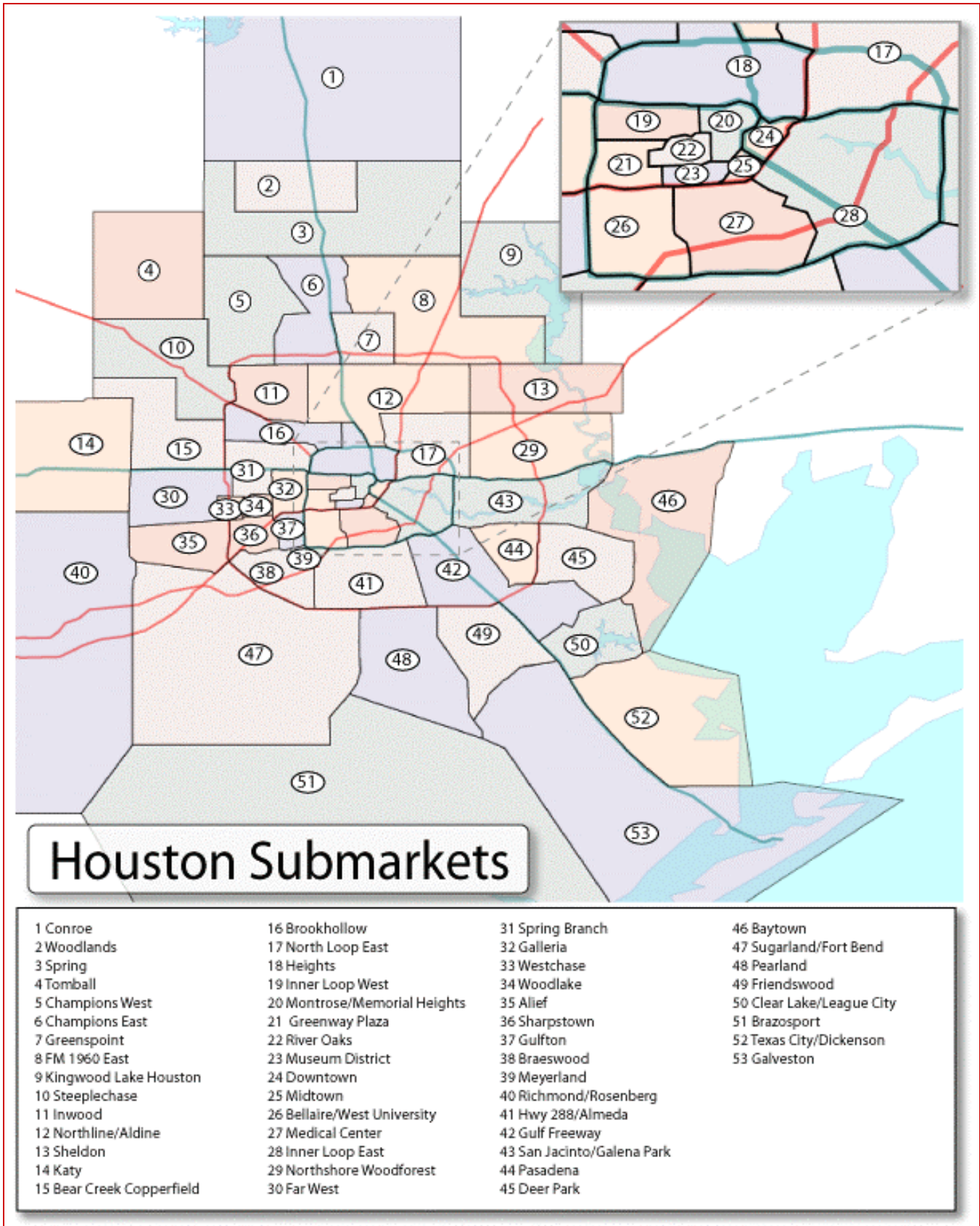
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## Data Collection

Our in-house research team continuously updates over 100 fields of data for nearly 6,000 apartment complexes in our database. We update at least 90% of properties on a monthly basis to generate accurate market trend reports on rents, concessions, occupancy, etc. Our monthly surveys also update other property-specific data such as fees, policies, management, and owner information. On a less-frequent basis we update amenities, schools, and other data fields that change rarely. We perform current and historical data audit after we close each month's survey to identify any data inconsistencies or incorrectly keyed values.

## Research

We monitor various news media, press releases, marketing materials, web-sites, CAD records, permit issuance, and other sources to capture new construction, planned projects, financing, and sales. Our researchers conduct phone interviews with relevant developers, brokers, or lenders to gather information on new construction and sales. We add properties to our database on a regular basis to ensure we offer the most up-to-date and complete apartment database.

## Market Coverage

Our online apartment database covers all four major Texas metro markets – Austin, Dallas-Fort Worth, Houston, and San Antonio. The **Austin** market includes Caldwell, Hays, Travis, Bastrop, and Williamson counties. The **DFW** market covers Dallas, Tarrant, Wise, Denton, Collin, Hunt, Rockwall, Kaufman, Ellis, Johnson, Parker, and Erath counties. The **Houston** market includes Harris, Montgomery, Fort Bend, Brazoria, and Galveston counties (Brazos county is also included in the database but excluded from the trend reports). **San Antonio** includes Bexar, Comal, Guadalupe, Kendall, and Kerr counties.

We subdivide each market into submarkets (see map on previous page): Austin has 23 submarkets, DFW has 50 submarkets, Houston has 53 submarkets, and San Antonio has 26 submarkets. The submarkets are based on neighborhood-style areas with defining boundaries such as major roads and other factors that establish a neighborhood. This approach allows the user to view distinct areas of properties that have evolved into their own sections of town and can be identified together.

## Glossary

**Absorption** = Change of Occupied Units, including new construction. Absorption is a proxy for demand.

**Occupancy** = Percentage of physically occupied units on property.

**Pre-leased** = Net of percentage of units that have been pre-leased but not yet occupied and units on notice to be vacated.

**Rents** = Market rents (excluding concessions).

**Class** = Properties are classified as A, B, C, D, or Unclassified (U) based on various factors, such as age, location, amenities, curb appeal, overall condition, rents, etc. **Class A** properties are generally less than 10 years old, have excellent amenities, prime location, and great appeal, thus they tend to have the highest rents. Older properties built in early 1900s that were converted from warehouses or office buildings, or older apartment projects that have had major renovations may also be classified as A. **Class B** properties are generally 10 to 20 years old, have good locations, good level of amenities, are somewhat less appealing than Class A projects, and are in overall good condition. New affordable projects are also classified as B. **Class C** projects are usually 20 to 30 years old, have few amenities, are in poor locations, and are not well maintained. **Class D** projects are generally more than 30 years old, in poor condition, have no or limited amenities, are in poor locations, and have poor curb appeal. They tend to have the lowest rents per unit (although per-square-foot rents may be high since the units are usually small). **Unclassified** or **Class U** projects are senior housing, student housing, or other properties that have unusual lease terms, include meals with the rent, or other services, so their rents and occupancies are not representative of the actual market. We exclude these from our statistical reports as they skew the averages for the other classes.

## Reporting

Occupancy, Rent, and Absorption trend data is based on Operating, Under-construction, and Under-renovation projects, Classes A, B, C, and D (excluding Class U).