Multifamily Investment Brokers
www.innerloopwest.com

January 2017

Houston Multifamily News to Use

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News To Use Introduction

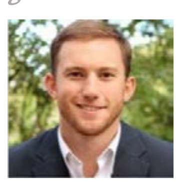
I hope everyone got to enjoy some time off during the holidays and recharge for 2017. Many people use the end of a year to reflect and identify areas for improvement, whether that be personally, professionally or both. However, new goals or "resolutions" are usually abandoned early on in the new year for two reasons: 1) They aren't written down and kept in plain sight. 2) They aren't shared with anyone, thus removing accountability.

Well, I started writing my 2017 business plan toward the end of November but there was one section in particular that my attention kept being redirected to - *Business Development.* Most investment brokers have cold-calling and snail mail in this section, as do I, but I just felt like something was missing. Whenever I can't get clarity on a subject, I ask myself "What problem am I trying to solve?" It didn't take long to come up with an answer - ***Provide value to multifamily investors and maintain consistent communication with active players in the market.*** Sure, that sounds a bit cliche but it's something I value and take a lot of pride in. After much thought, I decided the most feasible solution would be a monthly Qewsletter, or "News To Use" as I like to call it. My objective is to provide real, relevant data that helps answer questions I'm frequently hit with, such as: Where are interest rates at right now? Will higher interest rates impact my property value? Is this a buyer or seller's market? What submarket should I be buying in right now?

I hope the data and insights shared within will offer you some perspective into the Houston market. Data is powerful. Leveraging that data to make informed investment decisions is even more powerful. My communication lines are always open so please don't hesitate to call/email me if you would like to discuss any of these topics in further detail. I encourage feedback and suggestions as your input will help me tailor future publications to align with your interests.

I wish you a prosperous 2017 and I look forward to an exciting year!

Message from:



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Monthly MLS Data

Despite the slowdown economists predicted as falling oil prices and energy industry layoffs carried over from 2015, the Houston housing market held steady throughout 2016. The single-family home median price rose 2.7 percent, marking the highest median price recorded for the month of December. The average price increased 4.3 percent to $294,512, which also represents an all-time December high.

CATEGORIES	DEC 2015	DEC 2016	CHANGE
Total Property Sales	7,483	7,868	5.1%
Total Dollar Volume	$2,011,469,375	$2,214,420,498	10.1%
Total Active Listings	31,550	33,802	7.1%
Home Sales	6,297	6,628	5.3%
Average Sales Price	$282,246	$294,512	4.3%
Median Sales Price	$219,900	$225,903	2.7%
Months Inventory*	3.2	3.3	0.1 months
Pending Sales	4,250	4,746	11.7%

**Months inventory estimates the number of months it will take to deplete current active inventory based on the prior 12 months sales activity. This figure is representative of the single-family homes market.*
Source: Houston Association of Realtors (HAR)

Month-end pending sales for single-family homes increased a staggering 11.7% and total property sales jumped up 5.1%. This should be a promising sign for Houston real estate as we look for deal velocity to maintain its momentum in 2017. I expect a similar trend in the class B & C apartment leasing market by the end of Q1. Some owners experienced low leasing activity during the holidays but that's usually expected regardless of market conditions.

However, I anticipate continued softness for 2 bedroom units and rehabbed 1 bedroom units commanding over $1,000/month in rent due to increased competition from new class A product being delivered to the market. Please note I am strictly referencing apartments situated in the **inner loop submarkets and Galleria area.** Multifamily vacancy rates in Houston vary by submarket and must be taken into consideration. Keep a close eye on these figures throughout the year, especially if you're an investor on the brink of a value-add or reposition project.

We did see a slight increase in single-family housing inventory up to 3.3 months supply, but it's still well below the national housing inventory of 4.0 months. Houston's ability to keep housing inventory below the national level is a telling sign that our workforce continues to be diversified with jobs outside the oil & gas sector. Reference the *Employment section for more information on Houston workforce data.*

Key Economic Indicators

ENERGY	JAN 2016	JAN 2017	CHANGE
WTI Crude ($/bbl)	37.04	51.39	38.7%
Nat Gas ($MMBtu)	2.32	3.37	45.3%
U.S Active Rig Count	650	659	1.4%

Source: Baker Hughes

Starting with the energy sector - oil & natural gas prices have increased roughly 40% since this time last year but we still have a ways to go before we'll see a spike in the rig counts & energy related jobs. To put things in perspective, the U.S. active rig count sustained levels above 1,700 (and surpassed 2,000 for a short stint) between 2011-2014. No surprise those were some good years for Houston real estate. Simply put: high rig count = massive job growth in Houston.

BUILDING PERMITS	NOV 2015	NOV 2016	CHANGE
Multifamily	$93.8 mil	$8.9 mil	-91.0%
Residential	$230.7 mil	$134 mil	-41.9%
Nonresidential	$593.2 mil	$258.3 mil	-56.5%

Data above represents the total dollar value for new permits obtained in each asset class.
Source: Building Permit Department, City of Houston

Pivoting from the rig count assessment, a decline in building permits has historically mirrored the energy sector as developers allow the market to stabilize. Don't expect to see much growth in multifamily permits during the next 8-12 months. Houston still has an oversupply of class A product in need of absorption before we see new apartment sites break ground (aside from projects currently under construction). My assessment excludes projects in the high-end, luxury market (i.e. Hines' & Landry's developments). Those developments cater to a whole different tenant base, primarily empty nesters & baby boomers willing to pay over $2.50sqft in rent.

CAPITAL MARKETS	JAN 2016	JAN 2017	CHANGE
10-Yr Treasury (%)	2.03	2.47	21.7%
30-Yr FRM*	3.79	4.20	10.8%

FRM = Fixed Rate Mortgage
**Freddie Mac surveys lenders each week on the rates, fees & points for the most popular loan products. The figure above excludes any additional points or fees.*
Sources: U.S. Department of the Treasury and Freddie Mac

I think most will agree that rates will continue to face upward pressure as the Fed trieds to curb inflation & tighten the money supply. However, the cost of capital remains relatively cheap with deals still getting done at rates under 5%. We saw the fed funds rate increase 25 bps right before Thanksgiving and lenders followed suit. Expect a similar trend in 2017 as banks attempt to offset uncertainty and mitigate risk.

A Look at Houston's Job Market

Throughout the course of 2016, it seemed as if new articles were published every other week announcing additional layoffs from companies tied to the oil and gas sector. No doubt these headlines contributed to the negative sentiment investors expressed towards the Houston real estate market but there's some silver lining to go with it.

We ended 2016 with roughly 21,000 net new jobs added, a good indicator that Houston continues to diversify its workforce in sectors unrelated to energy. The figures below illustrate the industries with the most activity and the overall health of Houston's employment market.

Houston MSA Nonfarm Payroll Employment

	Change Oct '16 - Nov '16	
INDUSTRY/SECTOR	**JOBS**	**CHANGE**
Total Nonfarm	5,700	0.2%
Construction	-6,300	-2.9%
Mining and Logging (Oil/Gas)	800	0.9%
Manufacturing	-900	-0.4%
Retail Trade	5,700	1.8%
Leisure and Hospitality	4,400	1.4%
Government	2,400	0.6%

Source: Texas Workforce Commission

Houston experienced another month of positive job growth between October 2016 - November 2016 with 5,600 net new jobs added. The Mining and Logging sector, which comprises establishments related to oil, gas & energy, added 800 net jobs - perhaps the layoff frenzy is coming to an end? It's always good to see positive numbers relative to employment but Houston has a 25-year average of 11,600 net new jobs for the month of November.

We're on the right path but still have room to grow before we can officially label Houston as fully recovered. Negative employment in the construction sector isn't surprising given the significant decline in construction permits mentioned earlier. Retail and hospitality posted the biggest gains and continue to carry weight for Houston employment.

Source: Texas Workforce Commission **GHP Forecast*

Inventory Update

New listings brought to you by Inner Loop West

1710 Indiana Street

Units:	12
RSF:	8,964
Lot Size:	10,000
Submarket:	Montrose

Candlelight Estates - 818 Pinemont

Units:	68
RSF:	43,704
Lot Size:	71,874
Submarket:	Garden Oaks

The Palm Apartments - 5020 Paige

Units:	12
RSF:	8,832
Lot Size:	10,000
Submarket:	U of H/TSU

1837 Colquitt Street

Units:	5
RSF:	4,194
Lot Size:	7,380
Submarket:	Montrose

For current pricing and inventory updates, please click here
or go to www.innerloopwest.com/listings

We are happy to advise on any investment real estate and provide an opinion of value at no cost. No deal is too big or too small, and referrals are always appreciated.

Contact us here

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