

NAR Commercial Real Estate Metro Market Report | 2021.Q2

Houston-The Woodlands-Sugar Land, TX

Core-Based Statistical Area Code: 26420

The Houston-The Woodlands-Sugar Land, TX commercial real estate market is weaker compared to the overall U.S. market.
NAR Commercial Real Estate Market Conditions Index* 38.6

Overall economic conditions are weaker than nationally.
The apartment property market is weaker than nationally.
The office property market is weaker than nationally.
The industrial property market is stronger than nationally.
The retail property market is weaker than nationally.
The hotel/lodging property market is stronger than nationally.

The commercial real estate market is slowly getting back on track although the rise of Delta variant cases is casting a shadow on the path of the recovery. The multifamily, industrial, and retail property markets will continue to recover more quickly than the office property market where vacancy rates will likely remain elevated in 2021-2022 compared to the pre-pandemic level.

I. Economic and Demographic

	Houston-The Woodlands-Sugar Land, TX			U.S.			
	2021 Q2	2021 Q1	2020 Q2	2021 Q2	2021 Q1	2020 Q2	
Economic							
Total non-farm employment ('000)	3,044	3,000	2,943	146,603	143,315	138,501	
Y/Y chg.in nonfarm payroll employment ('000)	101	(174)	(228)	8,102	(6,637)	(13,215)	
Y/Y % chg. in nonfarm payroll employment	3.4%	-5.5%	-7.2%	5.8%	-4.4%	-8.7%	<i>Job creation is weaker than nationally</i>
Unemployment rate (%)	7.1%	7.9%	11.3%	5.9%	6.0%	11.1%	<i>Unemployment rate is higher than nationally</i>
Average weekly wages	\$1,071	\$1,053	\$997	\$1,059	\$1,046	\$1,016	
Wage growth, year-over-year (data are as of last month of the quarter)	7.4%	0.6%	-4.9%	4.3%	6.7%	5.6%	<i>Wages are rising faster than nationally</i>
	2019	2018	2017	2019	2018	2017	
GDP growth (%)	1.9%	2.6%	1.3%	2.3%	2.9%	2.3%	
Median household income	\$69,193	\$65,394	\$63,802	\$87,470	\$84,423	\$81,284	
Demographic							
Net domestic migration ('000)	19.8	6.0	(10.3)	0	0	0	<i>Area is experiencing net domestic in-migration</i>
Population ('000)	7,154	7,063	6,975	329,484	328,330	326,838	
Population growth (%)	1.29%	1.27%	1.10%	0.35%	0.46%	0.53%	<i>Population is growing faster than nationally</i>

II. Multifamily

	Houston-The Woodlands-Sugar Land, TX			U.S.			
	2021 Q2	2021 Q1	2020 Q2	2021 Q2	2021 Q1	2020 Q2	
Demand indicators							
Vacancy rate	8.3%	10.0%	10.4%	4.2%	4.7%	5.5%	<i>The area has a higher vacancy rate than nationally</i>
Absorption of units over the quarter	13,681	7,988	3,810	226,871	169,053	78,282	<i>The area has a faster pace of absorption than nationally</i>
Absorption of units in past 12 months	28,382	18,511	9,984	603,925	455,336	255,168	
Market asking rent per unit	\$1,187	\$1,136	\$1,123	\$1,004	\$978	\$953	
Market asking rent per unit, y/y % chg	5.7%	0.5%	-1.0%	6.1%	3.9%	1.8%	
Effective rent per unit	\$1,171	\$1,111	\$1,099	\$1,000	\$972	\$945	
Effective rent per unit, y/y % chg	6.5%	-0.2%	0.2%	6.4%	3.7%	2.3%	<i>Rents are rising faster than nationally</i>
Rent as a percent of 2-person annual wage income	12.6%	12.1%	12.7%	10.9%	10.7%	10.7%	<i>The rent to income ratio is higher than nationally</i>
Supply indicators							
Inventory	639,183	636,340	622,393	17,259,876	17,168,283	16,881,961	
Net delivered units in past 12 months	16,790	18,962	17,133	377,954	387,779	389,240	<i>Relatively more units are being delivered than nationally</i>
Net delivered units, as % of inventory	2.6%	3.0%	2.8%	2.2%	2.3%	2.3%	
Units under construction	17,244	19,597	27,243	578,162	609,682	681,731	
Units under construction, as % of inventory	2.7%	3.1%	4.4%	3.3%	3.6%	4.0%	<i>Construction activity is slower than nationally</i>
12-month total: 5+ unit building permits	14,881	16,321	21,269	463,443	435,217	452,345	
12-month total: all building permits	70,423	69,937	62,945	1,642,586	1,574,266	1,361,395	<i>Building permits are not rising as fast as nationally</i>
Ratio of jobs created to permits	1.4	(2.5)	(3.6)	4.9	(4.2)	(9.7)	
Sales transactions							
Total investment acquisitions (in million \$)	\$249.4	\$383.3	\$253.7	\$41,291.4	\$28,735.4	\$13,346.3	<i>Sales transactions are not rising as fast than nationally</i>
Transaction sales price per unit	\$117,433	\$118,052	\$170,050	\$100,508	\$98,594	\$80,364	<i>Prices are not rising as fast than nationally</i>
Cap rate	7.7%	6.3%	6.3%	6.4%	6.6%	6.6%	<i>Cap rates are higher than nationally</i>

III. Office

	Houston-The Woodlands-Sugar Land, TX			U.S.			
	2021 Q2	2021 Q1	2020 Q2	2021 Q2	2021 Q1	2020 Q2	
Demand indicators							
Vacancy rate	18.9%	18.6%	17.3%	6.1%	18.6%	17.3%	<i>The area has a higher vacancy rate than nationally</i>
Absorption in sq.ft. over the quarter	(457,083)	(357,992)	(1,115,777)	(9,309,111)	(51,131,309)	(13,966,267)	<i>The area has a lower pace of absorption than nationally</i>
Absorption in sq.ft. over 12 months	(3,293,610)	(3,952,304)	(906,828)	(140,700,116)	(145,357,270)	19,961,128	
Asking rent per sq.ft.	\$28.6	\$28.7	\$29.0	\$18.9	\$18.9	\$18.8	
Asking rent growth, y/y % chg.	-1.4%	-1.6%	0.4%	0.3%	0.0%	1.3%	<i>Rent growth is slower than nationally</i>
Leasing activity in sq.ft.	3,137,492	2,849,959	4,654,832	100,568,800	81,175,252	81,276,145	<i>Leasing volume is not rising as fast than nationally</i>
Y/Y chg.in professional/business services jobs ('000) (as of last month of the quarter)	15	(26)	(33)	1,260	(501)	(1,715)	<i>The area has stronger office job creation than nationally</i>
Supply indicators							
Inventory in sq. ft.	340,596,396	340,135,671	338,112,818	12,454,676,333	12,428,381,226	12,364,751,288	
Net delivered over 12 months, in sq.ft.	2,478,578	2,769,879	1,810,693	87,967,591	76,138,970	78,991,496	<i>Relatively more units are being delivered than nationally</i>
Net delivered units, as % of inventory	0.7%	0.8%	0.5%	0.7%	0.6%	0.6%	
Under construction in sq.ft.	5,731,348	5,471,101	5,932,709	177,275,188	186,528,025	209,268,041	
Under construction, as % of inventory	1.7%	1.6%	1.8%	1.4%	1.5%	1.7%	<i>Construction activity is more robust than nationally</i>
Sales transactions							
Total investment acquisitions (in million \$)	\$82.1	\$208.0	\$71.4	\$23,909.8	\$21,181.7	\$11,269.3	<i>Sales transactions are not rising as fast than nationally</i>
Transaction sale price per sq.ft.	\$86	\$120	\$126	\$108	\$106	\$105	<i>Prices are not rising as fast than nationally</i>
Cap rate	7.7%	6.3%	6.3%	6.4%	6.6%	6.6%	<i>Cap rates are higher than nationally</i>

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IV. Industrial

	Houston-The Woodlands-Sugar Land, TX			U.S.			
	2021 Q2	2021 Q1	2020 Q2	2021 Q2	2021 Q1	2020 Q2	
Demand indicators							
Vacancy rate	8.7%	8.8%	7.9%	4.2%	8.8%	7.9%	The area has higher vacancy rate than nationally
Absorption in sq.ft. over the quarter	3,641,047	848,622	4,046,731	146,182,325	119,411,326	56,883,324	The area has lower pace of absorption than nationally
Absorption in sq.ft. over 12 months	14,518,586	14,924,270	12,200,324	437,432,148	348,133,148	231,052,238	
Asking rent per sq.ft.	\$7.6	\$7.5	\$7.5	\$6.5	\$6.4	\$6.1	
Asking rent growth, y/y % chg.	1.6%	-0.1%	0.5%	5.2%	-0.1%	0.5%	Rent growth is slower than nationally
Leasing activity in sq.ft.	13,512,310	10,582,292	6,485,613	319,474,044	296,163,970	254,024,482	Leasing volume is rising faster than nationally
Supply indicators							
Inventory in sq. ft.	703,854,673	700,772,561	681,971,203	26,553,663,022	26,461,805,496	26,166,021,757	
Net delivered over 12 months, in sq.ft.	21,588,336	26,531,226	26,544,385	385,387,457	398,260,005	382,527,483	Relatively fewer units are being delivered than nationally
Net delivered units, as % of inventory	3.1%	3.8%	3.9%	1.5%	1.5%	1.5%	
Under construction in sq.ft.	15,833,492	15,624,030	18,679,560	567,307,627	521,498,024	452,528,658	
Under construction, as % of inventory	2.2%	2.2%	2.7%	2.1%	2.0%	1.7%	Construction activity is more robust than nationally
Sales transactions							
Total investment acquisitions (in million \$)	\$339.0	\$108.2	\$78.8	\$27,261.9	\$21,600.7	\$13,713.9	Sales transactions are rising faster than nationally
Transaction sale price per sq.ft.	\$94	\$71	\$89	\$61	\$56	\$54	Prices are not rising as fast than nationally
Cap rate	8.0%	7.2%	4.1%	7.4%	7.2%	4.1%	Cap rates are higher than nationally

V. Retail

	Houston-The Woodlands-Sugar Land, TX			U.S.			
	2021 Q2	2021 Q1	2020 Q2	2021 Q2	2021 Q1	2020 Q2	
Demand indicators							
Vacancy rate	5.9%	5.9%	6.1%	4.3%	4.5%	4.2%	The area has a higher vacancy rate than nationally
Absorption in sq.ft. over the quarter	811,137	1,129,111	108,069	26,554,046	6,829,628	(12,969,003)	The area has a faster pace of absorption than nationally
Absorption in sq.ft. over 12 months	4,702,649	3,999,581	4,131,782	12,853,280	(26,669,769)	5,842,298	
Asking rent per sq.ft.	\$20.7	\$20.6	\$20.5	\$14.5	\$14.5	\$14.3	
Asking rent growth, y/y % chg.	1.1%	0.2%	0.4%	1.4%	1.0%	1.5%	Rent growth is slower than nationally
Leasing activity in sq.ft.	1,914,501	1,714,294	1,610,186	65,144,289	60,598,011	44,924,273	Leasing volume is not rising as fast than nationally
Y/Y chg. in retail trade payroll employment ('000) (as of last month of the quarter)	11.10	(16.80)	(4.00)	822.30	(1,100.50)	(245.60)	The area has stronger retail trade job creation than nationally
Supply indicators							
Inventory in sq. ft.	412,490,318	411,767,653	408,118,612	15,772,300,571	15,764,713,778	15,724,204,780	
Net delivered over 12 months, in sq.ft.	4,330,126	5,691,730	7,081,735	46,178,397	47,102,191	58,535,237	Relatively fewer units are being delivered than nationally
Net delivered units, as % of inventory	1.0%	1.4%	1.7%	0.3%	0.3%	0.4%	
Under construction in sq.ft.	2,348,701	2,348,555	4,561,242	55,829,483	58,628,746	71,303,691	
Under construction, as % of inventory	0.6%	0.6%	1.1%	0.4%	0.4%	0.5%	Construction activity is more robust than nationally
Sales transactions							
Total investment acquisitions (in million \$)	\$135.3	\$109.4	\$69.0	\$20,811.7	\$15,469.2	\$8,857.2	Sales transactions are not rising as fast than nationally
Transaction sale price per sq.ft.	\$221	\$251	\$174	\$134	\$136	\$134	Prices are rising faster nationally
Cap rate	6.4%	6.1%	6.4%	6.6%	6.6%	6.7%	Cap rates are lower than nationally

VI. Hotel/Lodging

	Houston-The Woodlands-Sugar Land, TX			U.S.			
	2021 Q2	2021 Q1	2020 Q2	2021 Q2	2021 Q1	2020 Q2	
Leisure and hospitality payroll workers ('000)	326.5	292.4	274.9	15,395.0	13,448.0	12,637.0	Job creation in the leisure industry is weaker than nationally
Y/Y change ('000)	51.6	(37.6)	(68.1)	2,758.0	(2,297.0)	(4,590.0)	
% share to nonfarm payroll employment	10.7%	9.7%	9.3%	10.5%	9.4%	9.1%	The area has a larger share of leisure jobs than nationally

*An index below 50 means local market conditions are weaker than nationally, above 50 means local market conditions are stronger, and 50 means local market conditions are about the same as nationally. NAR derived the index by assigning 1 point for each indicator where local market conditions are better than the national (US) condition.

The total points for each local market are divided by the number of variables that are available at the local area, with 46 indicators if all the data are available. The fraction is multiplied by 100 to get the index.

Economic data may not be available for all markets. In some submarkets or metropolitan divisions (e.g., Long Island) reported by CoStar®, the economic data that is reported (e.g. employment) is of the metropolitan area (New York-Newark-Jersey City). The 390 markets in this report are based on the CoStar® market areas.

NAR reserves the right to add new variables or drop variables that comprise the index based on its analysis of variables that impact market trends.

Sources of data used: National Association of Realtors®, CoStar®, US Census Bureau, US Bureau of Labor Statistics, and US Bureau of Economic Analysis.

For information about this report, email data@nar.realtor.