

Inflow of New Residents Stokes Construction

Economic Overview

The recovery of the oil, gas and energy sectors coupled with robust professional and business services-related hiring drove an encouraging rate of job growth in 2017, as employers bolstered payrolls by 45,500 workers. Amid low-4 percent unemployment, higher-paying organizations and retail-related firms will expand at a faster pace in 2018, driving the creation of 75,000 positions.

Demographic Overview

An increasing number of job openings in Houston attract more young professionals in 2018, bolstering the metro's millennial population by more than 24,000 individuals, the largest influx of any primary market. Influenced by strong income growth, household formations should also rise, totaling 53,000 by year end. This robust net migration occurs following the delivery of 41,400 apartments during the past two years. These factors support a 6.4 percent spike in retail spending.

Construction Overview

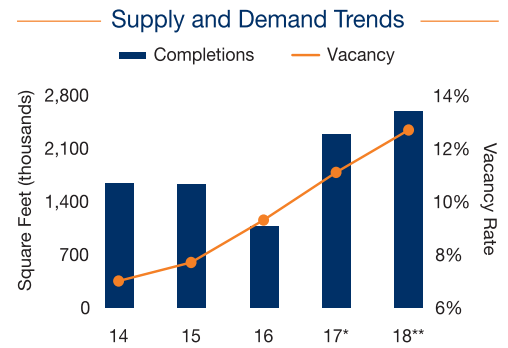
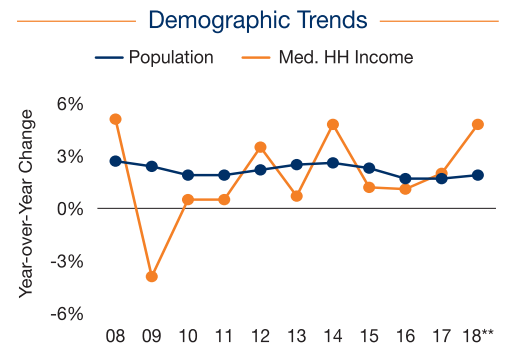
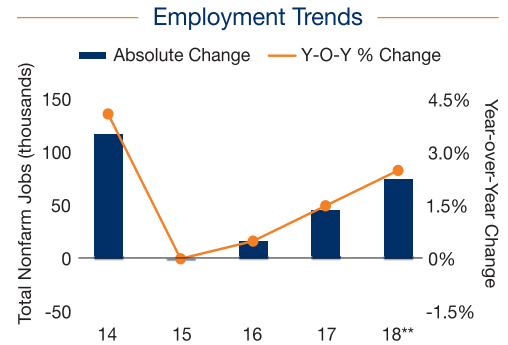
The influx of more than 130,500 residents prompts a second year of elevated construction with developers finalizing 2.6 million square feet of space, the third highest total nationally. Completions are concentrated in East Houston and areas surrounding the Sam Houston Parkway.

Vacancy/Rent Overview

A wave of new supply increases Houston's vacancy rate by triple digits for a third consecutive year with availability reaching 12.7 percent in 2018. A 160-basis-point increase in vacancy requires more operators to lower rents, driving down the metro's average rent by nearly 5 percent.

2018 Market Forecast

- Employment** up 2.5% Houston's employment base will expand by 2.5 percent in 2018, double the national rate. In 2017, a 1.5 percent gain was registered.
- Population** up 1.9% After advancing by 1.7 percent in 2017, the metro's population will rise by 1.9 percent this year, representing an increase of 130,500 residents.
- Construction** 2.6 million sq. ft. After completing 2.3 million square feet of space last year, developers will finalize 2.6 million square feet in 2018.
- Vacancy** up 160 bps Heightened development will raise Houston's vacancy rate 160 basis points this year to 12.7 percent. This increase is comparable to last year's 180-basis-point escalation.
- Rent** down 4.8% The metro's average rent declines for a second straight year, falling 4.8 percent to 86 cents per square foot in 2018. Last year, rent dropped 7.0 percent.



* Estimate; ** Forecast
Sources: BLS; U.S. Census Bureau; Yardi Matrix; Union Realtime, LLC

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