

# Special Report

## Hurricane Harvey

### Harvey's Impact Ripples Through Houston Real Estate Market

**Hurricane Harvey wrought severe damage across the Texas Gulf Coast region and southwest Louisiana.** The severe storm displaced thousands of families as it damaged in excess of 200,000 homes across the region. The hurricane's devastating floods hit the nation's fifth-largest metropolitan area, Houston-The Woodlands-Sugarland, and although the final assessment of damages is likely months away, it is possible that Houston faces many of the challenges Hurricane Katrina created in New Orleans. A wide swath of homes face significant water damage that will be difficult to repair, particularly as less than 20 percent of homeowners have flood insurance in the hardest hit areas. The remaining homeowners will be dependent on private charities and government aid, such as grants from FEMA and low-interest rate loans from the government. When compared with the area affected by Hurricane Katrina, the area hit by Harvey has more than twice as many properties with mortgages and nearly four times the unpaid principal balance. The damages could result in a significant wave of delinquencies as homeowners grapple with the recovery process. This will place a strain on the local and regional housing market as a number of homeowners could walk away from damaged homes.

**Displaced residents take shelter in region's hotels and apartments.** Families will be forced to relocate, finding temporary housing options in local and regional hotels and apartments. Normally at this time of the year, hotel occupancies in Houston average 59 percent. Following Katrina, hotel occupancy rates in New Orleans surged to roughly 80 percent for the following seven months. Although local authorities are placing considerable effort to restrain price gouging, it is likely that hotel rates in Houston and the state of Texas will climb and occupancy will surge to its highest level on record. The Texas apartment market will also face a spike in demand. Fortunately, a significant wave of apartment construction has added nearly 80,000 apartments to the Houston metro since 2012. An estimated 55,000 units in Houston were vacant prior to Hurricane Harvey, which will accommodate a significant portion of the households displaced by the storm. Still, available housing will likely fall short of demand. Some residents may look beyond the Houston metro, boosting demand for hotels and apartments in other Texas metros, including Dallas/Fort Worth, Austin and San Antonio.

#### Hurricane Harvey Impact On Greater Houston's Commercial Real Estate



An estimated 200,000 homes across the region were damaged by the storm and families will be displaced, straining the local and regional housing market.



Approximately 5 in 6 do not have flood insurance.

**\$150-180B**

Estimated Economic Impact

#### Immediate Housing Needs Surge

Displaced families will relocate to local and regional hotels, and Houston's hotel occupancy rate will surge to its highest level on record. Although Houston has been one of the most aggressive apartment development markets in the nation over the last five years, the estimated 55,000 vacant apartments will likely fall short of the housing needs.



#### Economic Impact and Recovery

The Houston metro generates 3 percent of the country's GDP, so it has the economic strength to aggressively drive recovery efforts. The cleanup will spark job creation, adding about 50,000 positions over the next few months.



#### Real Estate Outlook

Although nearly 38 percent of the Houston metropolitan area commercial real estate may have been impacted by the storm, the recovery will create a dynamic investment climate. Over the long term, investors favor Houston's exceptional job creation, strong demographics and diverse economic base. Within the short term, some investors may choose to sell damaged assets, creating unique value-add investment opportunities.

#### Buildings in 100-Year Flood Plain



Apartments:  
72 million square feet



General Retail:  
29 million square feet



Office:  
21 million square feet

**Houston's diverse economy and stout infrastructure support recovery.**

Unlike New Orleans, Houston is a strong, dynamic job creator with a significant economic base that will fuel recovery much more quickly. While a decline in energy prices suppressed hiring over the last two years, employers created an average of 92,000 positions each year from 2010 to 2014. Hiring in the first six months of 2017 had begun to rebound, with companies adding nearly 45,000 positions. Reconstruction and cleanup will boost employment in the final months of the year, potentially pushing job creation for the year to the 90,000 position range. This surge in employment will be concentrated in construction and retail segments, fueled by rebuilding efforts and as households replace damaged goods. The metro area also represents nearly 3 percent of national GDP, signifying a noteworthy portion of the nation's economy, and companies will press hard to get up and running quickly.

**Commercial real estate within Houston's metro flood plain.** Many businesses were forced to close in the storm's aftermath. Nearly 26 percent of apartments based on square footage, 21 percent of office space and 23 percent of the metro's retail space are located within the 100- or 500-year flood plain. While it is still unclear how many assets were damaged by the storm, it will create a dynamic investment climate in the metro as investors determine whether to remediate or sell properties, providing some unique value-add opportunities for buyers. Over the long term, Houston's favorable economic growth and strong demographics bode well for those seeking assets in this metro.

**Regional economy feels short-term impact.** The regional economy will face short-term weakening as damage is assessed, FEMA is mobilized, insurance policies are reviewed and recovery strategies are defined. There are still many unknowns about the state of some oil refineries and petrochemical facilities, with some operable only in limited capacities for months to come. This may cause a broader economic disruption as other facilities across the country pick up the slack. In addition, many developers were already encountering construction worker shortages and elevated material costs before the hurricane hit. The cleanup process will exacerbate these shortages and could slow the rebuilding process.

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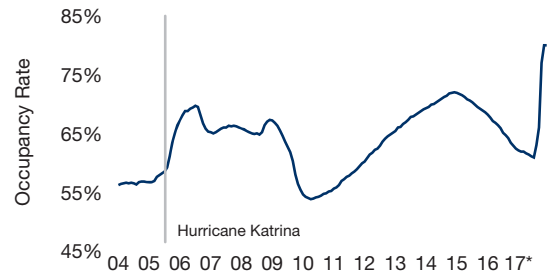
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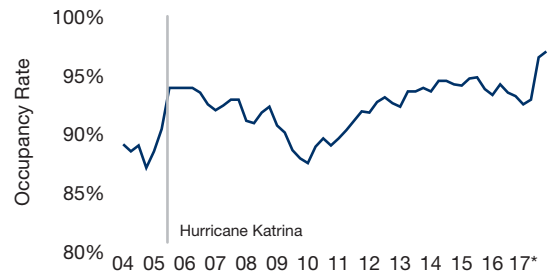
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Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Real Capital Analytics; Standard & Poor's; U.S. Bureau of Labor Statistics; Smith Travel Research; MPF Research; Texas Department of Public Safety

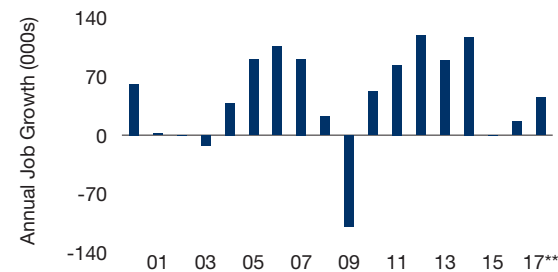
Houston Hotel Occupancy to Surge



Houston Apartment Occupancy to Climb



Hurricane Harvey Clean-Up Effort Will Create Jobs in Houston



\* Forecast  
 \*\* First Half 2017