



MULTIFAMILY REPORT

# Houston: More Work To Be Done

Summer 2020

**Energy Sector Reeling from Job Losses**

**Lifestyle Rents in Negative Territory**

**Oversupply to Impact Development**

# HOUSTON MULTIFAMILY



## Diversifying Efforts Prop Up Struggling Economy

Houston has weathered several challenges over the last decade, but the pandemic-driven economic dislocation may pose increasing difficulties on the path to a full recovery. Overall rents in Houston started to contract in December 2019, and remained in the negative range in subsequent months. As of August, rents were down 0.1% on a trailing three-month basis, at \$1,108, behind the \$1,463 national figure.

The health crisis has cost the metro more than 365,000 jobs and only some 110,000 were recovered through September, based on Texas Workforce Commission data analyzed by the Greater Houston Partnership. While oil and gas jobs were already at their lowest level in 15 years at the onset of COVID-19, energy job losses were mitigated by gains in finance, professional services and health care. The Houston region has received more than \$9.4 billion in Paycheck Protection Program funding, supporting more than 700,000 jobs, according to U.S. Treasury Department data.

As construction was deemed an essential service during shelter-in-place orders, developers were able to press on, and added 8,061 units to inventory year-to-date through August. Another 27,000 apartments were under development as of August. More than \$1.3 billion in multifamily assets traded in 2020 through August—a 53% decline compared to the same interval last year.

## Market Analysis | Summer 2020

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### Recent Houston Transactions

#### Lofts at the Ballpark



City: Houston  
Buyer: Banyan Residential  
Purchase Price: \$59 MM  
Price per Unit: \$157,547

#### Broadstone Park West



City: Houston  
Buyer: BSR Trust  
Purchase Price: \$51 MM  
Price per Unit: \$137,838

#### Domain New Forest



City: Houston  
Buyer: Eastwood Multifamily  
Purchase Price: \$40 MM  
Price per Unit: \$134,702

#### Diamond Ridge

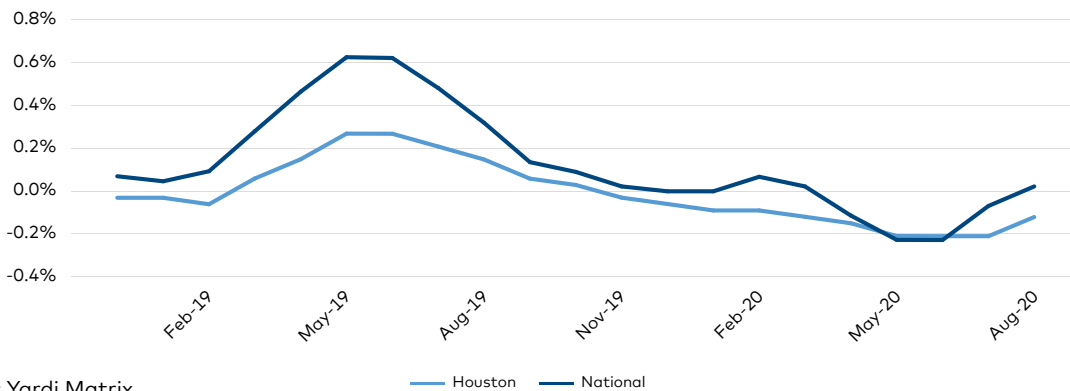


City: Houston  
Buyer: Gatesco  
Purchase Price: \$25 MM  
Price per Unit: \$50,768

## RENT TRENDS

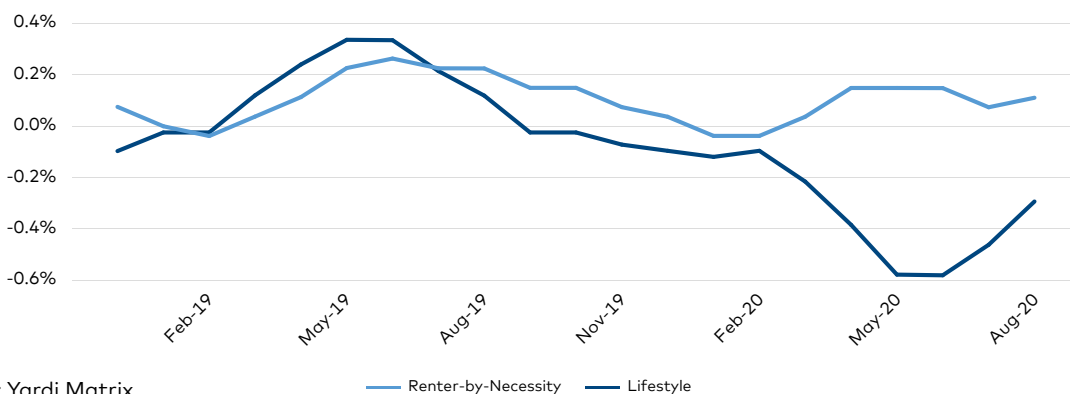
- ▶ Rents in Houston were down 0.1% on a trailing three-month basis as of August, while the U.S. average flattened after a four-month slide. The metro's average rent stood at \$1,108, well behind the \$1,463 national figure. Overall rents in Houston started to contract in December 2019 and remained in negative territory in the ensuing months through August.
- ▶ Rent evolution varied across the quality spectrum. Rates in the Lifestyle segment slipped 0.3% on a T3 basis, to \$1,358 as of August, due in part to an oversupply of upscale projects in various stages of development. Meanwhile, rents in the working-class Renter-by-Necessity segment improved 0.1% to \$900, following four months of consistent growth.
- ▶ In August, Harris County and the city of Houston approved a \$45 million joint emergency rental assistance plan. Families earning up to 80% of the area median income are eligible. An estimated 21,000 households will benefit from the program, which requires landlords to waive all late fees and interest and refrain from evictions. Renters qualify only if their landlord has applied for the program.
- ▶ East Houston submarkets led rent growth in the 12 months ending in August: Pierce Junction (7.2% to \$859), Cloverleaf (3.5% to \$952) and Humble/Westfield (2.7% to \$843) rounded out the top three. Rates in the Museum District and the West End/Downtown—the priciest submarkets—slid 4.7% (\$1,840) and 5.1% (\$1,741), respectively.

### Houston vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

### Houston Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

## ECONOMIC SNAPSHOT

- ▶ As of July, unemployment in Texas stood at 8.0% and at 9.4% in metro Houston, 80 basis points below the July U.S. figure. The rate in Houston peaked at 14.3% in April. To offset ongoing job losses, officials began lifting restrictions in May to jumpstart the economy. The pandemic cost the metro more than 365,000 jobs, and only some 110,000 were recovered through September, based on Texas Workforce Commission data analyzed by the Greater Houston Partnership.
- ▶ Employment expansion in Houston started to lose steam in March after 16 months of consistently exceeding the 2.0% threshold. Growth moved into negative territory in May (-1.4%), and further declined in June (-2.7%). In the 12 months ending in June, a combined 175,900 positions were lost in the metro—leisure and hospitality was the hardest-hit industry (-16.5%), down 56,500 jobs.
- ▶ A cornerstone of Houston's economy, the energy sector, was already struggling before the pandemic. According to a Greater Houston Partnership study, energy employment plateaued at 238,880 jobs in June 2019, while oil and gas jobs were already at their lowest levels in 15 years at the outset of COVID-19. Energy job losses were mitigated by gains in finance, professional services and health care (34,000 jobs).

### Houston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
55	Financial Activities	165	5.5%
50	Information	29	1.0%
65	Education and Health Services	397	13.3%
60	Professional and Business Services	500	16.7%
40	Trade, Transportation and Utilities	610	20.4%
90	Government	398	13.3%
30	Manufacturing	219	7.3%
80	Other Services	99	3.3%
15	Mining, Logging and Construction	285	9.5%
70	Leisure and Hospitality	285	9.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Houston gained 282,000 residents over the last decade, for an 18.8% uptick, well above the 6.1% U.S. rate.
- ▶ Between July 2018 and July 2019, Houston ranked third (89,994 residents) for metros with the most residents among all U.S. metros, according to U.S. Census Bureau data.

### Houston vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Houston Metro	6,812,260	6,905,695	6,997,384	7,066,141

Sources: U.S. Census, Moody's Analytics

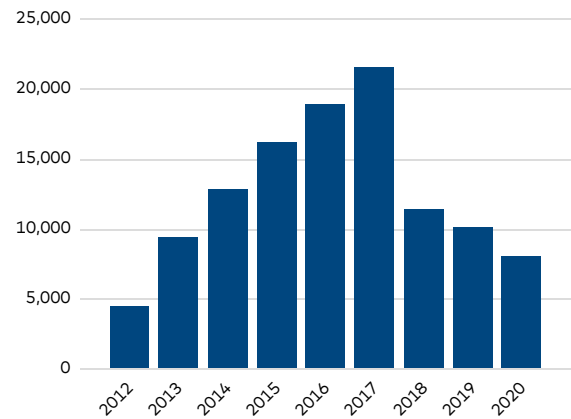
## SUPPLY

- ▶ Houston had 27,238 units under construction as of August, with the bulk of those (95%) geared toward high-income earners. Nearly 40% of the projects underway were scheduled to come online by year-end, but pandemic-induced setbacks will most likely curb deliveries and impact the 46,000 apartments in the planning and permitting stages, as well.
- ▶ Developers added 8,061 units to inventory year-to-date, marking 1.2% of total stock, and just 10 basis points below the U.S. figure. The largest share (90%) of new deliveries year-to-date was in the Lifestyle segment. Although COVID-19 hindered development, construction was deemed essential, and this year's deliveries have still surpassed the decade's cycle low of 2012, when some 4,500 apartments came online.
- ▶ Since 2013, completions have consistently improved in the metro, with deliveries peaking at 21,531 in 2017. Due to a combination of lenient zoning regulations, housing prices and the cost of living, multifamily demand has boosted Houston's growth. However, potential overbuilding in the upscale segment and the pandemic-driven economic fallout have buoyed

demand for RBN units, and may impact Houston's development pipeline over the long term.

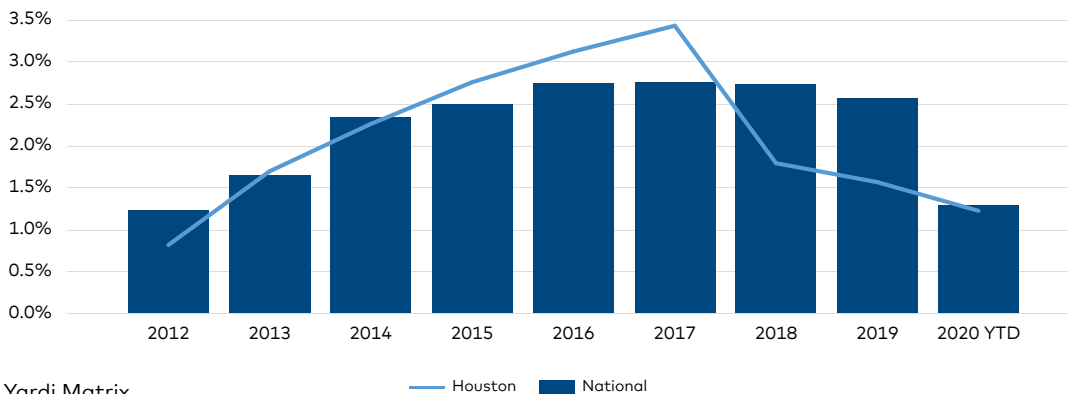
- ▶ The West End/Downtown (6,197 units) led development as of August, accounting for 23% of the total pipeline. The Heights (2,323 units) and Avonak (2,110 units) rounded out the top three. The 600-unit Sovereign at Regent Square Phase Two was the metro's largest community underway.

**Houston Completions** (as of August 2020)



Source: Yardi Matrix

**Houston vs. National Completions as a Percentage of Total Stock** (as of August 2020)



Source: Yardi Matrix

## TRANSACTIONS

- ▶ More than \$1.3 billion in multifamily assets traded in 2020 through August—a 53% decline compared to the same interval last year. Despite the steep drop in deal flow, this year’s sales volume was still 18% above the cycle’s low point of 2010 (\$1.1 billion).
- ▶ A total of 16,207 units traded at an average per-unit price of \$115,768, just under last year’s average of \$120,612, and significantly below the \$163,833 national figure. Of the 67 properties sold so far, 38 were Renter-by-Necessity assets, as rising demand for this segment was further consolidated by the pandemic-driven economic dislocation.
- ▶ Some \$824 million traded in the first quarter, but sales volume halved in the second quarter (\$443 million). Although investor appetite continued to dampen through the third quarter, BSR Trust paid \$51 million for Broadstone Park West in one of the most notable deals of the summer.

### Houston Sales Volume and Number of Properties Sold (as of August 2020)



Source: Yardi Matrix

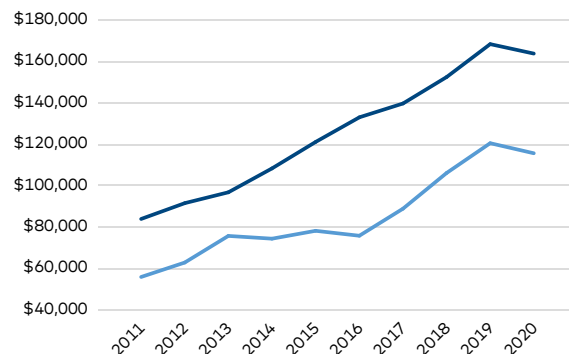
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
West Bellaire	474
Jersey Village/Satsuma	208
Nassau Bay/Seabrook	170
The Woodlands	170
Spring Valley	162
William P. Hobby Airport	136
Bammel	133

Source: Yardi Matrix

<sup>1</sup> From September 2019 to August 2020

### Houston vs. National Sales Price per Unit



Source: Yardi Matrix

## Top Texas Metros for Multifamily Development in 2020

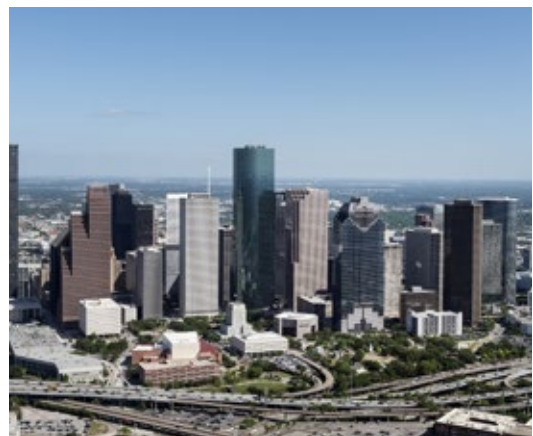
By Anca Gagiuc

The Texas job market performed strongly before the onset of the pandemic, with all three of its major markets showing up across rankings related to economic and demographic development. This created substantial demand for apartments, pressuring developers to keep up. Land availability, a friendly business climate, good weather and a high quality of life all contributed to the rapid expansion of the state's rental market.

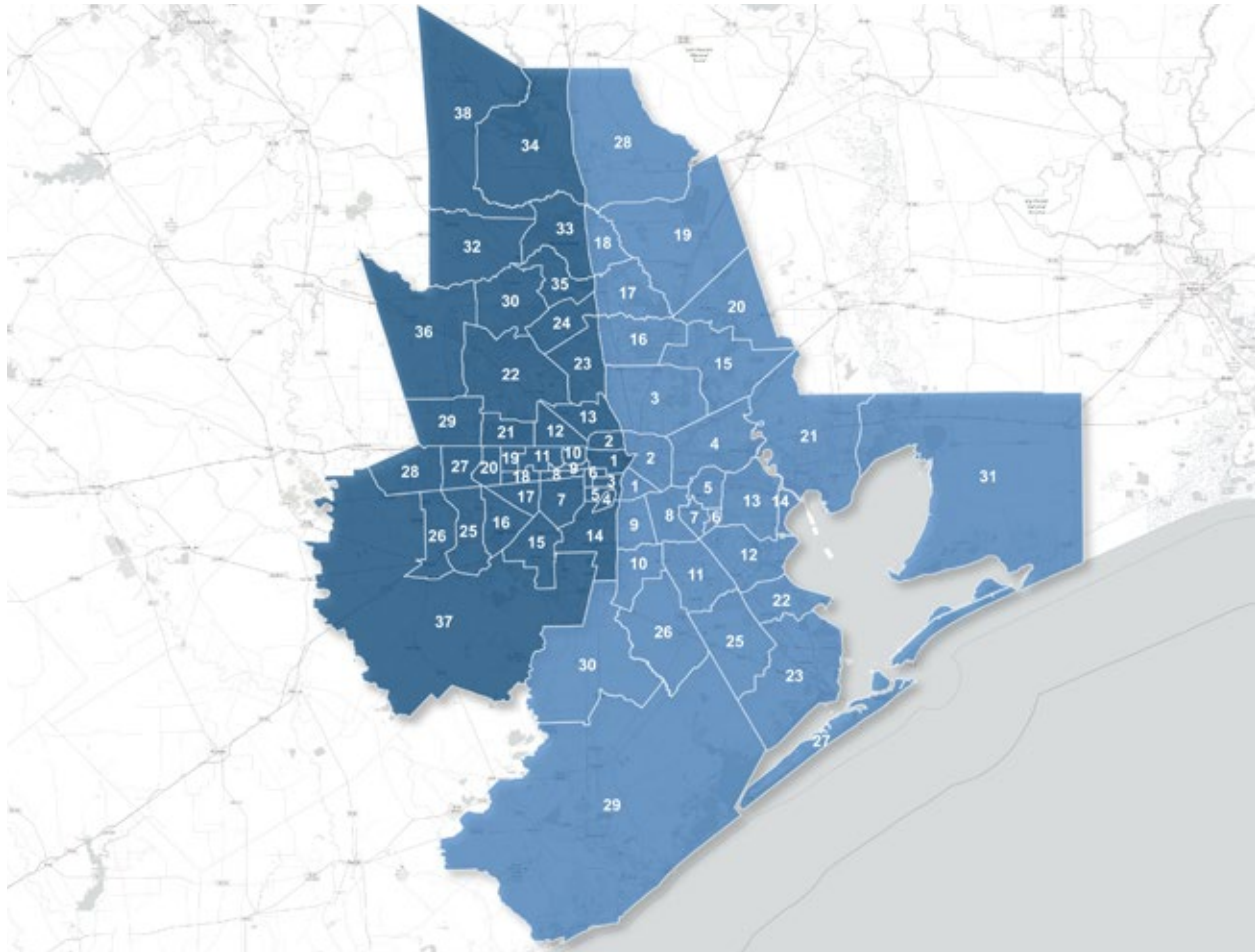
Submarket	Property Name	Units Under Construction
1 - West End/Downtown	The Sovereign at Regent Square Phase II	600
1 - West End/Downtown	Hanover Square	421
2 - The Heights	Domain Heights	408

### HOUSTON

Developers added 8,061 units to the multifamily housing inventory in the first eight months of 2020, the equivalent of 1.2 percent of stock. In the years following the cycle peak that was registered in 2017, when 21,531 units came online in the metro, annual deliveries were halved, with totals for 2018 and 2019 dropping to 11,464 and 10,178 units, respectively. Yardi Matrix estimates that by the end of the year 10,404 units will come online in Houston. The occupancy rate in stabilized properties contracted by 80 basis points year-over-year as of July, to 92.2 percent.



# HOUSTON SUBMARKETS



Area No.	Submarket	Area No.	Submarket
1	West End/Downtown	20	George Bush Park
2	The Heights	21	Bear Creek Park
3	Museum District	22	Jersey Village/Satsuma
4	Reliant Park	23	Bammel
5	Bellaire	24	Louetta
6	River Oaks	25	Richmond
7	West Bellaire	26	Rosenberg
8	Piney Point Village–South	27	Cinco Ranch–South
9	Piney Point Village–North	28	Katy
10	Hunters Creek	29	Cinco Ranch–North
11	Bunker Hill Village	30	Tomball
12	Spring Valley	32	Magnolia
13	Rosslyn	33	The Woodlands
14	Missouri City	34	Conroe–West
15	Suger Land–South	35	Avonak
16	Sugar Land–West	36	Northwest Harris County
17	Suger Land–North	37	Outlying Fort Bend County
18	Royal Oaks Country Club	38	West Montgomery County
19	Addicks		

Area No.	Submarket	Area No.	Submarket
1	Greater Third Ward	17	Spring
2	East End	18	The Woodlands–East
3	Mount Houston	19	Porter
4	Cloverleaf	20	Kingwood
5	Pasadena	21	Baytown
6	South Houston Crenshaw Park	22	League City/Dickenson
7	South Houston	23	Texas City
8	William P. Hobby Airport	25	League City–West
9	Pierce Junction	26	Alvin
10	Clear Creek	27	Galveston
11	Pearland/Friendswood	28	Conroe–East
12	Nassau Bay/Seabrook	29	Lake Jackson/Angleton
13	Deer Park	30	Northwest Brazoria County
14	La Porte	31	Outlying Chambers County
15	Atascocita		
16	Humble/Westfield		



## DEFINITIONS

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter-by-Necessity households** span a range. In descending order, household types can be:

- ▶ *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- ▶ *Students*, who also August span a range of income capability, extending from affluent to barely getting by;
- ▶ *Lower-middle-income ("gray-collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- ▶ *Blue-collar households*, which August barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- ▶ *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, August extend to middle-income households in some high-cost markets, such as New York City;
- ▶ *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

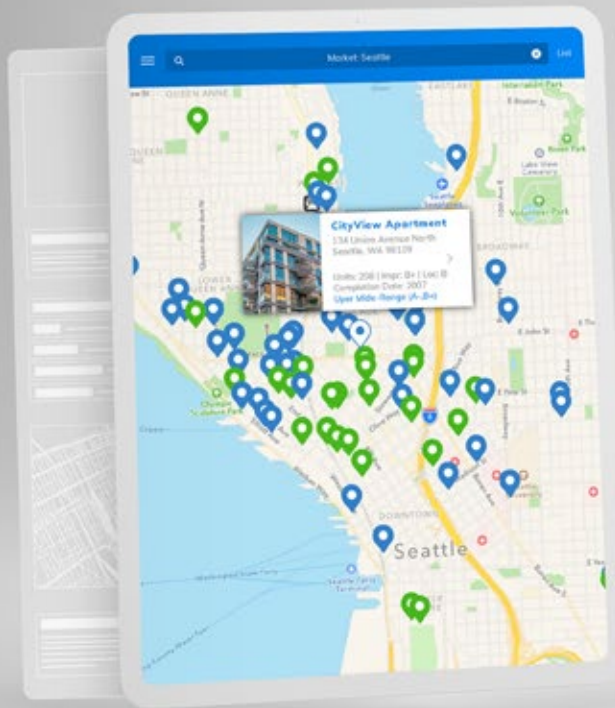
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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