



MULTIFAMILY REPORT

Houston Beats The Odds

Winter 2021

Interest in Industrial Assets Endures

Rent Growth Exits Negative Territory

Downtown Houston Leads Construction Activity

HOUSTON MULTIFAMILY



Bayou City Withstands New Shock

Considering continued worries over the relative instability of oil prices and the pandemic-induced economic contraction, Houston's multifamily market fared better than initially expected. As of January, rent growth was flat on a trailing three-month basis, at \$1,109, behind the \$1,392 national figure.

Employment posted a 5.3% decline in the 12 months ending in November, outperforming the -7.2% national rate. Leisure and hospitality shrunk by 40,000 jobs, while professional and business services was the only sector to add positions (600 jobs), aided by its ability to maintain operations through remote work. Meanwhile, some businesses are coming to or expanding in the Houston area. Military contractor MVL Group purchased the historic Republic Building downtown and intends to transform it into its new headquarters. Amazon is expanding its fulfillment center footprint with two new projects totaling almost 2 million square feet.

Transaction activity slowed last year, with investors paying increased attention to the suburbs and smaller cities due to surging demand for more space. Deliveries, on the other hand, seemed unabated by the health crisis. More than 13,000 units came online in Houston in 2020. Despite steady completions during the past few years and the lingering effects of the pandemic, Yardi Matrix expects the average Houston rate to improve by 2.8% in 2021.

Market Analysis | Winter 2021

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Recent Houston Transactions

San Simeon



City: Houston
Buyer: Knightvest Capital
Purchase Price: \$98 MM
Price per Unit: \$226,574

Carrington Park at Gulf Pointe



City: Houston
Buyer: JRK Property Holdings
Purchase Price: \$39 MM
Price per Unit: \$150,956

Richmond Town Home



City: Houston
Buyer: Brixton Capital
Purchase Price: \$28 MM
Price per Unit: \$147,872

The Residence at Westchase

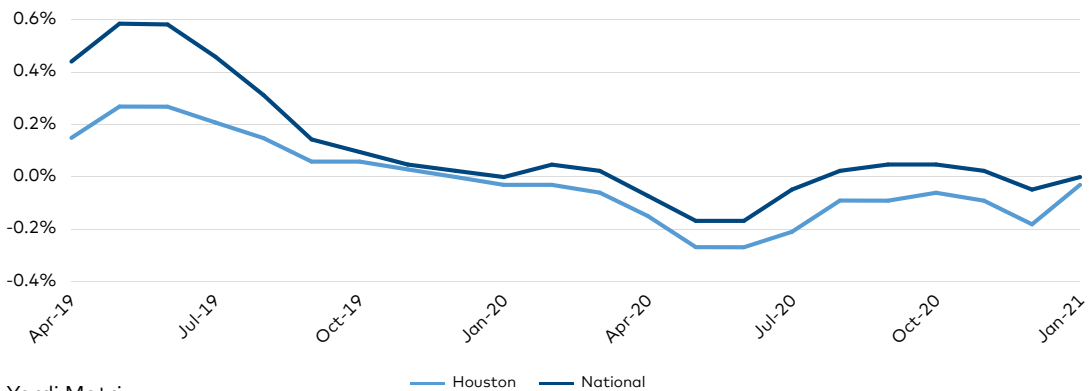


City: Houston
Buyer: WGA Legacy Property
Management
Purchase Price: \$16 MM
Price per Unit: \$121,875

RENT TRENDS

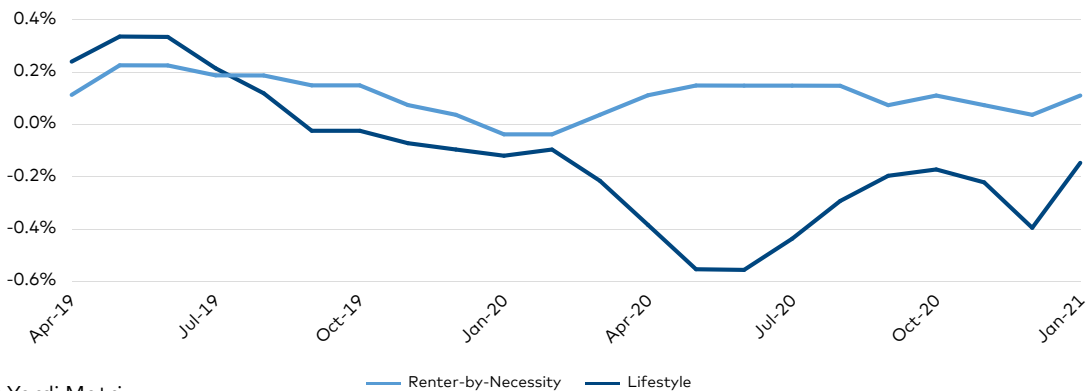
- ▶ After a 10-month slide, rent growth in Houston flattened on a trailing three-month (T3) basis as of January, to \$1,109. The U.S. average was flat for the seventh consecutive month, at \$1,392. Between 2014 and 2020, developers completed more than 105,000 units. That, combined with almost 30,000 additional units in the pipeline, has been aiding the dip in average rents.
- ▶ Rent growth for working-class Renter-by-Necessity properties stayed positive or flat throughout the health crisis in Houston, inching up 0.1% on a T3 basis as of January, to \$906. Robust deliveries in the upscale segment and the pandemic-induced economic dislocation have kept gains for high-end assets in negative territory since November 2019. Lifestyle rents were down 0.1% on a T3 basis, to an average of \$1,349.
- ▶ Twenty-seven of Houston's 65 submarkets recorded rent contractions year-over-year through January. Rates in West Houston's West End/Downtown (-8.6%) and River Oaks (-8.1%) contracted the most, while rents in East Houston's Pearland/Friendswood (5.1%) and Pasadena (4.3%) recorded the highest increases.
- ▶ Texas officials are working on a \$1.3 billion rental assistance program for residents struggling to keep up with rent payments. According to the Texas Department of Housing and Community Affairs, approximately 80,000 households will be able to apply. The program aims to help with up to 15 months of rent payments.

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

- ▶ After peaking at 14.3% in April, unemployment improved to 8.0% as of December, according to preliminary Bureau of Labor Statistics data, but remained the highest among major Texas markets. In the 12 months ending in November 2020, Houston lost 147,300 jobs, for a 5.3% yearly contraction. Supported by its ability to carry on operations through telework, professional and business services was the only sector to add positions (600 jobs).
- ▶ Losing significant steam, Houston's economy has suffered throughout the health crisis, but not as dramatically as initially feared. The pandemic has done little to stymie interest in industrial assets, for example. Amazon is building two fulfillment centers in the area. An 850,000-square-foot facility in Richmond is expected to create 1,000 jobs, while another, 1 million-square-foot project is underway in neighboring Missouri City.
- ▶ Two cornerstones of the city's economy—the medical and energy industries—are contributing to the metro's rebound. Texas A&M University System and Medistar Corp. broke ground in August on Innovation Plaza, a half-billion-dollar project adjacent to the Texas Medical Center. Oil company SABIC has already started hiring for a \$10 billion joint venture project with Exxon Mobil Corp., set to come online in 2022.

Houston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	515	16.9%
50	Information	30	1.0%
55	Financial Activities	165	5.4%
90	Government	420	13.7%
65	Education and Health Services	404	13.2%
80	Other Services	104	3.4%
40	Trade, Transportation and Utilities	632	20.7%
30	Manufacturing	212	6.9%
15	Mining, Logging and Construction	284	9.3%
70	Leisure and Hospitality	291	9.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ In 2019, metro Houston's population surpassed the 7 million mark, recording a 1.0% increase.
- ▶ Population growth over the past decade has been swift. The 18.8% expansion between 2010 and 2019 was more than three times the 6.1% U.S. growth rate.

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

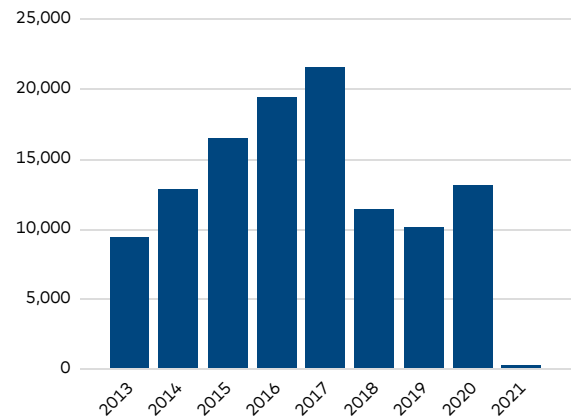
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Houston had 29,738 units under construction as of January, with upscale projects making up the bulk of the pipeline. Following two years when deliveries remained below 11,500 apartments per year, developers brought online 13,121 units in 2020, as Harris County officials deemed construction essential under the stay-at-home order issued last March.
- ▶ In the past five years, more than 75,700 units were delivered across the metro, with the largest share catering to the Lifestyle segment. Last year, the historical drop in oil prices and the health crisis forced many operators to grant concessions as a tactic to maintain occupancy rates. After San Jose, the metros offering the most concessions were all in Texas: San Antonio (26.4% of Class A and B properties), Austin (24.8%), Dallas (22.5%) and Houston (21.2%).
- ▶ West End/Downtown (6,838 units underway) led the pipeline by far as of January, putting additional pressure on rents in the city core. The next six submarkets had more than 1,000 units underway each, but none surpassed the 2,000-unit mark. GID's 600-unit second phase

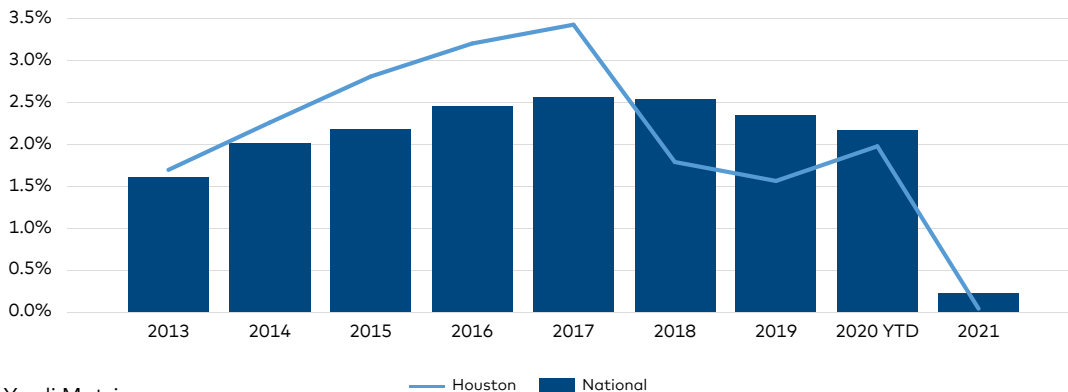
of the Regent Square project in Houston's urban core was the largest development underway at the beginning of 2021. The upcoming property will be located along the metro's Allen Parkway corridor, an area that has seen a spate of development since the \$58 million restoration of the Buffalo Bayou Park in 2015. The park's renovation acted as a catalyst for the neighborhood's subsequent revitalization.

Houston Completions (as of January 2021)



Source: Yardi Matrix

Houston vs. National Completions as a Percentage of Total Stock (as of January 2021)



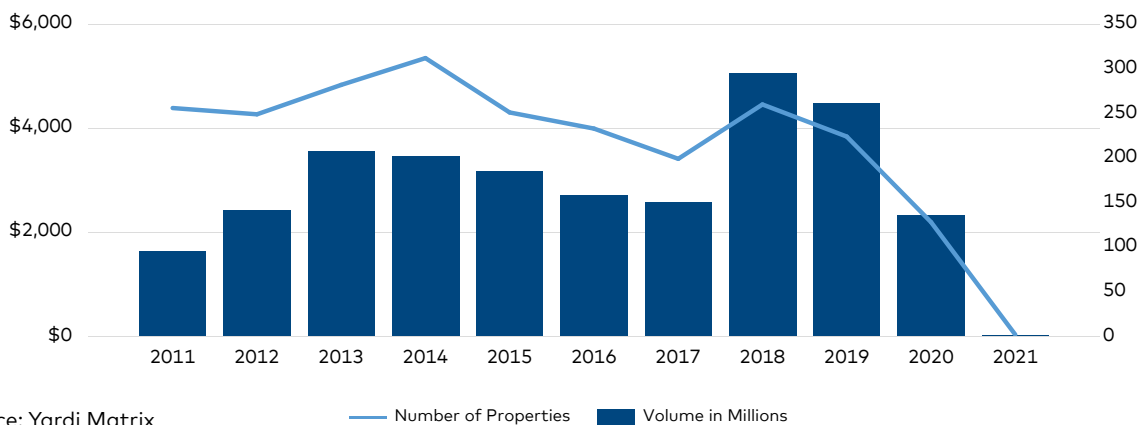
Source: Yardi Matrix

TRANSACTIONS

- ▶ The economic shock that defined 2020 halved investor activity, with only \$2.3 billion in multi-family assets trading for the year.
- ▶ Despite the overall decrease, the \$113,169 per-unit price was only \$241 below the 2019 average. However, the figure stayed well below the \$157,900 U.S. average.
- ▶ Of the \$2.1 billion in sales recorded in the 12 months ending in January, Houston's western

half accounted for roughly two-thirds of the volume. The Woodlands and West End/Downtown were the most sought-after submarkets, as both recorded year-over-year rent contractions and maintain steady development pipelines. This is especially true of West End/Downtown, which encompassed nearly a quarter of the metro's units underway as of January (6,838 apartments).

Houston Sales Volume and Number of Properties Sold (as of January 2021)



Source: Yardi Matrix

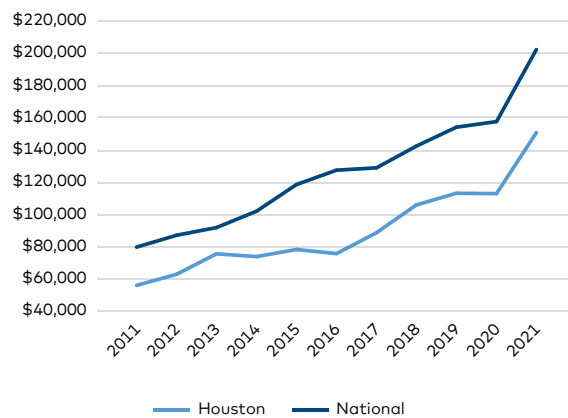
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
The Woodlands	170
West End/Downtown	135
West Bellaire	123
East End	122
Cloverleaf	122
Piney Point Village-North	110
Cinco Ranch-North	104

Source: Yardi Matrix

¹ From February 2020 to January 2021

Houston vs. National Sales Price per Unit



Source: Yardi Matrix

Top 10 Markets for Transaction Activity in 2020

By Razvan Cimpean

The majority of investment activity has remained focused on established urban multifamily markets, but that too has been affected. The number and the dollar amount of deals changed, with most assets trading for less than \$100 million. As a result, sales volume dropped 32.1 percent in 2020 from the previous year, according to Yardi Matrix data. The 10 metros on this list accounted for almost half of last year's transaction volume, at \$39.1 billion.

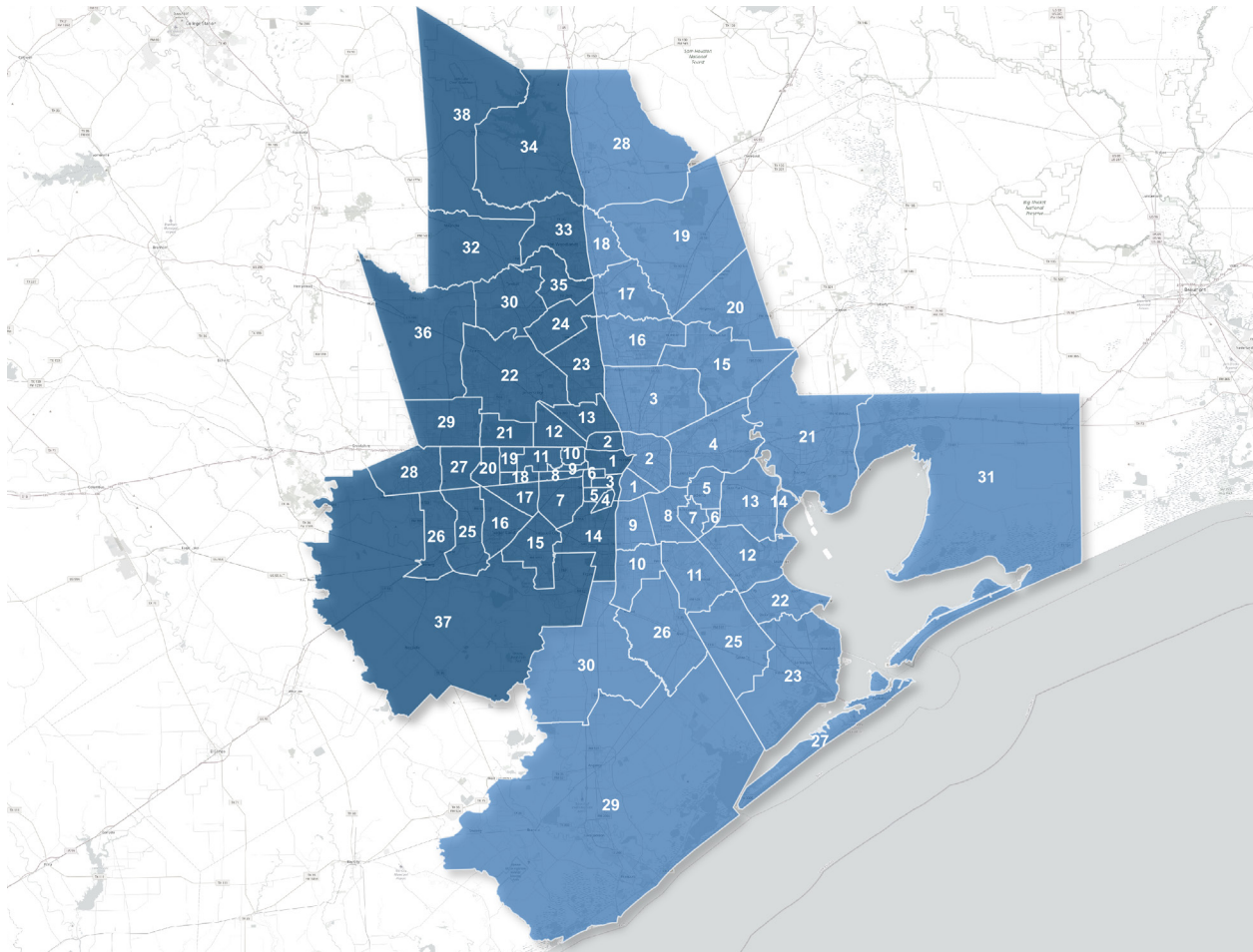
Rank	Market	Transaction Volume (MM)	Price Per Unit
1	Phoenix	\$5,879.7	\$187,251
2	Dallas	\$5,501.8	\$128,712
3	Washington, D.C.	\$5,468.2	\$235,076
4	Atlanta	\$5,253.5	\$142,429
5	Denver	\$4,435.8	\$247,160
6	Charlotte	\$2,959.3	\$158,235
7	Tampa	\$2,518.9	\$155,874
8	Austin	\$2,387.3	\$160,872
9	Miami	\$2,333.2	\$224,266
10	Houston	\$2,328.2	\$113,460

HOUSTON

As a result of the coronavirus outbreak, 2020 was, at least in part, challenging for the energy sector, on which Houston's economy is reliant. That had an impact on the employment market, with some 185,000 positions lost in the 12 months ending in November. Total multifamily sales volume dropped 47.8 percent to \$2.3 billion in 2020 compared to the previous year. In separate transactions, Berkshire Residential Investments paid \$141 million for two communities in Conroe, Texas, including the metro's second-largest deal of 2020.



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	Rossllyn	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 December 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 December 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, December 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.

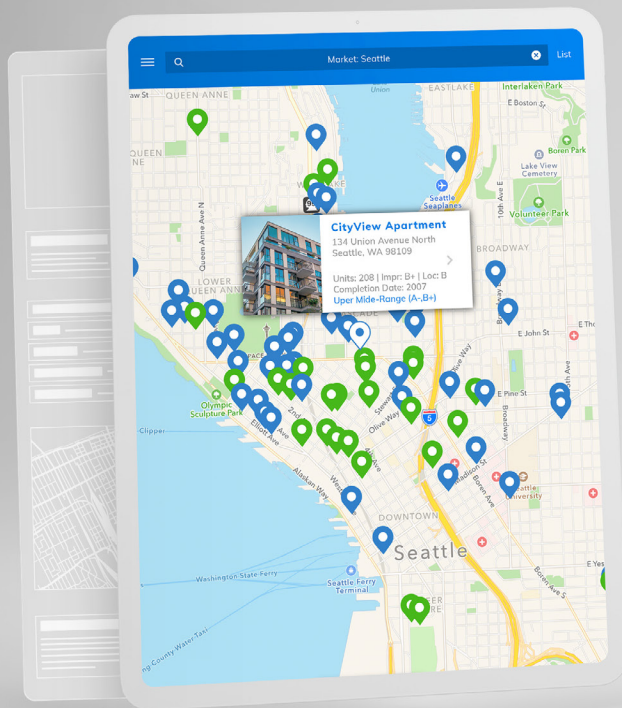
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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