



MULTIFAMILY REPORT

Houston Oils The Wheels Of Recovery

Fall 2021

Transactions Shatter 2020 Totals

Deliveries Outstrip Pre-Pandemic Levels

Demand for Upscale Units Remains High

HOUSTON MULTIFAMILY



Deliveries Accelerate, Transactions Skyrocket

Houston's rental market has seen especially meaningful progress in 2021, with rising oil prices and improving overall economic conditions supporting multifamily fundamentals. On a trailing three-month basis through October, Houston rents were up by 1.3% to \$1,231. On a year-over-year basis, the average was up 10.3%.

Unemployment slid to 6.1% in August, while September preliminary data pointed to a 60-basis-point improvement. Houston added 139,400 jobs during the 12 months ending in August, with the greatest increases occurring in the hospitality sector, which is experiencing a nationwide recovery. Meanwhile, although the metro's economic base is still tied to the oil industry, Houston has made strides to diversify its economy. The city's business-friendly environment and expanding talent pool have prompted Hewlett Packard Enterprise to relocate its global headquarters from San Jose, Calif., to the Houston region starting early next year. Great Lakes Dredge & Dock Co., one of the largest providers of dredging services, is also moving its corporate office from Chicago.

Despite the booms and busts of the past decade, investors and developers are confident in the metro's longer-term potential. A record \$6.8 billion in multifamily assets changed hands across the greater Houston area in the first 10 months of the year, and 15,696 units came online.

Market Analysis | Fall 2021

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Recent Houston Transactions

City West



City: Houston
Buyer: Colony Hills Capital
Purchase Price: \$87 MM
Price per Unit: \$170,458

Cortland Halstead



City: Houston
Buyer: JRK Property Holdings
Purchase Price: \$60 MM
Price per Unit: \$199,437

Highpoint at Cypresswood



City: Houston
Buyer: Aspen Oak Capital Partners
Purchase Price: \$50 MM
Price per Unit: \$148,810

Esperanza at Queenston

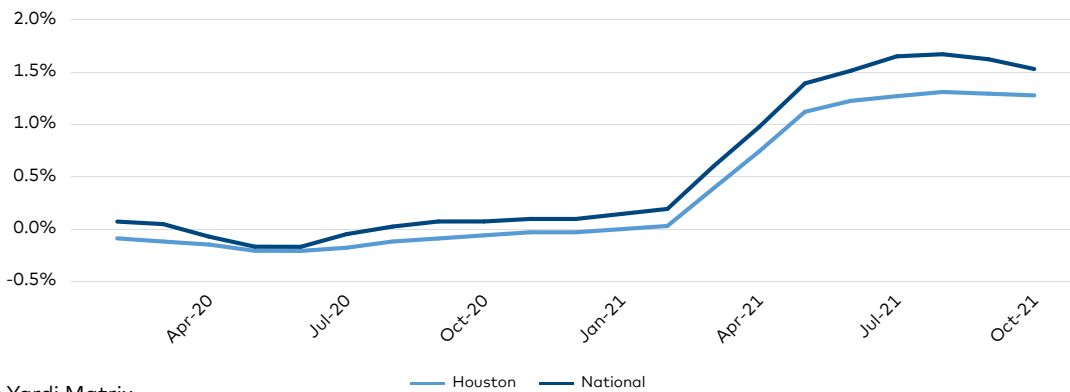


City: Houston
Buyer: Headway Capital
Multifamily
Purchase Price: \$25 MM
Price per Unit: \$146,667

RENT TRENDS

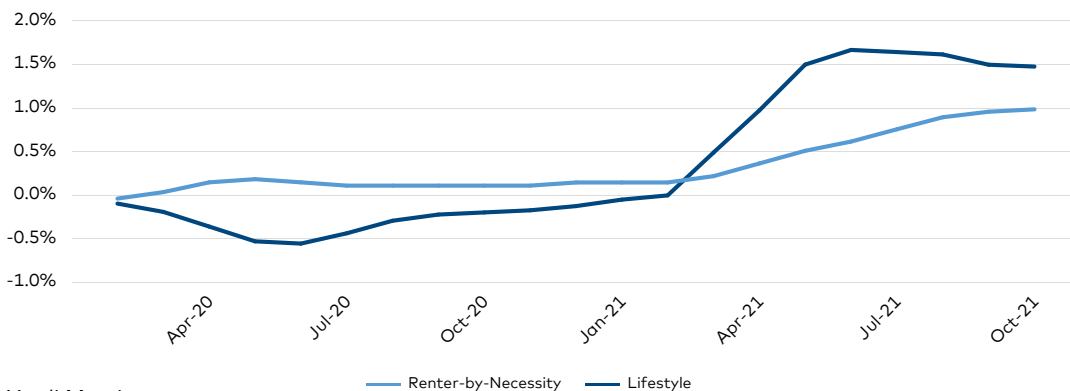
- ▶ Houston rents rose 1.3% on a trailing three-month basis through October, with growth lagging the national rate by 20 basis points. The metro's average rent climbed to \$1,231, but stayed well below the \$1,572 national figure. Year-over-year, rates improved by 10.3%, while U.S. asking rents were up 13.7%.
- ▶ With Houston's relative affordability compared to similar markets, rent growth in the Lifestyle segment outstripped working-class Renter-by-Necessity expansion. As of October, Lifestyle rents were up 1.5% on a T3 basis to \$1,534, while RBN rents edged up 1.0% to \$966.
- ▶ Rent growth was stronger in western submarkets outside the Texas 8 Beltway, with Cinco Ranch-North and The Woodlands leading the way, both up 18.6% year-over-year through October. Going east, rents also increased sharply in League City/Dickenson (18.5%), followed by Porter (17.7%). Despite population shifts toward the suburbs fueling rent growth, urban core submarkets remained the most expensive—Museum District (average rent of \$2,002) and West End/Downtown (\$1,905).
- ▶ The Texas single-family rental market continued its exceptional growth. As migration to the state accelerated, strong demand brought the occupancy rate near record levels, with Houston (9.1%), San Antonio (7.0%) and Austin (3.3%) leading the nation in occupancy growth on a year-over-year basis through September.

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

- ▶ Unemployment in the greater Houston area was 6.1% in August, but preliminary BLS data shows that the rate slid to 5.5% as of September, the lowest since the beginning of the health crisis. In the 12 months ending in August, the metro added 139,400 jobs, a 3.1% year-over-year improvement.
- ▶ Employment growth was led by leisure and hospitality (54,500 jobs), followed by professional and business services with 27,900 positions, and trade, transportation and utilities with 24,300. The construction industry is also likely to rebound, as several large-scale projects are in the works. Texas Medical Center began work on

the first phase of TMC3, a 37-acre life science campus that is set to create 19,000 construction jobs over the next few years. The initial phase is backed by \$1.8 billion in financing. Another innovative development is taking shape in southeast Houston. Axiom Space intends to build a 14-acre headquarters campus at the Houston Spaceport, where the aerospace company plans to develop the world's first commercial space station.

- ▶ As in most parts of the country, local government jobs related to recreational activities were particularly affected by furloughs and layoffs. Pandemic-induced budget shortfalls led to Houston losing 2,300 government jobs.

Houston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	324	10.6%
60	Professional and Business Services	507	16.6%
40	Trade, Transportation and Utilities	631	20.7%
65	Education and Health Services	409	13.4%
80	Other Services	115	3.8%
15	Mining, Logging and Construction	275	9.0%
50	Information	29	1.0%
55	Financial Activities	165	5.4%
30	Manufacturing	211	6.9%
90	Government	387	12.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ The metro added 88,337 residents in 2020 for a 1.3% expansion, more than three times the U.S. rate.
- ▶ Houston has one of the youngest demographics in the U.S., with a median age of only 34.9, according to research from the Greater Houston Partnership.

Houston vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Houston Metro	6,905,695	6,997,384	7,066,141	7,154,478

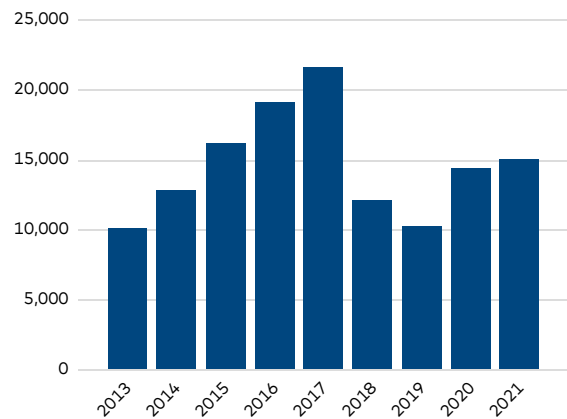
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Houston had 26,063 units under construction as of October, with the bulk aimed at high-income earners. Another nearly 50,000 units were in the planning and permitting stages. As new renters continue to relocate to the metro, the lack of entry-level housing and rising home prices should continue to support demand for multi-family in the foreseeable future.
- ▶ Developers completed work on 15,696 units in the first 10 months of 2021, already surpassing the metro's five-year average of 15,528 units. By year-end, Yardi Matrix expects more than 17,000 apartments to come online in Houston.
- ▶ Over the next couple of years, deliveries should moderate as developers broke ground on only 7,232 units year-to-date through October, a significant drop from last year's 11,732 units over the same period.
- ▶ As of September, the average occupancy in stabilized properties was 93.7%, the highest rate since April 2018, but 230 basis points below the national figure.
- ▶ Three submarkets account for almost a third of the total development pipeline—West End/

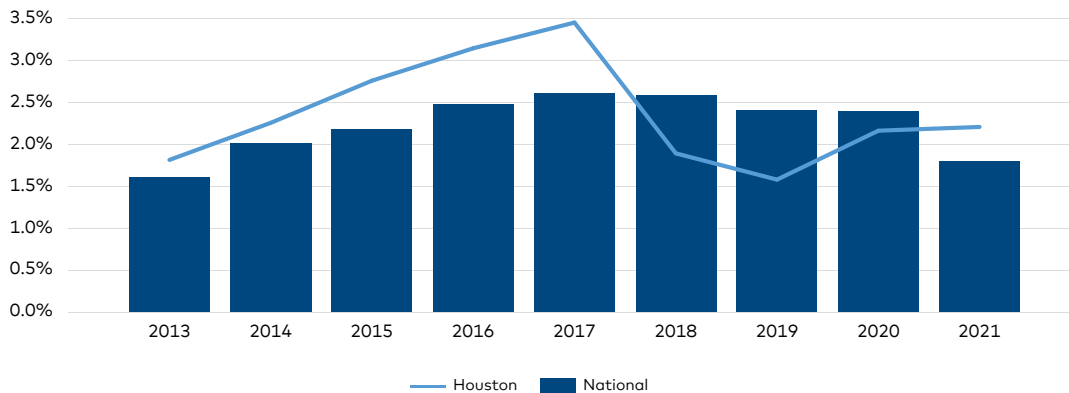
Downtown (4,996 units under construction), Avonak (1,945 units) and East End (1,357 units). Developers are most active in the metro's western half, particularly in urban core submarkets. The largest project underway is GID's 590-unit The Sterling at Regent Square. The development is part of a 24-acre pedestrian-friendly project near the Allen Parkway corridor and Buffalo Bayou Park in the Montrose area.

Houston Completions (as of October 2021)



Source: Yardi Matrix

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

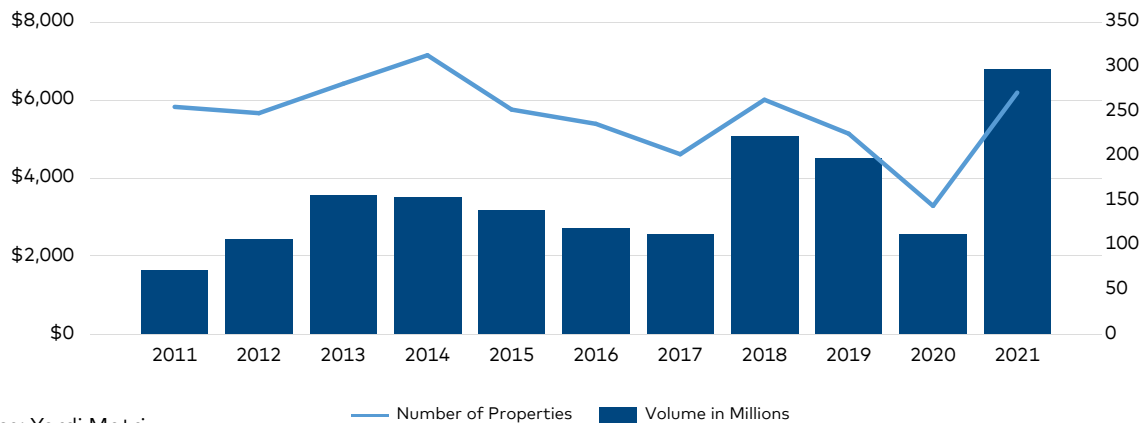


Source: Yardi Matrix

TRANSACTIONS

- ▶ Sales activity was intense in the first 10 months of the year, as investors swiftly reacted to improving market conditions. A record \$6.8 billion in multifamily assets changed hands in Houston. Investors mainly focused on Lifestyle properties, which brought the average price per unit to \$141,313, a 20.3% increase from 2020.
- ▶ West End/Downtown recorded the strongest deal flow in the 12 months ending in October. Madera Cos. and Harbor Group International were among the metro's most-active owners.
- ▶ Since 2015, Houston's multifamily market has been exposed to several challenges: the 2015-16 oil bust, Hurricane Harvey in 2017, another oil price collapse in 2018 and, most recently, the simultaneous shock of the pandemic and the severe drop in oil demand. However, the metro's resilience and rising rental demand only increased its appeal among investors in 2021.

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



Source: Yardi Matrix

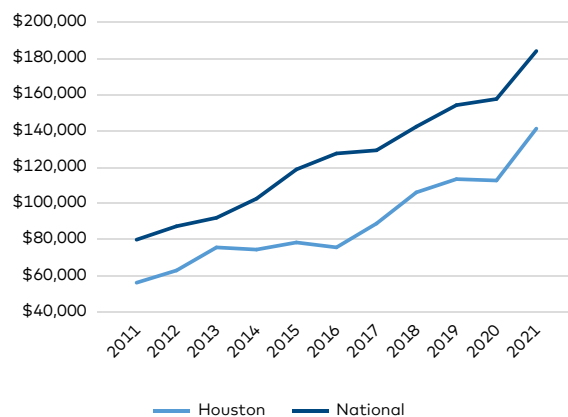
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
West End/Downtown	637
Louetta	383
Nassau Bay/Seabrook	352
The Heights	335
Cinco Ranch-North	325
Bammel	320
Jersey Village/Salsuma	317

Source: Yardi Matrix

¹ From November 2020 to October 2021

Houston vs. National Sales Price per Unit



Source: Yardi Matrix

Top Sun Belt Markets for Construction Activity

By Beata Lorincz

The Sun Belt continues its expansion, driven by domestic in-migration from gateway markets and consequently boosting rent and occupancy in the region. Its appeal—propelled by a favorable tax environment and lower living costs—only grew stronger during the pandemic. The region is home to roughly 50 percent of the nation’s population. This table highlights the top 10 markets for multifamily construction activity in the region.

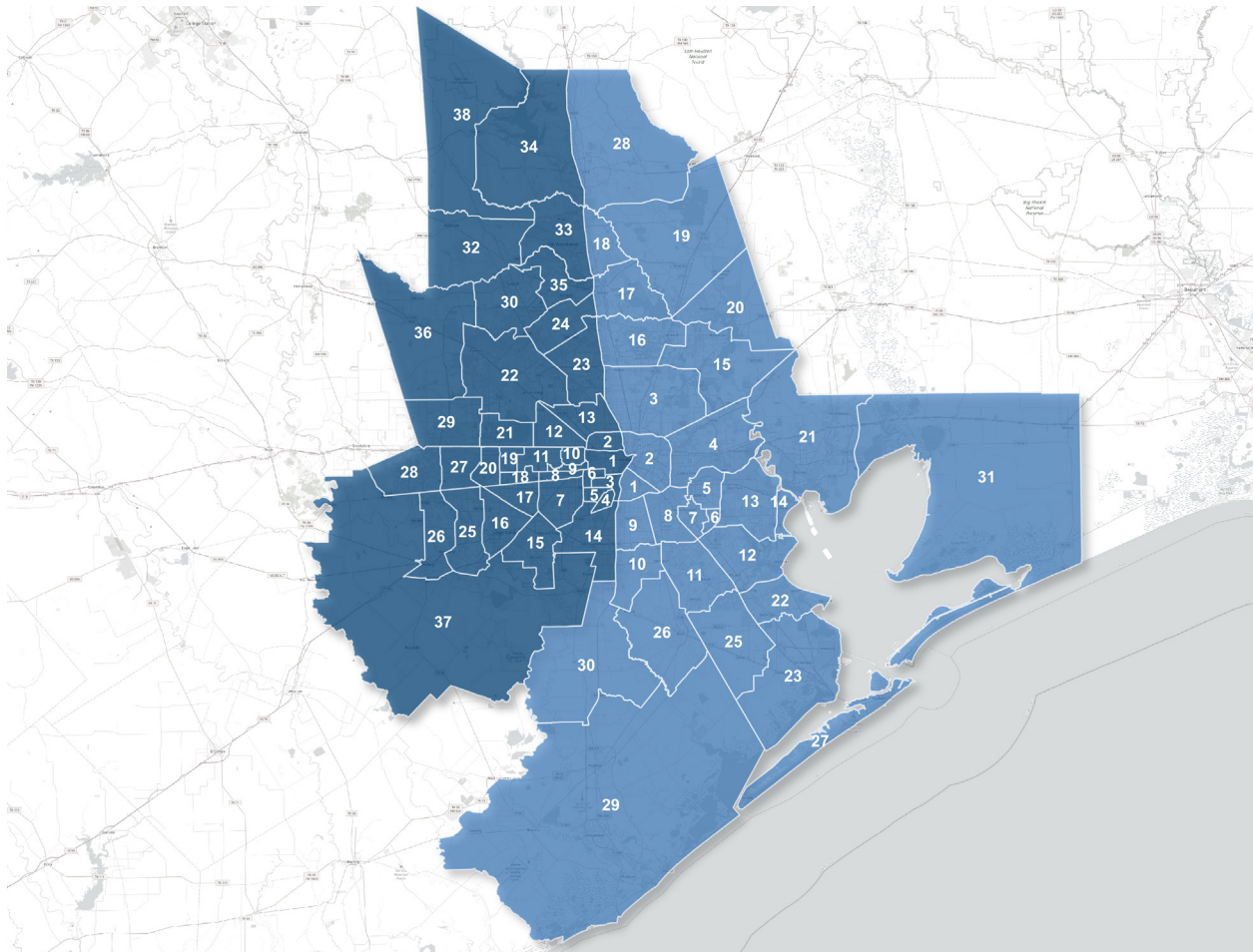
Rank	Market	Units Underway
1	Dallas-Ft. Worth	49,347
2	Austin	38,489
3	Phoenix	34,458
4	Houston	28,841
5	Los Angeles	28,479
6	Orlando	22,010
7	Miami	21,378
8	Atlanta	21,160
9	Tampa	18,847
10	Charlotte	17,457

Houston

In September, more than 28,840 units were taking shape in Houston. After facing several hits over the past decade, Houston’s multifamily market is faring better than expected. In September, an anticipated high-speed railway project connecting Houston and Dallas received federal approval. With construction expected to commence next year, the project will bring much-needed jobs to the area. During the pandemic, the city lost 175,000 jobs, mainly in the construction and tourism sectors.



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 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.

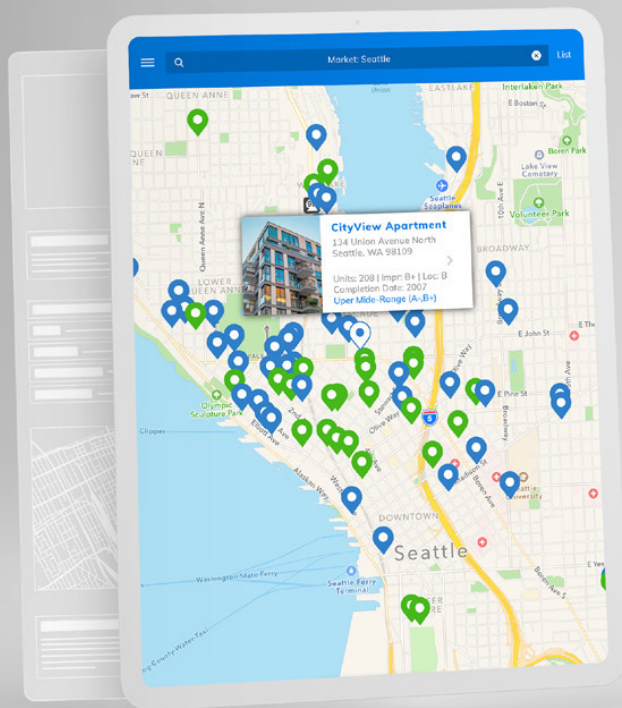
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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