



MULTIFAMILY REPORT

Space City: Final Frontier to Recovery

March 2022

Transaction Volume, PPU at All-Time Highs

Stock Expansion Among Country's Highest

Office-Using Jobs Support Economy

HOUSTON MULTIFAMILY



Development, Sales Prop Up Improving Market

Houston's rebounding economy has helped its multifamily market, which posted a substantial bounce back in 2021. On a year-over-year basis through January, rent growth was up 10.9%, to \$1,245, while on a trailing three-month basis the 0.2% rate mirrored the national softening trend attributed to winter. The metro's average overall occupancy rate in stabilized properties rose 200 basis points year-over-year to 94.0% in December.

Unemployment improved to 4.8% in December, outperforming the state (5.0%), but still lagging the national rate (3.9%), according to preliminary data from the Bureau of Labor Statistics. The job market expanded 4.5% in the 12 months ending in November, 10 basis points below the U.S. rate. Professional and business services led growth (33,400 jobs), boosted by the steady stream of companies that expanded in or relocated to Houston, including Hewlett Packard Enterprise, NRG Energy, Axiom Space, Roboze and Exxon Mobil Corp.

Last year marked an all-time high in transaction volume with multifamily sales surpassing \$10.4 billion, more than double the previous decade-high in investment totals. Stock expansion was also robust. The 19,898 units delivered made it the second-best year of the past decade for multifamily inventory expansion.

Market Analysis | March 2022

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Recent Houston Transactions

The Life at Jackson Square



City: Houston
Buyer: Olive Tree Holdings
Purchase Price: \$125 MM
Price per Unit: \$94,419

The Ranch at Shadow Lake



City: Houston
Buyer: Palladius Capital Management
Purchase Price: \$110 MM
Price per Unit: \$175,573

Broadstone Sawyer Yards



City: Houston
Buyer: Bellrock Real Estate Partners
Purchase Price: \$92 MM
Price per Unit: \$281,346

The Redford



City: Houston
Buyer: Applesway Investment Group
Purchase Price: \$92 MM
Price per Unit: \$107,165

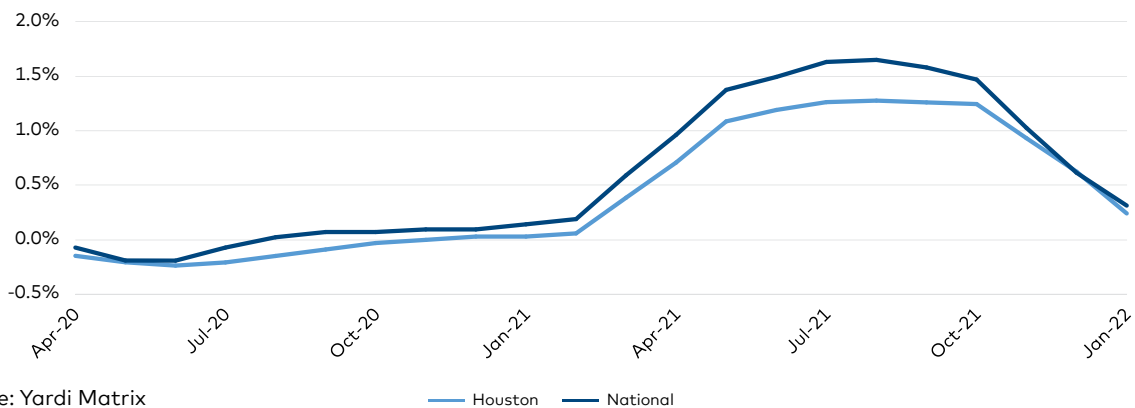
RENT TRENDS

- ▶ Houston rents rose 0.2% on a trailing three-month (T3) basis through January, to \$1,245, lagging the U.S. rate by 10 basis points. The average rent in the metro remained well below the \$1,604 national rate. Year-over-year, asking rents in Houston increased by 10.9%, trailing the 13.9% U.S. rate.
- ▶ Rent development was led by the Renter-by-Necessity segment, up 0.4% on a T3 basis through January to \$978, likely due to the segment's limited inventory, as last year, developers delivered almost exclusively upscale apartments. Meanwhile, rates in the Lifestyle segment rose 0.1%, to \$1,546.
- ▶ The dynamic between property segments is reversed from an occupancy standpoint: The rate

in stabilized properties increased by 200 basis points year-over-year through December for Lifestyle units, to 94.8%, while for RBN units it rose 150 basis points to 93.2%. Overall, Houston occupancy rose 200 basis points, to 94.0%, in December.

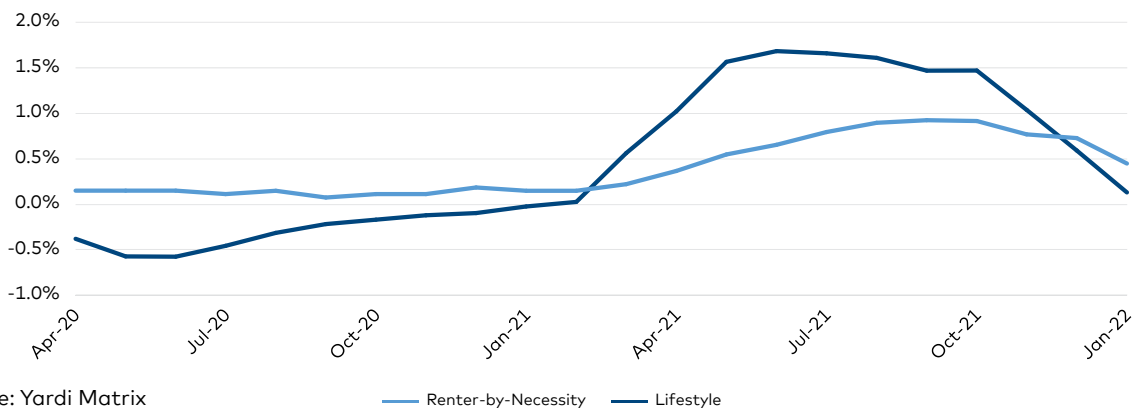
- ▶ Of the 65 submarkets tracked by Yardi Matrix, 41 posted double-digit rent gains on an annual basis, and just 13 submarkets had an average rate below the \$1,000 mark, down from 18 the prior year. Museum District (up 12.7% to \$2,000) and West End/Downtown (up 13.6% to \$1,909) remained the most sought-after regions. The latter also leads by development pipeline and had the highest transaction volume in 2021.

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

- ▶ Houston's unemployment rate improved to 4.8% in December, from 8.2% in January 2021. This places the metro ahead of the state's performance during the period (at 5.0% in December from 6.8% in January) but lags the nation (at 3.9% in December from 6.4% in January).
- ▶ The employment market expanded by 4.5% (142,700 jobs) in the 12 months ending in November, trailing the U.S. rate by 10 basis points. Houston's largest sectors led job gains: professional and business services (33,400 positions) was boosted by company relocations, including the relocated headquarters of Hewlett Packard, NRG Energy, Axiom Space and Roboze.

And recently, Exxon Mobil Corp. announced its move from Dallas. Trade, transportation and utilities (26,200 jobs) followed, as airport travel jumped about 80% in 2021 compared to 2020, but was still well below 2019 figures. However, Houston's airports will add 24 gates in the coming years—17 at George Bush International Airport and seven at Hobby Airport.

- ▶ Houston posted strong gains in 2021 but is still recovering from losses. The recovery remains volatile as the local economy is highly dependent on the national and global economies due to an economic base that consists of jobs that supply goods and services to the nation and the world.

Houston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	514	16.4%
40	Trade, Transportation and Utilities	656	21.0%
70	Leisure and Hospitality	308	9.8%
65	Education and Health Services	422	13.5%
80	Other Services	122	3.9%
15	Mining, Logging and Construction	281	9.0%
30	Manufacturing	213	6.8%
55	Financial Activities	166	5.3%
50	Information	29	0.9%
90	Government	417	13.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Houston added 88,337 residents in 2020, up 1.3% year-over-year, leading the U.S. (0.4%), but trailing Austin (3.1%) and Dallas (1.6%).
- ▶ The metro's population increased 20.3% during the past decade, nearly on par with DFW's (20.4%).

Houston vs. National Population

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

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

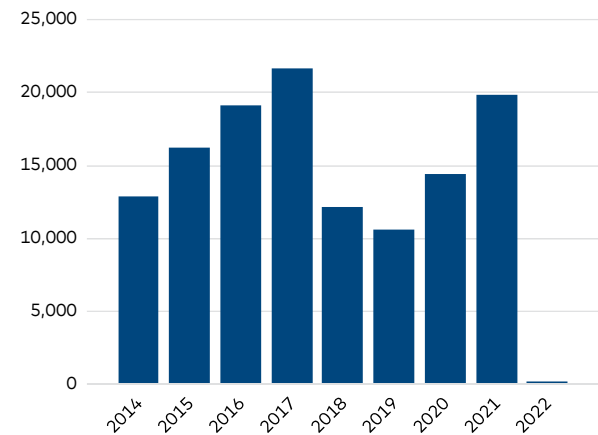
SUPPLY

- ▶ In January 2022, just 197 Lifestyle units came online in Houston, but last year's deliveries (19,878 units or 2.9% of total stock) made 2021 the second-best year during the decade (the all-time high was 21,701 units in 2017) and placed the metro second among all major markets, behind Dallas.
- ▶ The bulk of last year's deliveries, roughly 80%, came online in western submarkets. Moreover, nearly all new deliveries targeted the high-income renter, as the Renter-by-Necessity segment expanded by just 82 units in a fully affordable community.
- ▶ Stock expansion will likely moderate in coming years, as developers broke ground on just 3,575 units in the second half of last year. As of January 2022, the overall development pipeline totaled 24,206 units under construction and 49,500 units in the planning and permitting stages.
- ▶ Similar to recent completions, developers maintained their focus on the metro's western areas, where 17,366 units were under construction at the start of 2022, led by West End/Downtown (5,311 units) and Richmond (1,762 units). On the eastern side of Houston,

development activity was most intense in the East End (1,344 units).

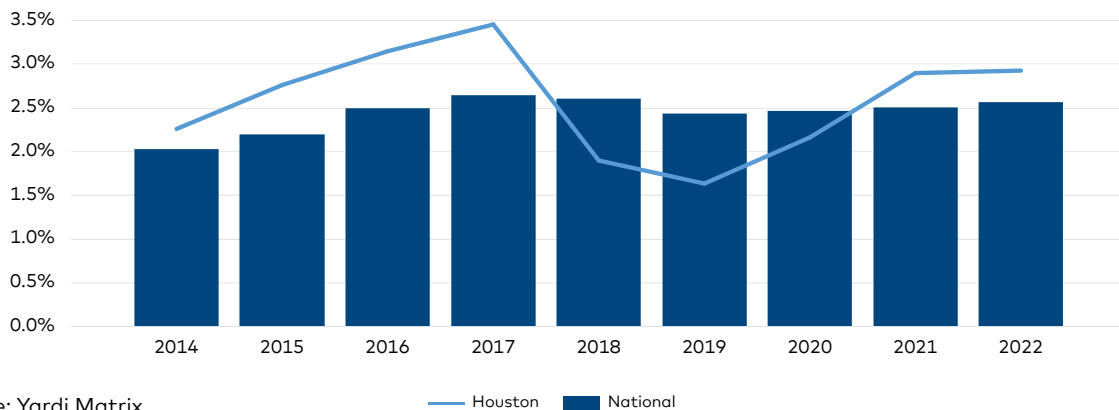
- ▶ The largest project under construction as of January 2022 was The Sterling at Regent Square in the West End/Downtown submarket. GID's 590-unit The Sterling broke ground in 2020 with aid from a \$116 million construction loan issued by Bank of America. Completion is slated for 2022.

Houston Completions (as of January 2022)



Source: Yardi Matrix

Houston vs. National Completions as a Percentage of Total Stock (as of January 2022)



Source: Yardi Matrix

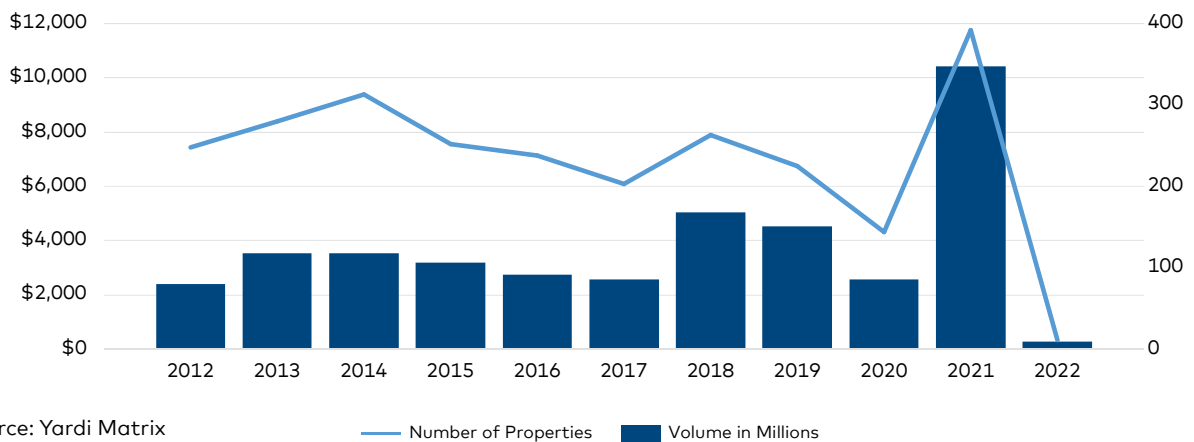
TRANSACTIONS

- ▶ Transaction volume marked an all-time high in 2021, surpassing \$10.4 billion, more than double the previous peak recorded in 2018 when \$5 billion in multifamily assets traded in Houston.
- ▶ Investor confidence was reflected not just by the volume but also by the metro's average price per unit: Even though the sales composition was even between quality segments, the per-unit price rose a substantial 25.7% year-over-year,

to \$143,656. Still, the metro remains relatively affordable compared to the U.S. rate, which rose 21.3%, to \$191,341 during the interval.

- ▶ Investment activity was spread across the map, with multifamily trades registered in 57 of the 65 submarkets tracked by Yardi Matrix. West End/Downtown and The Woodlands maintained the leading ranks in sales volume.

Houston Sales Volume and Number of Properties Sold (as of January 2022)



Source: Yardi Matrix

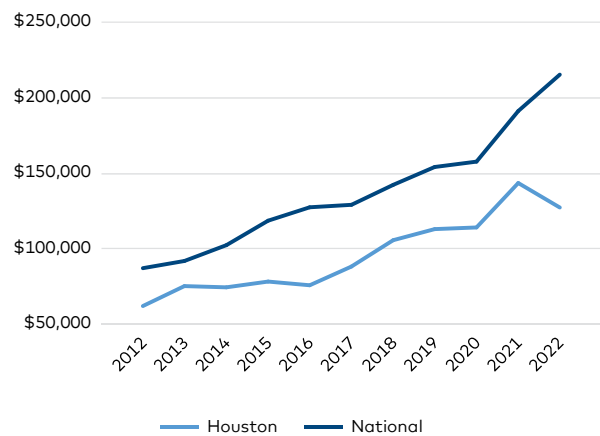
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
West End/Downtown	760
The Woodlands	559
The Heights	419
Nassau Bay/Seabrook	416
Cinco Ranch-North	408
Jersey Village/Satsuma	398
Bammel	388

Source: Yardi Matrix

¹ From February 2021 to January 2022

Houston vs. National Sales Price per Unit



Source: Yardi Matrix

Top 10 Multifamily Markets by Units Delivered in 2021

By Name Here

In the ranking below, we present the top 10 markets for deliveries in 2021 by the number of units, based on Yardi Matrix data. To get a clearer picture, we'll be comparing their performance with data not just from 2020, but from 2019, too. Combined, 146,483 units came online in these 10 metros, accounting for roughly 42 percent of the national volume. The figure is also above the 2020 and 2019 volumes recorded in these metros, when the number of units delivered amounted to 122,521 and 120,808 units.

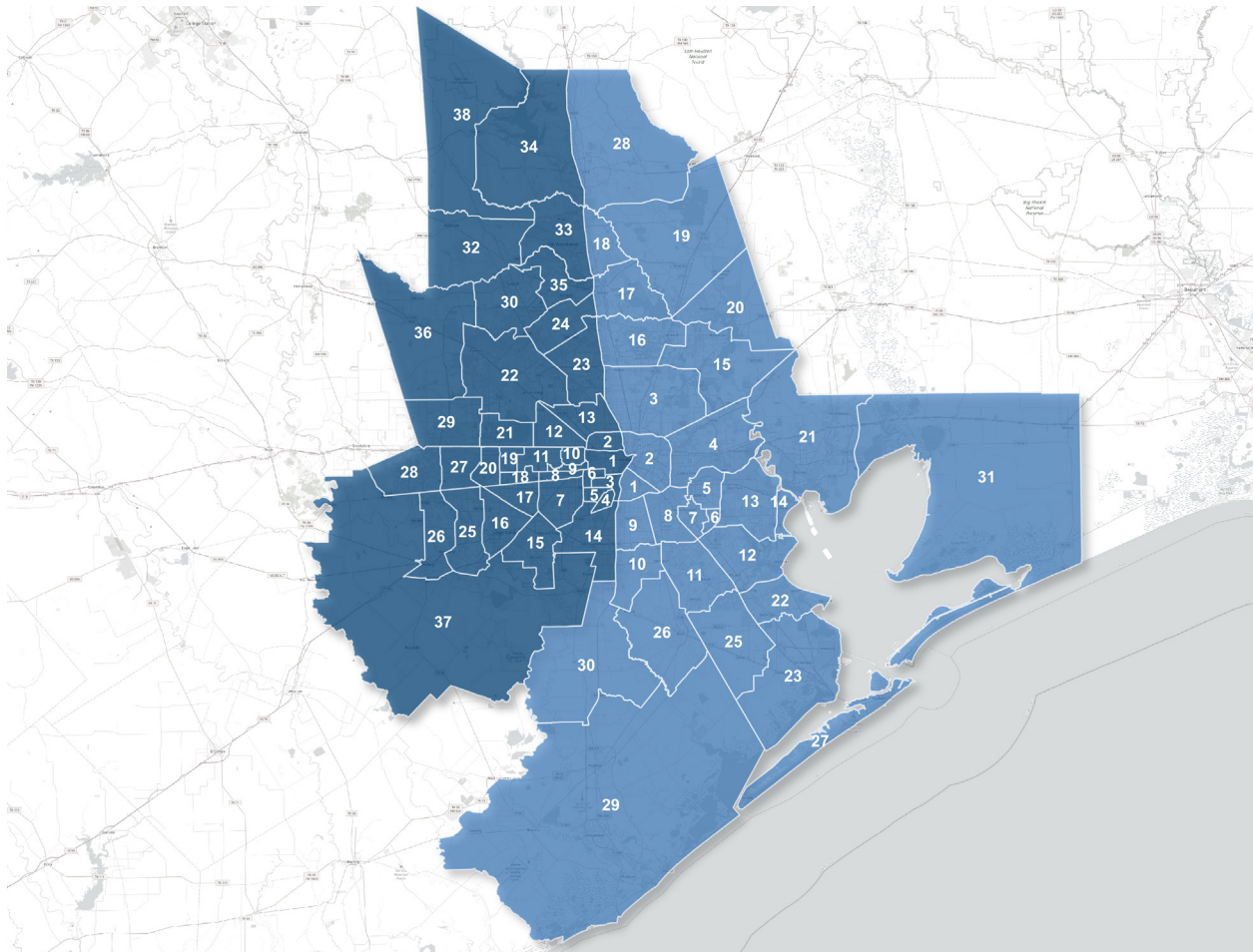
Rank	Metro	Units Delivered 2021	Percentage of Stock 2021	Units Delivered 2020	Percentage of Stock 2020
10	Phoenix	10,058	2.9	9,143	2.7
9	Charlotte	10,692	5.5	6,151	3.3
8	Los Angeles	10,883	2.4	11,369	2.6
7	Orlando	12,948	5.0	6,864	2.8
6	Washington, D.C.	13,148	2.3	12,822	2.3
5	Atlanta	13,653	2.9	10,540	2.3
4	Austin	14,367	5.3	13,363	5.2
3	Miami Metro	16,221	4.7	11,132	3.4
2	Houston	19,878	2.9	14,403	2.2
1	Dallas	24,635	3.0	26,734	3.4

Houston

Houston occupies a well-deserved second position with 19,878 units added to its stock in 2021. It has seen a gradual progression in deliveries since 2019 onward: 10,655 units brought online in 2019 and 14,403 units in 2020. Boasting one of the youngest demographics in the U.S., Houston's housing needs are ever so high. Occupancy advanced 190 basis points on a year-over-year basis through November, to 93.9 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 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.

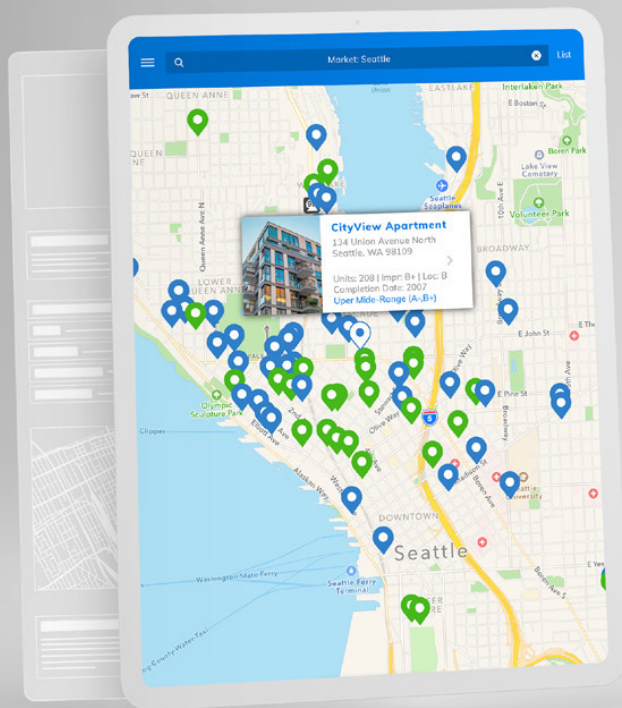
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.



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