Yardi Matrix

MULTIFAMILY REPORT

Houston: Investment Hot Spot

July 2022

Transaction Activity Intensifies, PPU Rises

Construction, Deliveries Remain Elevated

Rent Growth Trails the Nation

HOUSTON MULTIFAMILY

Yardi Matrix

Healthy Fundamentals Bolster Demand

Houston recovered all the jobs it lost during the pandemic, with the multifamily sector directly benefiting from the bounce, as fundamentals stayed healthy on the heels of a robust 2021. Rents rose 0.7% on a trailing three-month basis through May, to $1,293, and the overall occupancy rate in stabilized properties rose 130 basis points in the 12 months ending in April, to 94.1%.

Houston unemployment stood at 4.1% in April, according to data from the Bureau of Labor Statistics, outperforming the state (4.3%). Even though it lags the U.S. (3.6%), Dallas (3.2%) and Austin (2.5%), Houston marked a 140-basis-point improvement since the beginning of the year. Employment expanded by 5.2%, or 150,400 jobs, in the 12 months ending in March, 50 basis points above the U.S. The market's largest sector—trade, transportation and utilities—added 35,300 positions and will likely continue to grow as global macroeconomic trends are indirectly favoring the area, boosting production and exports. Container volumes at Port Houston were up 20% year-over-year in the first quarter of 2022.

Developers delivered 5,692 units in 2022 through May and had another 23,382 units under construction. Transaction activity intensified compared to the same period last year, amounting to $4.8 billion through May, for a price per unit that rose 25% year-over-year, to $152,443. However, the current economic climate is likely to dampen transaction activity in the near term.

Market Analysis | July 2022

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Recent Houston Transactions

Bayou Park

City: Houston
Buyer: Makaan Investment Group
Purchase Price: $131 MM
Price per Unit: $190,034

The Commons at Hollyhock

City: Katy, Texas
Buyer: Post Investment Group
Purchase Price: $119 MM
Price per Unit: $190,594

Village at Piney Point

City: Houston
Buyer: Kalkan Capital
Purchase Price: $107 MM
Price per Unit: $97,502

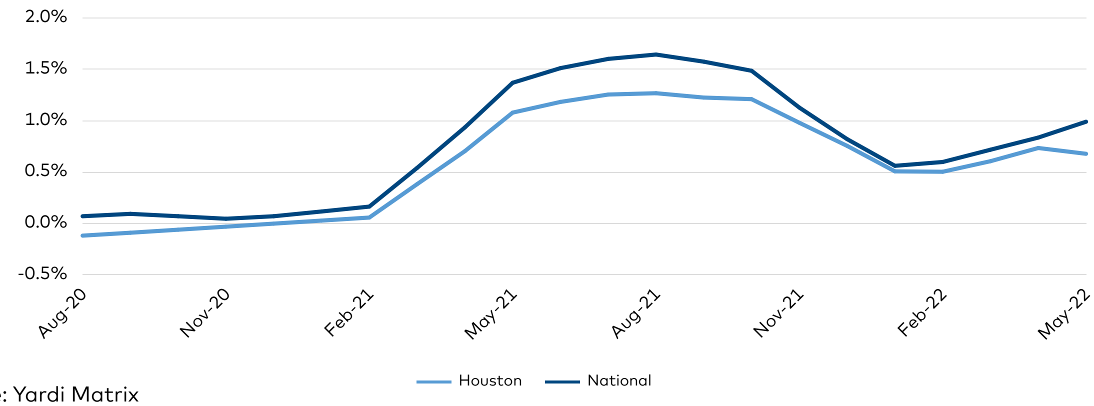
Reserve at Westwood

City: Houston
Buyer: Applesway Investment Group
Purchase Price: $88 MM
Price per Unit: $123,729

RENT TRENDS

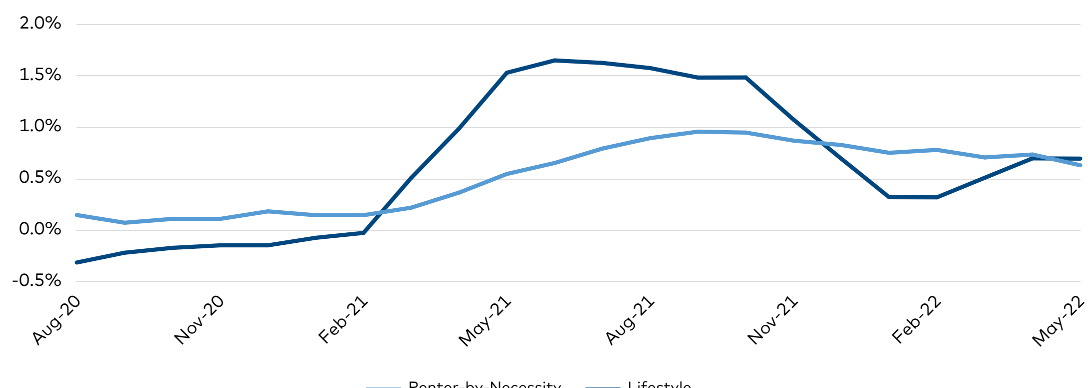
- Houston rents rose 0.7% on a trailing three-month (T3) basis through May, lagging the U.S. rate by 30 basis points. At $1,293, the metro's average asking rate was well below the $1,680 national figure. Year-over-year, Houston rents were up 10.8%, again below the U.S. rate, which reached 13.9%.
- Lifestyle units led rent development, up 0.7% on a T3 basis to $1,601, while working-class Renter-by-Necessity figures rose 0.6%, to $1,014. During the last 12 months, Lifestyle growth was irregular, going up as high as 1.7% on a T3 basis, and falling as low as 0.3%. Meanwhile, RBN rates had a steadier evolution, between 0.5% and 1.0%.
- Occupancy rose 1.3% in the year ending in April, to 94.1%. By asset class, the rate illustrates stronger demand for RBN apartments (1.6% to 93.6%) than for Lifestyle ones (1.0% to 94.6%).
- Of the 65 submarkets tracked by Yardi Matrix, 48 posted double-digit gains in annual average asking rates. As a result, the number of submarkets with average rents above the $1,000 mark increased to 56 from 48 a year ago. The average in the Museum District stood at $2,055 in May, following a 9.9% year-over-year rise. Clear Creek remained the most expensive area in the metro's eastern half (10.3% to $1,554).
- The single-family rental sector is booming, with the annual average rent up 14.4% and occupancy up 5.5%. As potential homebuyers are expected to face higher borrowing costs, both the SFR and the multifamily sectors are poised to benefit.

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 marked the largest improvement among major Texas markets since the start of the year, dropping 140 basis points to 4.1% in April, according to data from the BLS. The metro outperformed the state (4.3%), but trailed the nation (3.6%), Dallas (3.2%) and Austin (2.5%).

- Houston is one of the few metros where employment markets have returned to pre-pandemic levels, according to the Texas Workforce Commission. Job growth posted a 5.2% expansion, or 150,400 jobs, in the 12 months ending in March, 50 basis points above the U.S. rate. Unsurprisingly, the recovery is uneven, with some industries having fared better than others.

- All sectors added jobs, with leisure and hospitality (36,600 jobs) slightly ahead of the trade, transportation and utilities sector (35,300 jobs).

- The latter is the metro's main economic driver, accounting for 20.6% of the total workforce. The sector is poised for more growth, boosted by favorable global macroeconomic trends. Houston already recorded increased production and exports of goods at the beginning of the year. Container volumes at Port Houston were up 20% year-over-year in the first quarter, reaching almost 1 million Twenty-foot Equivalent Units. The port has also accelerated projects at its container terminals, for example, doubling gate capacity at its Barbours Cut Container Terminal.

Houston Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	329	10.4%
40	Trade, Transportation and Utilities	653	20.6%
65	Education and Health Services	426	13.5%
15	Mining, Logging and Construction	285	9.0%
90	Government	435	13.7%
60	Professional and Business Services	504	15.9%
30	Manufacturing	219	6.9%
55	Financial Activities	171	5.4%
80	Other Services	111	3.5%
50	Information	31	1.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Houston gained 69,094 people in 2021, a 1.0% increase. That was 30 basis points below the 2020 rate but well above the 0.1% U.S. figure.

- During the decade ending in 2021, Houston's population grew 16.6%, slightly below Dallas-Fort Worth's 16.8%.

Houston vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Metro Houston	6,974,948	7,063,400	7,137,747	7,206,841

Source: U.S. Census

SUPPLY

- Houston's multifamily inventory expanded by 5,692 units in 2022 through May, 0.8% of total stock, 10 basis points above the U.S. rate. The bulk of deliveries were located in the western half of Houston (3,931 units), while 1,761 units came online on the eastern side. Aside from two fully affordable communities totaling 201 units combined, deliveries consisted of upscale Lifestyle properties.

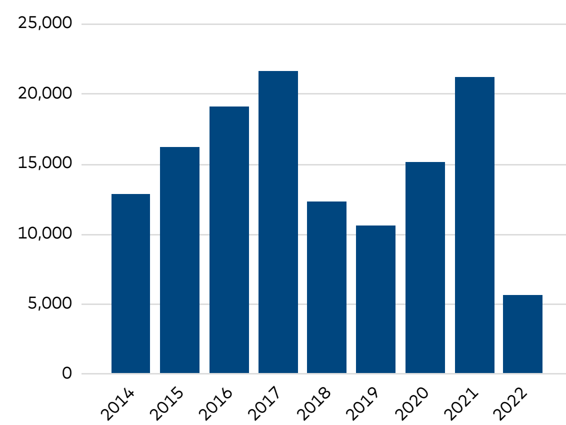
- The construction pipeline comprised 23,382 units underway and another 58,000 units in the planning and permitting stages. Of the properties underway, 2,930 units broke ground in 2022 through May, below the number of apartments that started construction during the same period in recent years: 4,391 units in 2021 and 3,573 units in 2020.

- Similar to recent deliveries, submarkets in the western part of Houston led in construction activity, with 15,590 units underway. Nearly one-third of these are located in West End/ Downtown (4,816 units under construction). Eastern submarkets had 7,792 units underway. East End was the only submarket on this side of the metro with more than 1,000 units under construction (1,291 apartments).

- By the end of the year, some 13,500 units are slated for completion, but current headwinds that include labor shortages, supply chain issues, rising construction costs and inflation will likely cause delays for some projects.

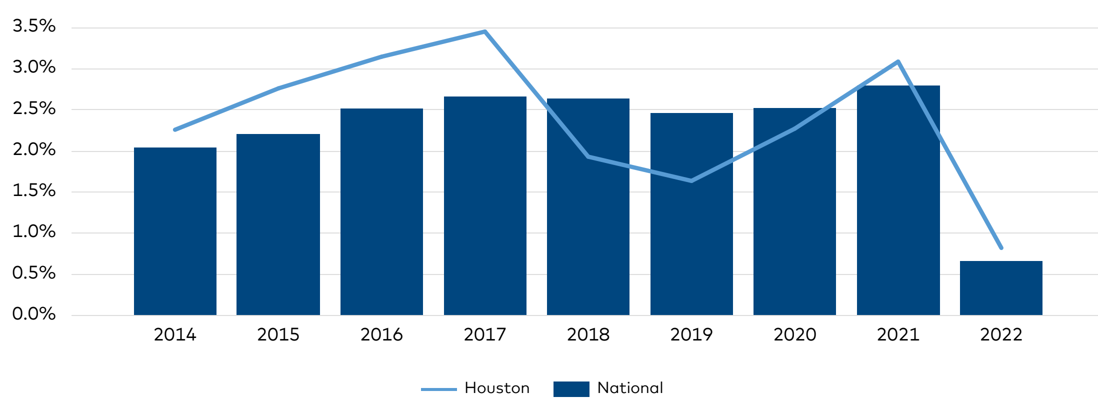
- The largest project delivered in 2022 through May was Aspire Post Oak, a 383-unit Lifestyle property built by The Dinerstein Cos. with aid from a $121.5 million construction loan issued by Pacific Life Insurance Co.

Houston Completions (as of May 2022)



Source: Yardi Matrix

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

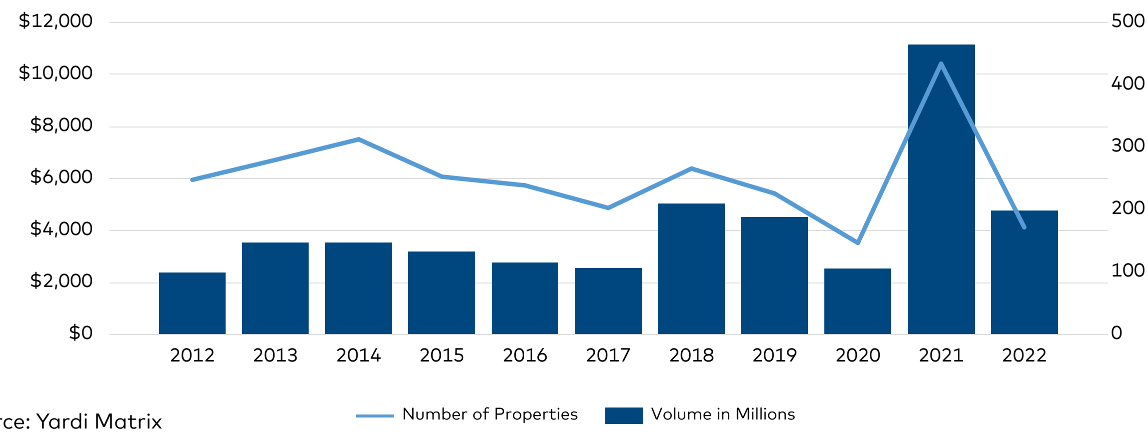


Source: Yardi Matrix

TRANSACTIONS

- After last year's all-time investment peak, when more than $11.1 billion in multifamily assets traded in the metro, transaction activity remained robust. Investment volume rose close to $4.8 billion during the first five months of the year, more than double the $2.3 billion recorded during the same period of 2021.
- Investor interest was equally balanced across quality segments, reflecting increased competition in the investment market, which created sustained property value appreciation. The price per unit posted a substantial 25.0% increase year-over-year through May, to $152,443. Despite this hefty gain, Houston remains relatively affordable, trailing the $213,724 U.S. average.
- Transactions are likely to soften in the upcoming months, in no small part due to the Federal Reserve's hawkish interest rate hikes. With commercial real estate being reactive to interest rate movement, the tightening monetary policy will likely complicate some deals.

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



Source: Yardi Matrix

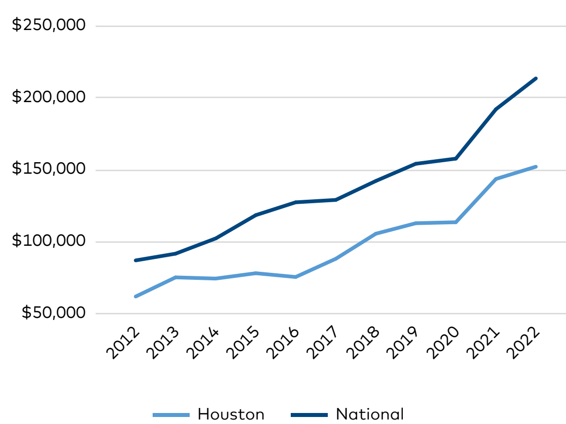
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West End/Downtown	1.015
Jersey Village/Satsuma	763
West Bellaire	644
The Heights	610
Addicks	518
Louetta	503
Cinco Ranch-North	488

Source: Yardi Matrix

[1] From June 2021 to May 2022

Houston vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top 10 Multifamily Markets by Sales Volume in 2021

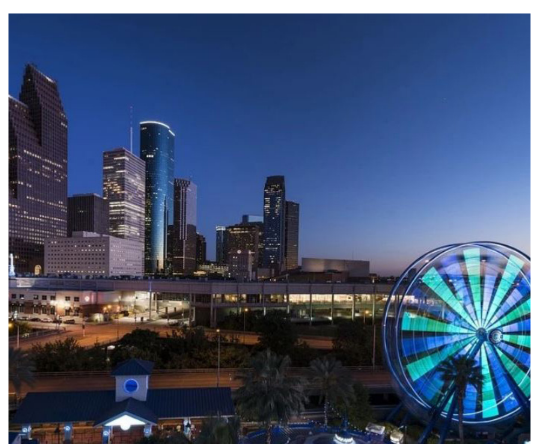
By Anca Gagiuc

The multifamily market had an exceptional year in 2021, exhibiting healthy fundamentals across the board. Behind the market's unpredicted expansion was demand, with the pandemic highlighting not just the essential feature of the multifamily market but also its resilient nature. Although the retail, office and hospitality industries showed some signs of recovery in 2021, they still struggled, leading to a shift in investment toward multifamily.

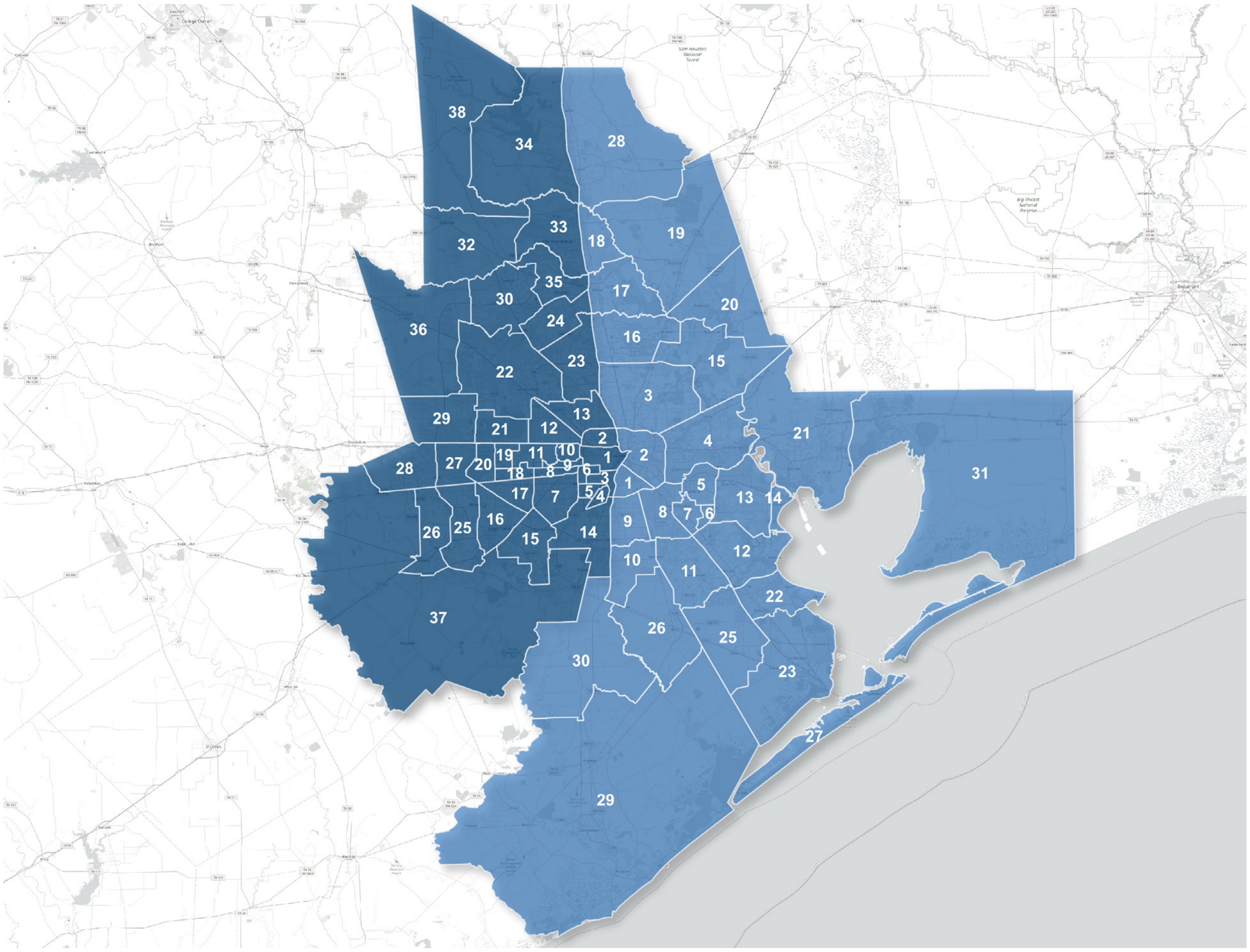
Metro	Sales Volume 2021	Properties Sold 2021	Units Sold 2021	Average Sale Price Per Unit 2021
Dallas–Fort Worth	$14,638,381,314	551	140,640	$171,005.13
Atlanta	$14,462,137,683	325	83,765	$192,369.38
Phoenix	$14,412,674,811	270	56,789	$258,166.74
Houston	$11,059,042,386	426	115,011	$146,827.43
Denver	$9,771,559,229	143	32,630	$322,238.47
Miami	$9,310,892,009	201	45,806	$254,904.37
Washington, D.C.	$7,283,430,008	111	33,241	$267,832.24
Orlando	$5,736,315,365	128	33,434	$215,675.28
Tampa	$5,397,235,455	139	31,320	$197,556.20
Raleigh	$5,143,848,320	99	24,845	$215,070.80

Houston

Houston's total multifamily sales volume rose to $11.1 billion, making it one of only four metros in the country with double-digit sales figures. In 2020, only $2.6 billion in multifamily assets (just 23.4 percent of 2021's figure) changed hands, below 2019's $4.5 billion. Transaction activity was especially intense in the fourth quarter, which accounted for nearly half of the total volume ($4.9 billion); in Q3, $3.5 billion in multifamily assets traded, $1.5 billion in Q2 and $1.2 billion in Q1.



HOUSTON SUBMARKETS



Area No.	Submarket
1	West End/Downtown
2	The Heights
3	Museum District
4	Reliant Park
5	Bellaire
6	River Oaks
7	West Bellaire
8	Piney Point Village–South
9	Piney Point Village–North
10	Hunters Creek
11	Bunker Hill Village
12	Spring Valley
13	Rosslyn
14	Missouri City
15	Suger Land–South
16	Sugar Land–West
17	Suger Land–North
18	Royal Oaks Country Club
19	Addicks

Area No.	Submarket
20	George Bush Park
21	Bear Creek Park
22	Jersey Village/Satsuma
23	Bammel
24	Louetta
25	Richmond
26	Rosenberg
27	Cinco Ranch–South
28	Katy
29	Cinco Ranch–North
30	Tomball
32	Magnolia
33	The Woodlands
34	Conroe–West
35	Avonak
36	Northwest Harris County
37	Outlying Fort Bend County
38	West Montgomery County

Area No.	Submarket
1	Greater Third Ward
2	East End
3	Mount Houston
4	Cloverleaf
5	Pasadena
6	South Houston Crenshaw Park
7	South Houston
8	William P. Hobby Airport
9	Pierce Junction
10	Clear Creek
11	Pearland/Friendswood
12	Nassau Bay/Seabrook
13	Deer Park
14	La Porte
15	Atascocita
16	Humble/Westfield

Area No.	Submarket
17	Spring
18	The Woodlands–East
19	Porter
20	Kingwood
21	Baytown
22	League City/Dickenson
23	Texas City
25	League City–West
26	Alvin
27	Galveston
28	Conroe–East
29	Lake Jackson/Angleton
30	Northwest Brazoria County
31	Outlying Chambers County

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 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 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, 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.

Yardi® Matrix

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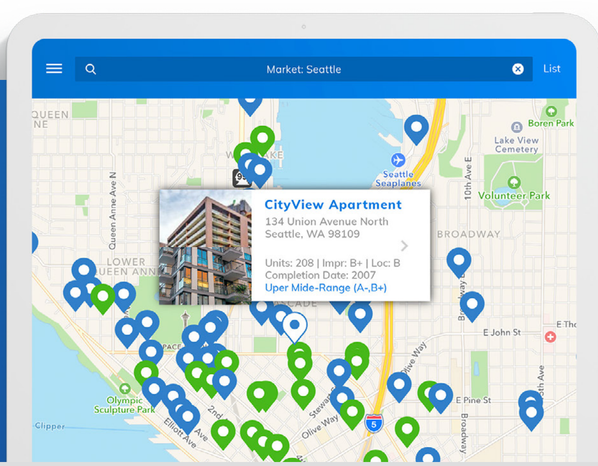
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units,** covering over **92% of the U.S. population.**

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