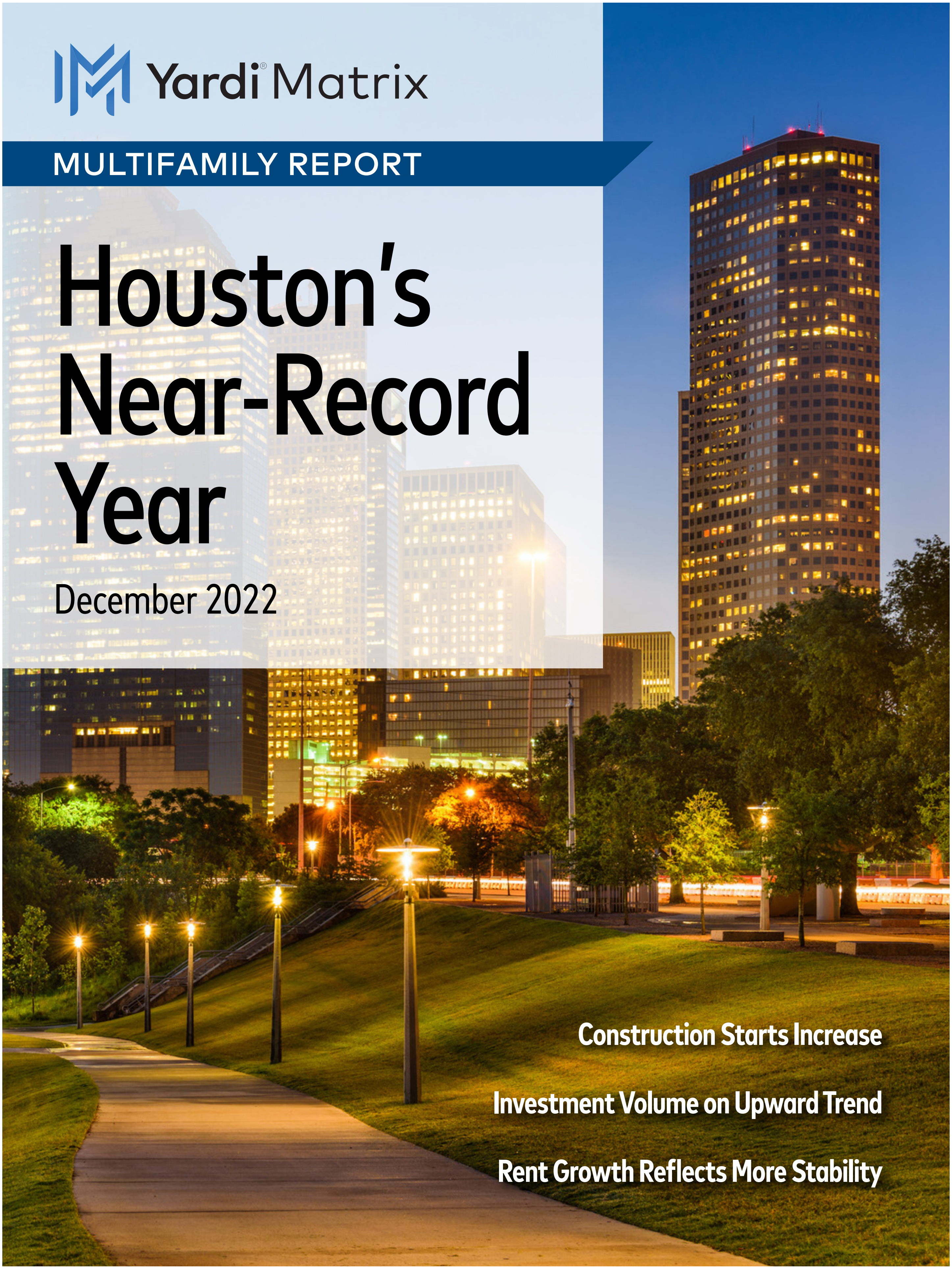
Yardi Matrix

MULTIFAMILY REPORT

Houston's Near-Record Year

December 2022



Construction Starts Increase

Investment Volume on Upward Trend

Rent Growth Reflects More Stability

HOUSTON MULTIFAMILY

Houston Market Moderation

Houston's rental sector showed resilience, boosted by the recovery of jobs lost during the pandemic. Although the economy posted a slower expansion in 2022, it moved steadily upward. The multifamily market presented a similar sturdiness—increased transaction activity, robust supply additions and steady rent gains. Rent growth and occupancy rates showed signs of moderation, with rates inching up 0.3% on a trailing three-month basis through October, to $1,327, and occupancy down 60 basis points in the 12 months ending in September, to 93.6%.

Houston unemployment stood at 4.2% in September, according to preliminary data from the Bureau of Labor Statistics, lagging the state (4.0%), the U.S. (3.5%) and the other major Texas metros. Still, the metro's rate rose 130 basis points from the start of the year. The job market expanded by 6.0%, or 191,900 jobs, in the 12 months ending in August, with just the government sector losing jobs (1,800 positions). Mining, logging and construction led gains (42,500 jobs), as even though the metro's dependency on the energy sector loosened, the global energy crisis boosted operations.

Developers delivered 13,740 units through October and had another 29,000 under construction, half of which broke ground in 2022. Meanwhile, investment volume rose to $9 billion, with robust activity during the first two quarters. Increased competition pushed the price per unit up 10.2%, to $155,438 in October.

Market Analysis | December 2022

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Recent Houston Transactions

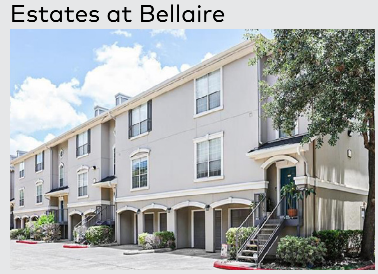
Elan Memorial Park

City: Houston
Buyer: DLP Real Estate Capital
Purchase Price: $89 MM
Price per Unit: $298,541

Providence Uptown

City: Houston
Buyer: Post Investment Group
Purchase Price: $88 MM
Price per Unit: $210,578

Estates at Bellaire



City: Houston
Buyer: Post Investment Group
Purchase Price: $87 MM
Price per Unit: $226,823

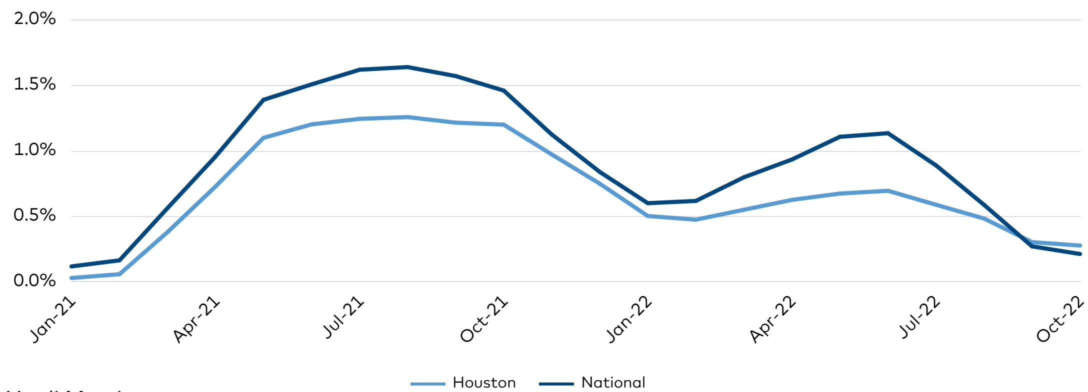
Grove East

City: Humble, Texas
Buyer: TTI Capital
Purchase Price: $65 MM
Price per Unit: $202,087

RENT TRENDS

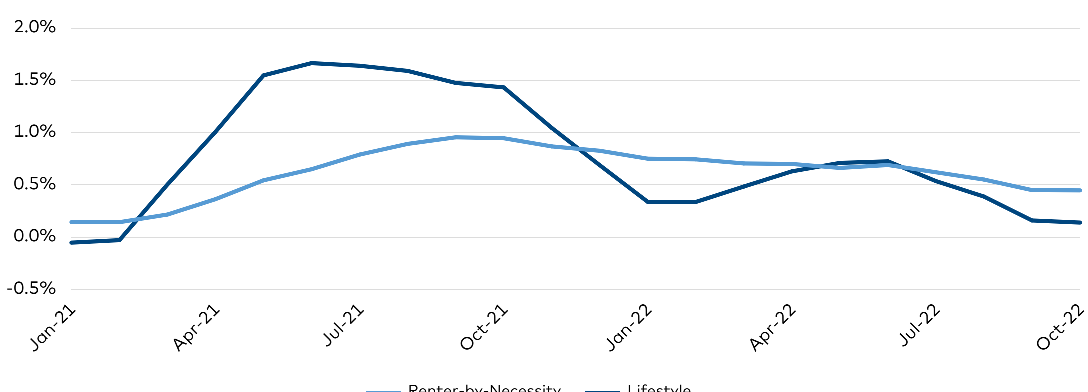
- Although trailing the national rate even before the outbreak of the health crisis, overall, rent growth in Houston had a steadier, more stable performance, with less steep extremes. On a trailing three-month (T3) basis through October, the average asking rate surpassed the U.S. rate by 10 basis points, up 0.3%. On an annual basis, it posted a 6.2% increase, remaining well behind the 8.2% national rate. Moreover, at a $1,327 average rent, Houston remains fairly affordable compared to the $1,727 national figure.
- Rent development was driven by demand for working-class Renter-by-Necessity apartments, where the average asking rate rose 0.5% on a T3 basis through October, to $1,042. Meanwhile, Lifestyle figures rose 0.1% to $1,633. Mirroring the national trend, the occupancy rate in stabilized properties declined in Houston, too, down by 60 basis points in the 12 months ending in September, to 93.6%. Lifestyle occupancy marked a 90-basis-point drop to 94.0%, while RBN occupancy fell just 40 basis points to 93.2%.
- In October, the average asking rent was above the $1,000 mark in 60 of the 65 submarkets tracked by Yardi Matrix, up from 52 a year ago. West End/Downtown (8.8% to $2,069) and Museum District (2.0% to $2,049) were the most expensive submarkets. The former also holds the top spot for projects under construction and the highest transaction volume in the past year.
- The SFR sector continued to grow, with the average rent up 3.2% year-over-year through October, and occupancy up 0.4% 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

- Houston's unemployment rate improved 130 basis points since January, to 4.2% in September, according to preliminary data from the BLS. Despite steady performance, the metro trailed the state (4.0%), the U.S. (3.5%) and all other major Texas metros—Austin (2.8%), Dallas (3.4%) and San Antonio (3.5%).

- The local economy posted a solid rebound in 2021, which continued in 2022, maintaining the employment market on an upward trend throughout the year. In the 12 months ending in August, the job market expanded 6.0%, or 191,900 jobs, well above the 4.3% U.S. rate. Houston ranks sixth among the nation's 20 most populous metros for percent of jobs recovered, according to the Greater Houston Partnership.

- The government sector lost jobs, down 1,800 positions. Meanwhile, mining, logging and construction led job gains (42,500 jobs), boosted by ongoing macroeconomic and military conditions. Next in line were leisure and hospitality (39,000 jobs) and trade, transportation and utilities (37,800 jobs). The latter was sustained by the strong activity at Port Houston's terminals, where container volume was up 18% year-to-date in September, nearing 3 million Twenty-foot Equivalent Units. In addition, a $1 billion expansion of the Houston Ship Channel began in June, with completion slated for 2025.

Houston Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	311	9.5%
70	Leisure and Hospitality	361	11.0%
40	Trade, Transportation and Utilities	671	20.5%
65	Education and Health Services	439	13.4%
60	Professional and Business Services	535	16.3%
30	Manufacturing	229	7.0%
55	Financial Activities	176	5.4%
80	Other Services	115	3.5%
50	Information	32	1.0%
90	Government	405	12.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Houston gained 69,094 residents in 2021, up 1.0%, and 30 basis points below the 2020 rate, but well above the 0.1% U.S. demographic expansion.

- The metro's population has increased by 21.2% since the 2010 Census, well above the 7.3% U.S. rate.

Houston vs. National Population

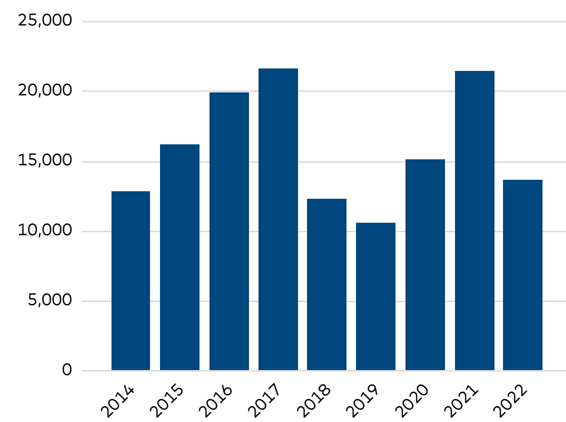
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Houston Metro	6,974,948	7,063,400	7,137,747	7,206,841

Source: U.S. Census

SUPPLY

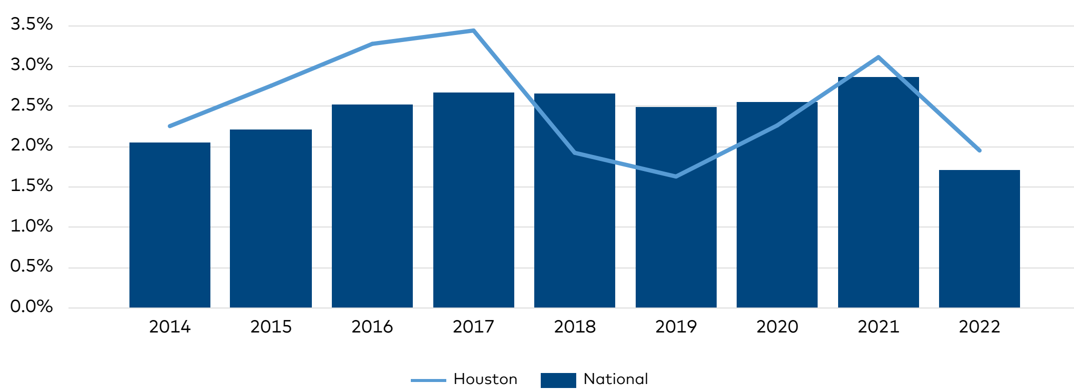
- Deliveries moderated in Houston, as developers brought 13,740 units online through October, fewer than the 18,507 units that were delivered during the same period last year. Even so, recent supply accounts for 2.0% of total stock, which is 30 basis points above the U.S. rate.
- The eastern part of the metro added 3,754 units through October, nearly all of which were in the Lifestyle segment. The exception was a 92-unit, age-restricted community, which included 47 affordable units. The housing stock on the western side of Houston expanded by nearly 10,000 units, also heavily targeting the high-income renter (96%); the remaining 4% was split between fully affordable communities (3%) and 114 market-rate units.
- Despite the softening trend, development picked up—developers had 29,353 units under construction as of October and another 61,000 in the planning and permitting stages. Of these, nearly 14,000 started construction this year, well above the 9,755 units that broke ground during the same period last year. Yet, the rising interest rates will likely hinder the construction of additional new projects. Developers remained more drawn to the western part of the metro, where more than 20,000 units were under construction as of October. West End/Downtown led in construction volume with 4,481 units underway. On the eastern side, just one submarket had more than 1,000 units underway—East End (1,149 units).
- The largest project delivered through October was the 590-unit Sterling at Regent Square Lifestyle property in West End/Downtown, built by GID with aid from a $116 million construction loan issued by Bank of America.

Houston Completions (as of October2022)



Source: Yardi Matrix

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

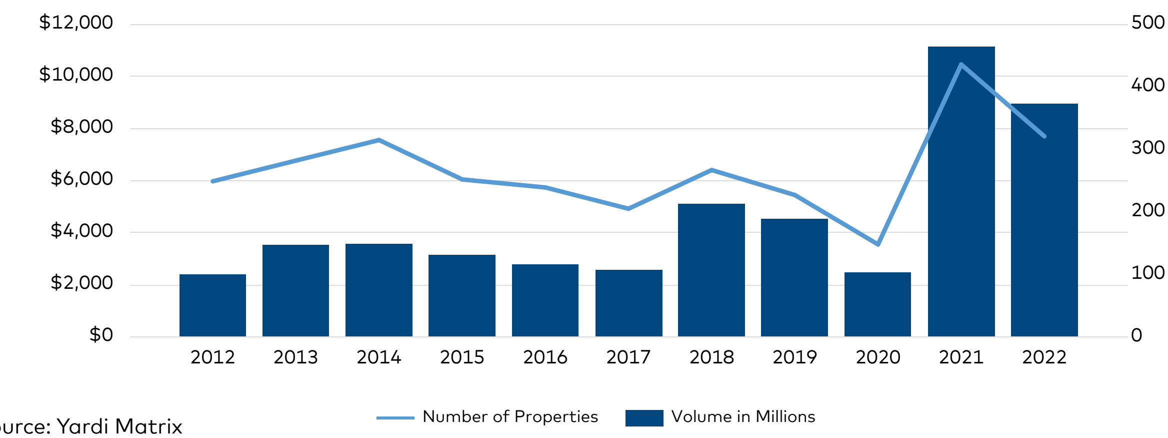


Source: Yardi Matrix

TRANSACTIONS

- Houston remained a hot market for multifamily investment, with the volume through October nearing the $9 billion mark, outpacing the total recorded during the same period last year by $1.5 billion. However, the increasingly challenging economic environment has already resulted in slowing investment—sales in the third quarter dropped to $1 billion, while in October, just $305 million in multifamily assets traded. The softening trend will likely continue, as we move into economic volatility.
- Western submarkets attracted the bulk of activity, accounting for roughly two-thirds of the total investment volume through October. However, investor interest has been even across quality segments, and the 10.2% year-over-year increase in the average price per unit stemmed from increased competition. In October, the per-unit price stood at $155,438, still well behind the $215,939 national average.

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



Source: Yardi Matrix

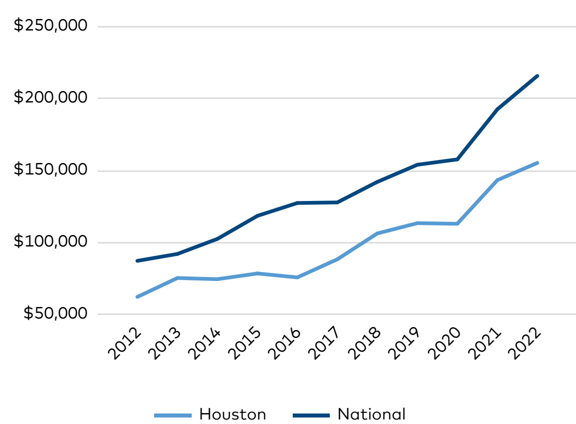
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West End/Downtown	841
Addicks	632
Jersey Village/Salsuma	611
West Bellaire	577
Royal Oaks Country Club	509
Bammel	475
Nassau Bay/Seabrook	473

Source: Yardi Matrix

[1] From November 2021 to October 2022

Houston vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top 5 Markets for Multifamily Deliveries

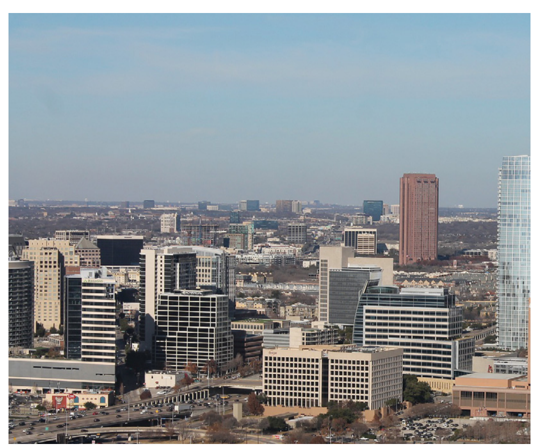
By Corina Stef

Multifamily demand still runs hot despite major economic headwinds and experts predict that the sector will continue to outperform throughout 2022. According to Yardi Matrix data, 153,314 units came online nationwide between January and June 2022, representing 1.0 percent of total stock. The volume of units delivered accounts for a 21.3 percent decrease from the 194,885 units that were delivered last year during the same period.

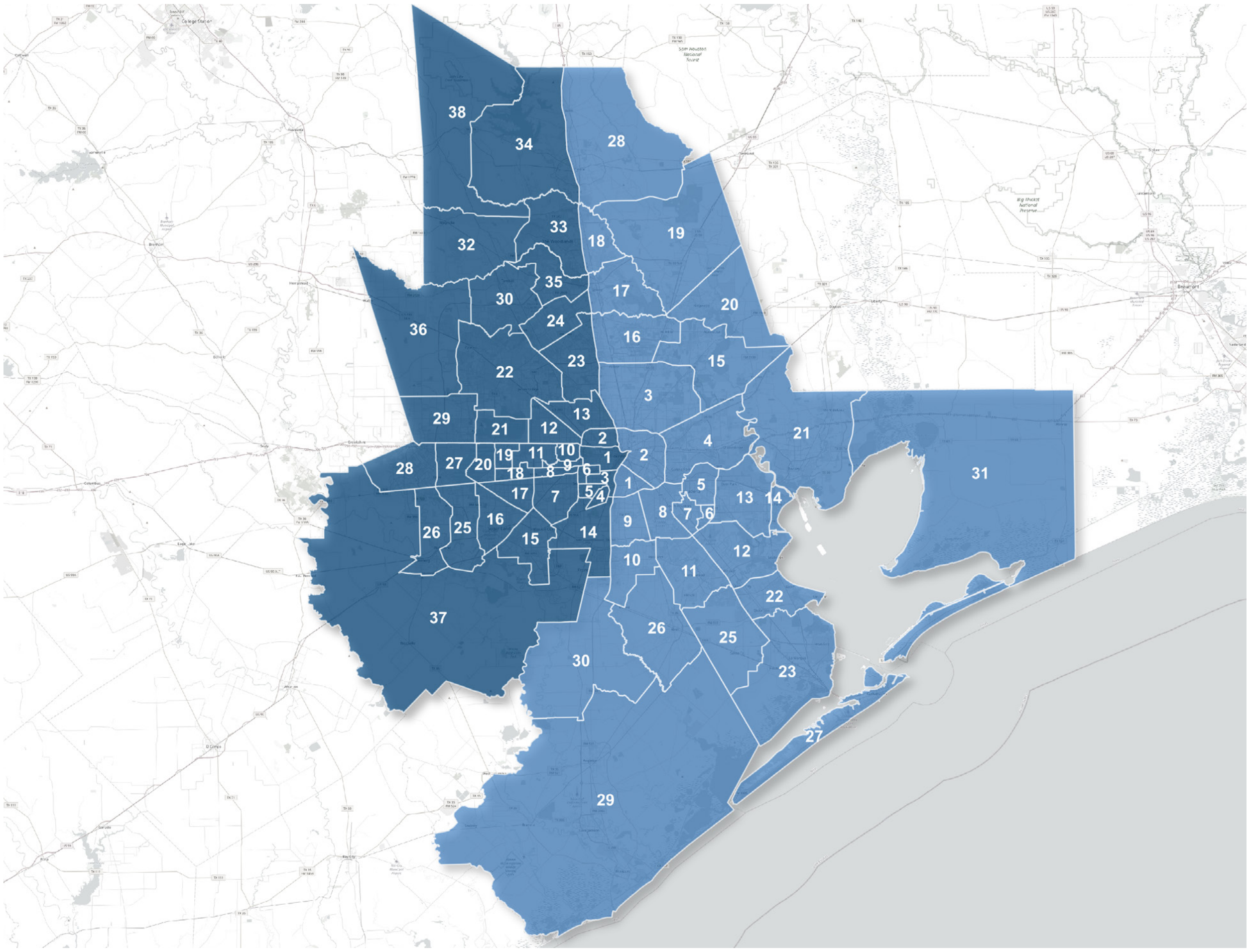
Metro	Units Delivered H1 2022	Units Delivered H1 2021
Dallas	9,829	13,597
Houston	8,038	11,196
Washington, D.C.	6,975	6,341
Miami	6,852	8,036
Phoenix	6,398	4,780

Houston

Second on our list, Houston added 8,038 units added to its stock between January and June 2022, accounting for 1.2 percent of total inventory. Mirroring a national trend, completions in the first half of the year were down by 28.2 percent when compared to the same time in 2021, when 11,196 units were added to the market. Another 25,666 units were under construction as of June.



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.

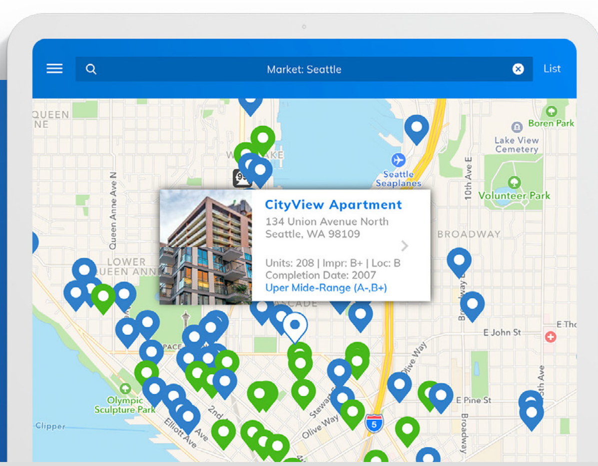
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Yardi Matrix

Power your business with the industry's leading data provider

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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