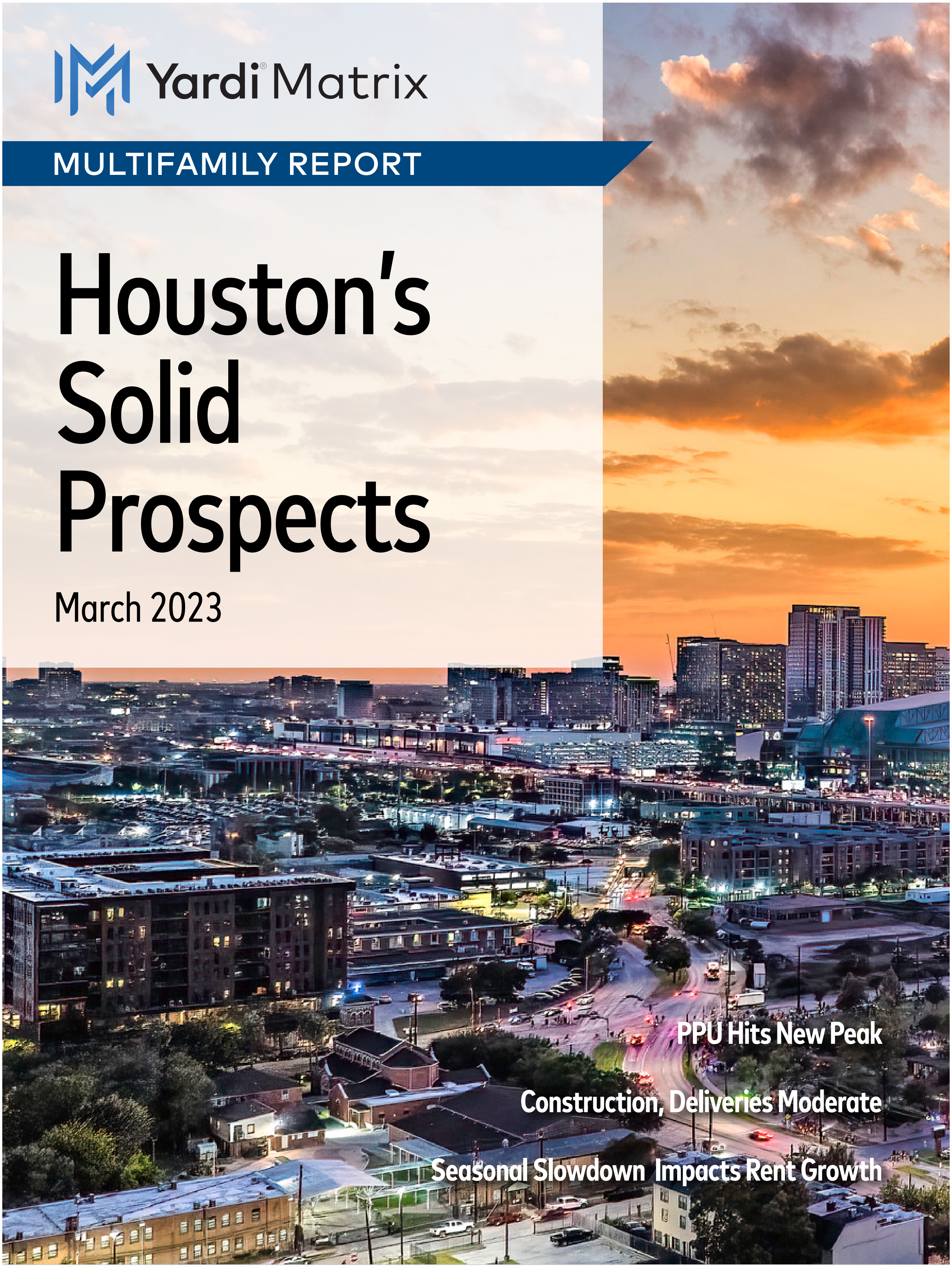
Yardi Matrix

MULTIFAMILY REPORT

Houston's Solid Prospects

March 2023



PPU Hits New Peak

Construction, Deliveries Moderate

Seasonal Slowdown Impacts Rent Growth

HOUSTON MULTIFAMILY

Yardi Matrix

Fundamentals Stabilize

On the heels of two robust years, Houston's multifamily market slowed down to more sustainable levels. Rent gains marked the third-consecutive month of stagnation in January, which is typical for the slower winter season. On a year-over-year basis, rates grew by 4.1%, to an average of $1,327, while U.S. figures improved by 5.5%, to $1,701.

Despite being on a decelerating path, unemployment in the Bayou City remained the highest among major metros in the state. As of December, the rate was 3.9%, according to preliminary data from the Bureau of Labor Statistics. The job market expanded by 6.2%, or 176,300 jobs, in the 12 months ending in November, with leisure and hospitality, along with professional and business services, leading gains. This year is expected to be a solid one for job growth. The first building at Helix Park, Texas Medical Center's 37-acre life sciences campus, is slated for completion later in 2023. Meanwhile, the construction sector could benefit significantly from the $35 billion in public infrastructure funding approved by Texas voters in the November 2022 elections.

More than $9.7 billion in multifamily properties traded last year in Houston, and developers completed 17,676 units—most of them in luxury assets. Developers and owners in catastrophe-exposed areas such as Houston and other Gulf Coast metros, will face rising insurance costs and increasing expenses for climate-related renovations.

Market Analysis | March 2023

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Laura Calugar
Senior Editor

On the cover: Photo by Larry Gibson/iStockphoto.com

Recent Houston Transactions

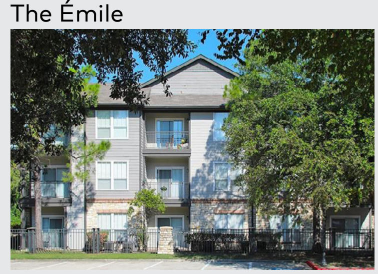
The Margot on Sage

City: Houston
Buyer: Bascom Group
Purchase Price: $63 MM
Price per Unit: $182,455

Watersedge

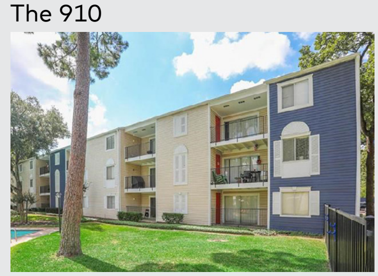
City: Webster, Texas
Buyer: American Landmark Apartments
Purchase Price: $55 MM
Price per Unit: $154,896

The Émile



City: Houston
Buyer: Quattro Capital
Purchase Price: $43 MM
Price per Unit: $180,556

The 910

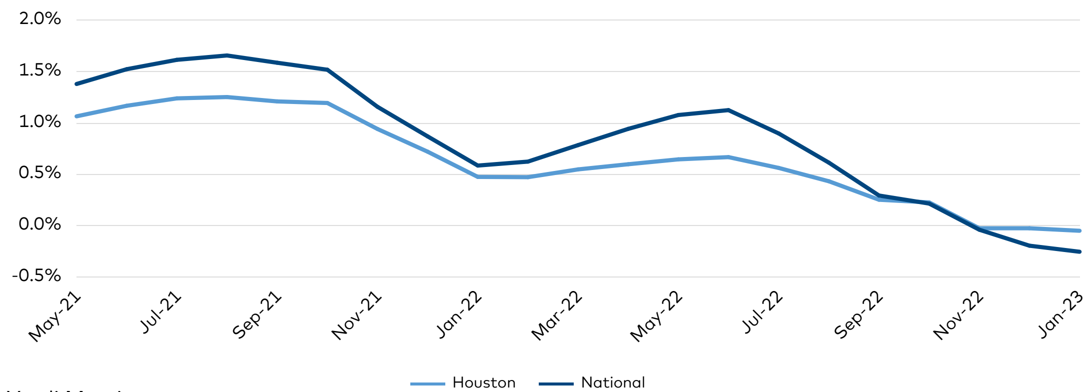


City: Houston
Buyer: MarketSpace Capital
Purchase Price: $40 MM
Price per Unit: $86,351

RENT TRENDS

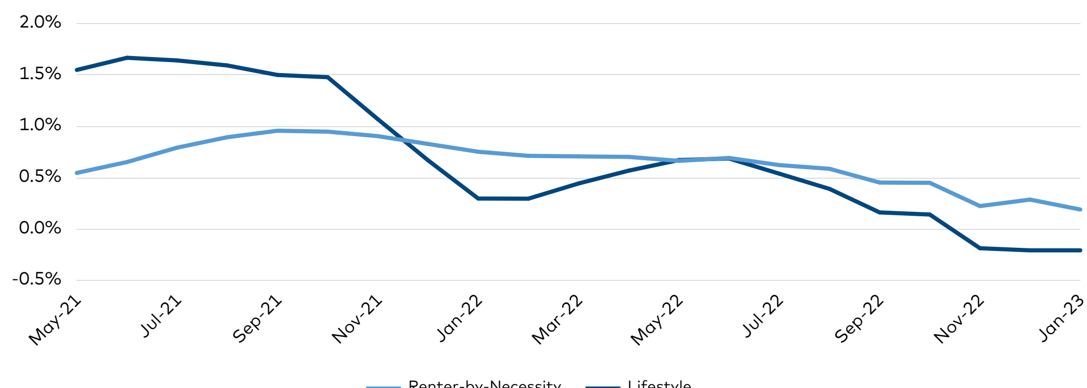
- Houston rent growth was flat on a trailing three-month (T3) basis as of January, which is not uncommon in the middle of the seasonally slow winter months. Meanwhile, U.S. growth entered negative territory, contracting by 0.3%. On an annual basis, rents in the metro were up 4.1%, to $1,327, while U.S. figures rose 5.5%, to $1,701.
- Lifestyle rates marked the third-consecutive month of negative growth, down 0.2% on a T3 basis, to $1,620. At the opposite end of the quality spectrum, rents in the working-class Renter-by-Necessity segment grew 0.2%, to $1,048.
- As demand for rental housing slowly decelerated following two record years, occupancy in stabilized Houston properties also adjusted. The rate decreased to 93.3% in December, two percentage points below the national rate and one percentage point below the December 2021 figure.
- On the eastern side of Houston, urban core submarket East End (11.8% to $1,155) posted the highest rent increase in the 12 months ending in January, while in the western half of the metro the most sought-after area was The Heights (9.8% to $1,729). Of the 65 submarkets tracked by Yardi Matrix, two posted average rents above the $2,000 mark—West End/Downtown ($2,052) and Museum District ($2,048)—and four below the $1,000 threshold.
- The single-family rental sector also cooled down, with the average rent contracting by 0.1% year-over-year through January, and occupancy declining 80 basis points, to 95.2%, through December.

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 slipped 10 basis points below the 4.0% mark in December, according to preliminary BLS data. The last time the jobless rate was that low was before the health crisis. Despite the steady improvement, the metro's jobless rate remained above all other major Texas metros—Austin (2.7%), Dallas (3.2%) and San Antonio (3.3%)—and on par with the state.

- The metro added 176,300 jobs in the 12 months ending in November, for a 6.2% employment expansion. Leisure and hospitality led growth with 49,800 jobs, followed by professional and business services with 31,800 positions. And 2023 will likely be another solid one for job expansion. The first building in Texas Medical Center's 37-acre life sciences campus—known as Helix Park—is set to open later this year, with Baylor College of Medicine as an anchor tenant. Meanwhile, Midway announced plans to redevelop 70 acres at ConocoPhillips' former corporate headquarters site into a mixed-use destination, dubbed Watermark District at Woodcreek.

- Last fall, the U.S. House authorized the U.S. Army Corps of Engineers to begin planning for a coastal barrier project that would protect Houston and the Texas Gulf Coast from future storms and sea level rise. If it passes the Senate and secures the necessary funding, the $34 billion project would permanently reshape the Texas coast.

Houston Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	365	10.9%
60	Professional and Business Services	547	16.4%
40	Trade, Transportation and Utilities	687	20.6%
15	Mining, Logging and Construction	303	9.1%
65	Education and Health Services	445	13.3%
30	Manufacturing	228	6.8%
55	Financial Activities	176	5.3%
90	Government	443	13.3%
50	Information	33	1.0%
80	Other Services	111	3.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- In the decade ending in 2021, Houston gained 1,023,722 residents, up 16.6% and above the 5.7% U.S. rate.

- In 2022, Texas joined California as the second of only two states with a population above 30 million residents. Growth was mainly fueled by in-migration, according to census data.

Houston vs. National Population

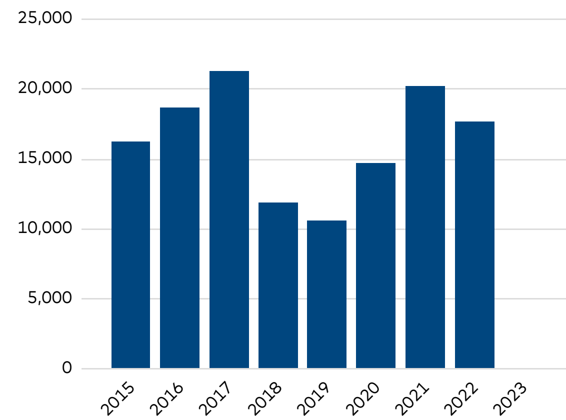
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Houston	6,974,948	7,063,400	7,137,747	7,206,841

Source: U.S. Census

SUPPLY

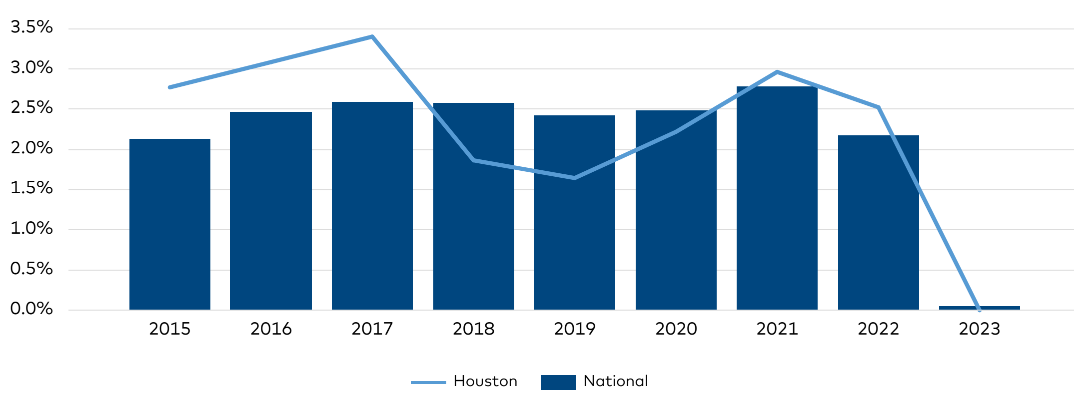
- Developers continued to deliver multifamily assets at a steady pace in 2022, with 17,676 units coming online in the metro. Houston was one of the metros with at least 10,000 units absorbed last year, along with Dallas, Austin, Washington, D.C., Atlanta, Chicago, Miami and Los Angeles.
- Builders remained active throughout Houston. As of January, the metro had 29,217 units underway, with another 62,400 apartments in the planning and permitting stages. However, development is facing agitated waters, considering the rising financing costs and accelerating expenses. In the first month of this year, developers broke ground on only 389 units, well below the 856 units they began work on at the beginning of 2022.
- The top 10 submarkets for development activity in the metro each had more than 1,000 units under construction. West End/Downtown led the way with 3,752 units underway, followed by Richmond (2,688 units) and Jersey Village/Satsuma (2,026 units). All the top submarkets for development activity were in West Houston, except for Humble/Westfield (1,156 units) and East End (1,008 units).
- Resia's 573-unit project in the Cinco Ranch-North submarket in western Houston was the largest development as of January. Using a $72 million construction loan originated by Santander Bank, the developer is working on delivering three 12-story buildings on the western end of the Energy Corridor as part of its first project in the metro. Completion is scheduled for the second quarter of 2024.

Houston Completions (as of January 2023)



Source: Yardi Matrix

Houston vs. National Completions as a Percentage of Total Stock (as of January 2023)

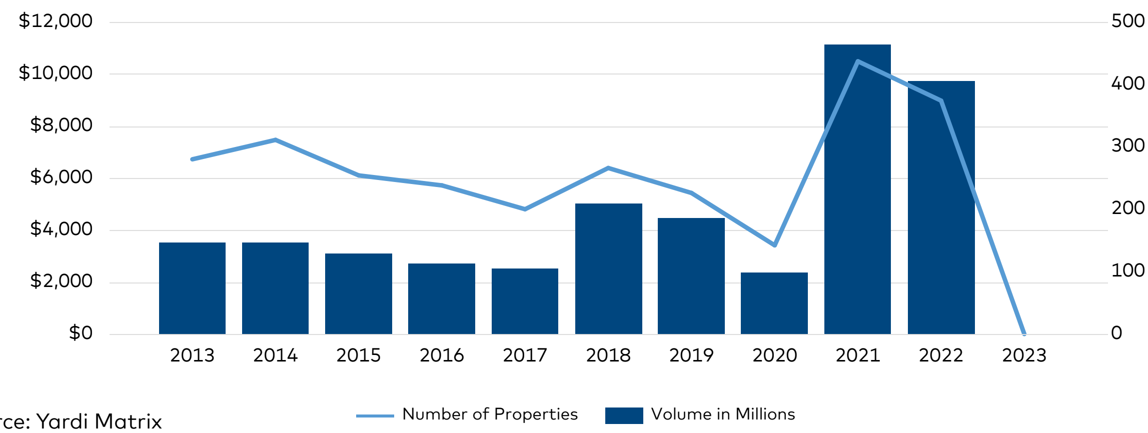


Source: Yardi Matrix

TRANSACTIONS

- With $9.7 billion in multifamily assets changing hands last year, 2022 was Houston's second-best year for transaction activity this decade. It followed the all-time investment peak recorded in 2021, when total sales surpassed $11.1 billion. To compare, the average sales volume for the five years ending in 2020 was only $3.4 billion.
- Investor interest was almost equally split between asset classes last year, bringing the average per-unit price above the $150,000 threshold for the first time on record. However, Houston's $151,626 price per unit was $60,247 below the national average.
- West Houston was by far the most-sought-after part of the metro year-over-year through January, with three submarkets within this area—West End/Downtown, Bammel and Jersey Village/Satsuma—accounting for a quarter of the $6.4 billion investment volume. Meanwhile, East Houston investors were most interested in assets across Nassau Bay/Seabrook ($392 million).

Houston Sales Volume and Number of Properties Sold (as of January 2023)



Source: Yardi Matrix

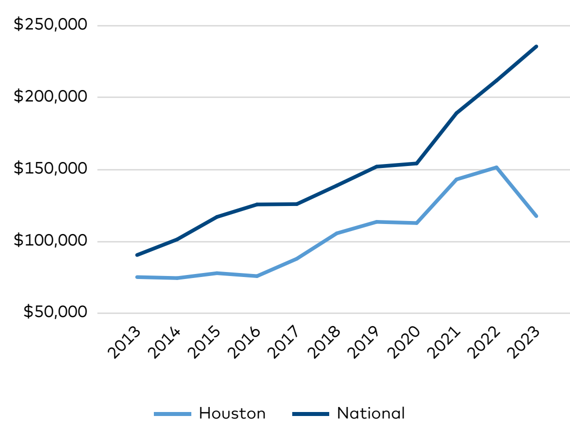
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West End/Downtown	677
Bammel	476
Jersey Village/Satsuma	418
Nassau Bay/Seabrook	392
Piney Point Village-North	375
Addicks	374
West Bellaire	370

Source: Yardi Matrix

[1] From February 2022 to January 2023

Houston vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS
data by Yardi Matrix

Top Markets for Multifamily Deliveries 2022

By Anca Gagiuc

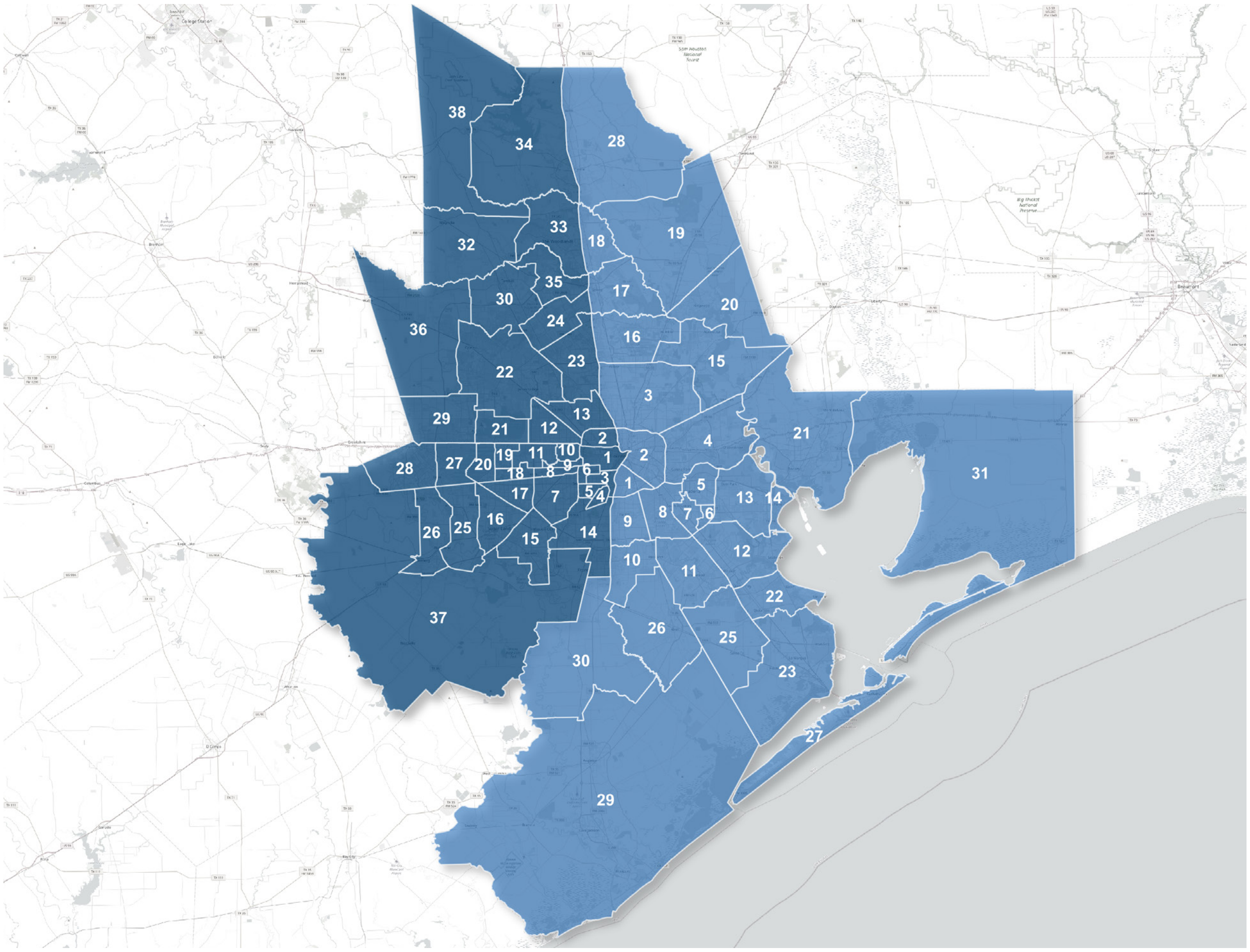
Rising inflation and interest rates have softened the amount of incoming multifamily stock in 2022. The record amount delivered in 2021—when 433,838 units were brought online—was always going to be tough to outdo, but few expected the drop-off to be as significant in 2022, which ended with 348,714 units delivered nationally, Yardi Matrix data shows.

Rank	Metro	Units Delivered 2022	Properties Delivered 2022	2022 Unit Deliveries as % of Inventory
1	Dallas	23,137	89	2.7%
2	Houston	18,450	71	2.6%
3	Austin	15,002	58	5.3%
4	Miami	13,325	56	3.9%
5	Seattle	13,301	58	4.6%
6	Washington, D.C.	12,357	48	2.1%
7	Phoenix	12,355	52	3.6%
8	Atlanta	11,808	56	2.3%
9	Denver	11,726	55	3.7%
10	Twin Cities	11,439	77	4.7%

Houston

Last year, developers delivered 18,450 units in Houston, 2.6 percent of existing stock, trailing last year's volume of 21,472 units, but above the 15,140 units delivered in 2020. The number of construction starts increased in the metro, to 18,289 units in 69 communities in 2022, from 16,235 units in 67 properties in the previous year.

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.

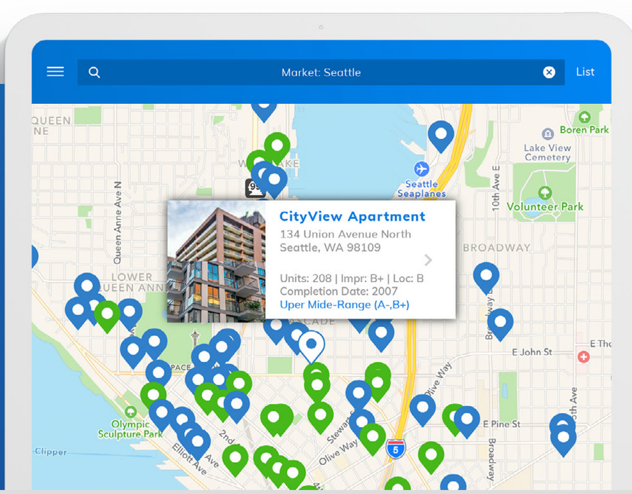
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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.**

YARDI

(800) 866-1144

Learn more at yardimatrix.com/**multifamily**

Contact us