

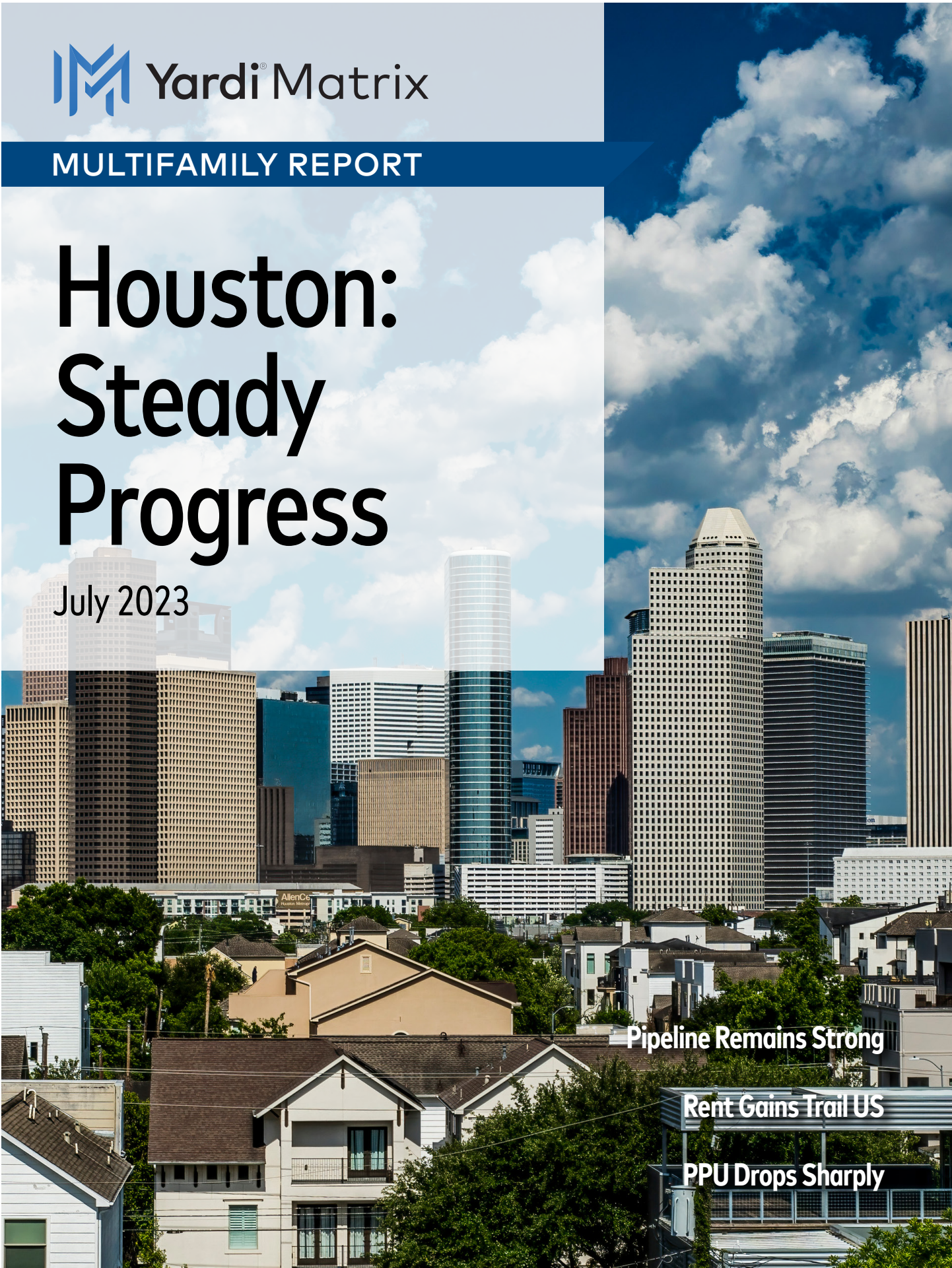
Houston: Steady Progress

July 2023

Pipeline Remains Strong

Rent Gains Trail US

PPU Drops Sharply



HOUSTON MULTIFAMILY



Fundamentals Still in Check

Houston showcased stable fundamentals during the first half of 2023, with rents remaining in growth mode even during the leasing off-season, albeit at a slower pace. The average asking rate rose 0.2% on a trailing three-month basis through May, to \$1,344, well behind the \$1,716 U.S. figure. The occupancy rate in stabilized properties declined by 80 basis points in the 12 months ending in April, to 93.2%.

Houston unemployment (4.0%) was higher than the national rate (3.4%) as of April, but yearly job growth outperformed the U.S., closing the gap. The metro's job market expanded by 4.6%, adding 142,000 jobs in the 12 months ending in March, well ahead of the 3.1% national rate. All sectors grew, with professional and business services and trade, transportation and utilities in the lead, accounting for almost 40% of growth. Houston's life sciences sector is expanding, fueling growth in professional and business services. Trade, transportation and utilities is also on an upward path. The metro led the U.S. in exports in 2022 and is expected to hold its position in 2023.

Deliveries and construction starts softened, with just 2,514 units coming online and 2,250 breaking ground in 2023 through May. However, the pipeline was still robust, with 31,655 units under construction. Meanwhile, investment activity dwindled, reaching a total of \$713 million in five months. The price per unit dropped below \$100,000 for the first time since 2017, to \$93,806.

Market Analysis | July 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

Anca Gagiuc

Senior Associate Editor

Recent Houston Transactions

The Waterview



City: Richmond, Texas
Buyer: Dreamstone Investments
Purchase Price: \$56 MM
Price per Unit: \$189,831

Avenue Grove



City: Houston
Buyer: Madera Cos.
Purchase Price: \$51 MM
Price per Unit: \$187,654

Harlow Spring Cypress



City: Spring, Texas
Buyer: Aspen Oak Capital Partners
Purchase Price: \$50 MM
Price per Unit: \$197,144

The Rice Urban Lofts



City: Houston
Buyer: Galium Capital
Purchase Price: \$48 MM
Price per Unit: \$155,177

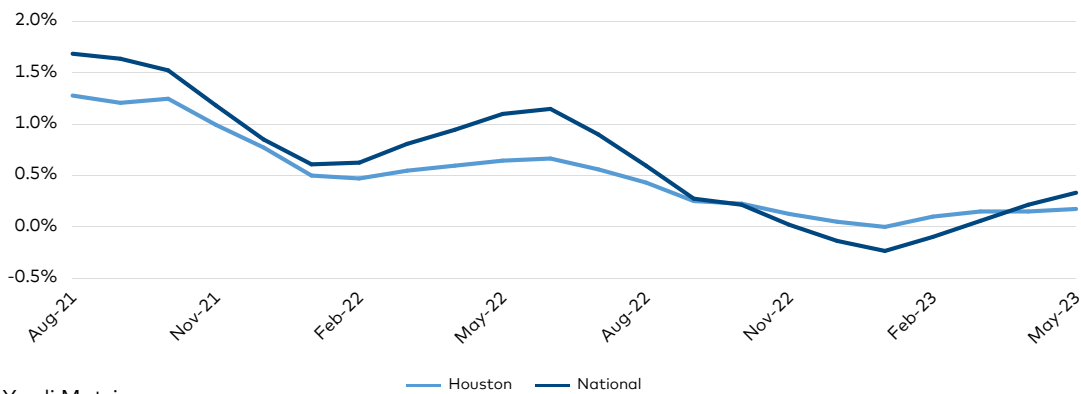
RENT TRENDS

- ▶ Houston rents rose 0.2% on a trailing three-month (T3) basis through May, to \$1,344, while the U.S. rate was up 0.3%, to \$1,716. The metro posted a steadier rent trajectory than the national average and was one of the few metros where rent growth remained positive during the leasing off-season. On a year-over-year basis through May, the average asking rent rose 2.5%, just below the 2.6% U.S. rate.
- ▶ Rent growth was led by the working-class Renter-by-Necessity segment, up 0.3% on a T3 basis through May, to \$1,063. Meanwhile, Lifestyle figures inched up 0.1%, to \$1,633. At the same time, RBN occupancy in stabilized assets slid 0.8% in the 12 months ending in April, to 92.7%, while Lifestyle occupancy decreased by 0.7%, to 93.6%.

Overall, Houston's occupancy rate declined 70 basis points year-over-year, to 93.2%.

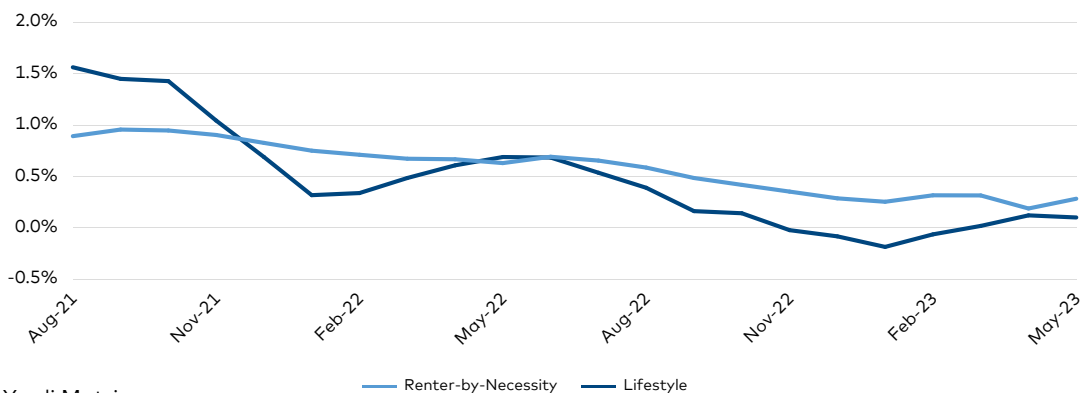
- ▶ Of the 65 submarkets tracked by Yardi Matrix, annual rent growth was negative in just six submarkets. Declines, however, were small, led by League City-West (-0.4% to \$1,348) and Katy (-0.3% to \$1,643). Just four submarkets posted average rents below \$1,000, from nine a year ago. The most expensive areas, as of May, were the Museum District (1.7% to \$2,071) and the West End/Downtown (4.0% to \$2,060).
- ▶ The performance of single-family rentals softened, with Houston rents declining 2.8% year-over-year as of May, to \$1,975. Meanwhile, occupancy decreased 200 basis points in the 12 months ending in April, to 94.4%.

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 dropped to 4.0% in April, a 50-basis-point improvement from January and on par with the state's rate, according to preliminary data from the Bureau of Labor Statistics.
- ▶ Employment expanded 4.6%, or 142,000 jobs, in the 12 months ending in March, outperforming the 3.1% national rate. All sectors added jobs, led by the metro's largest—professional and business services (29,500 jobs) and trade, transportation and utilities (24,700 jobs). Both are poised for sustained growth. Houston ranks high among the country's life sciences markets and is expected to expand even further. Helix Park, a 37-acre, 5 million-square-foot life science campus along the METRO line has been underway since 2020. Baylor College of Medicine, the anchor tenant in Helix Park's first building, started construction on the 503,000-square-foot Cullen Tower, slated for completion in 2026.
- ▶ Houston led the nation in exports in 2022, shipping nearly \$192 billion in commodities and goods abroad. Last year, the Port of Houston set a record for container traffic, handling nearly 3.2 million loaded twenty-foot equivalent units, a 17.9% boost over 2021. Should conditions persist, the port is on its way to break the record once again in 2023.

Houston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	555	16.7%
40	Trade, Transportation and Utilities	684	20.5%
65	Education and Health Services	442	13.3%
90	Government	451	13.5%
70	Leisure and Hospitality	343	10.3%
15	Mining, Logging and Construction	293	8.8%
30	Manufacturing	229	6.9%
55	Financial Activities	183	5.5%
80	Other Services	119	3.6%
50	Information	33	1.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Between the 2010 Census and 2021, Houston added nearly 1.3 million residents, the equivalent of a 21.2% population increase, just 20 basis points below DFW's demographic expansion during the period. That was almost three times the 7.3% national rate.

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

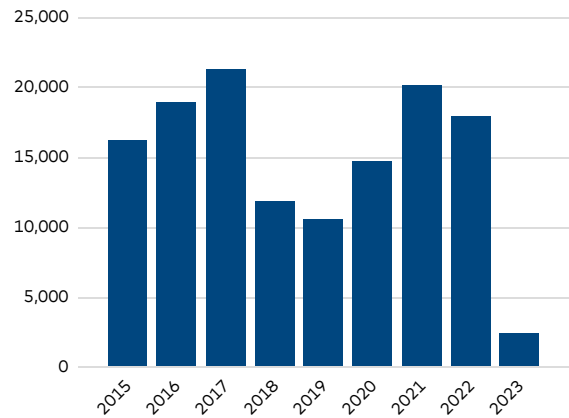
SUPPLY

- ▶ Developers delivered just 2,514 units in 2023 through May, which represented 0.4% of existing stock and came in 20 basis points below the national rate. Most completions through this date were Lifestyle apartments, except for a 56-unit fully affordable community in West End/Downtown.
- ▶ Houston continues to boast one of the largest pipelines in the country, with 31,655 units underway as of May. This volume placed it ahead of Los Angeles and Charlotte and behind only nearby Austin and Dallas. Another 70,000 units were in the planning and permitting stages as of May. In 2023, Yardi Matrix anticipates that Houston's rental stock will grow by a total of 11,192 units.
- ▶ Nearly 73% of projects under construction were located in the western half of the metro. The pipeline composition remained heavily tilted toward the upscale Lifestyle segment, which accounted for 88% of all projects under construction. Moreover, of the remaining 12%, 6.4% were units in fully affordable communities.
- ▶ Although the pipeline is robust, the number of construction starts plummeted. Just 2,250 units broke ground in Houston in 2023 through

May, less than one-third of the volume registered in 2022 during the same interval.

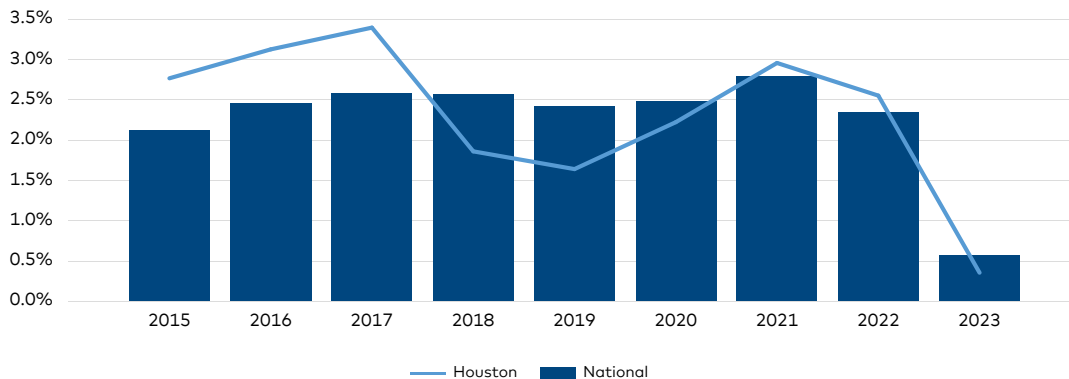
- ▶ Construction activity remained spread out across the metro, with 40 of the 65 submarkets tracked by Yardi Matrix having at least 50 units underway. More than one-third of the units under construction are concentrated in five submarkets, led by West End/Downtown (3,157 units), Cinco Ranch North (2,239 units) and Jersey Village/Satsuma (2,027 units).

Houston Completions (as of May 2023)



Source: Yardi Matrix

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



Source: Yardi Matrix

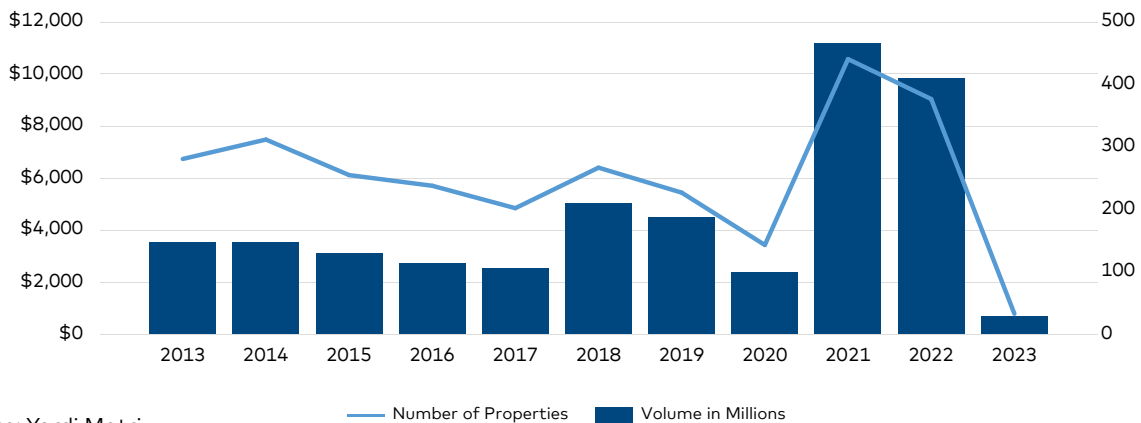
TRANSACTIONS

- ▶ Investment activity softened significantly in Houston, too, with multifamily sales amounting to just \$713 million in 2023 through May, a mere fraction of the \$5.5 billion recorded during the same period of 2022. The western half of the metro accounted for nearly two-thirds of sales, or \$468 million of the total volume, while the eastern half clocked in at \$245 million.
- ▶ Nearly 75% of the properties that traded in 2023 through May were value-add assets. This contributed to a substantial 37.3% year-over-year de-

crease of the average per-unit price, to \$93,806, the lowest value since 2017. Meanwhile, the U.S. figure also decreased, to \$179,358.

- ▶ The sale of the 295-unit Waterview in Richmond was the largest single-asset multifamily deal in metro Houston this year through May. Dreamstone Investments acquired the property for \$56 million, or \$189,831 per unit, with aid from a \$42 million CMBS loan issued by Greystone Servicing Corp.

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



Source: Yardi Matrix

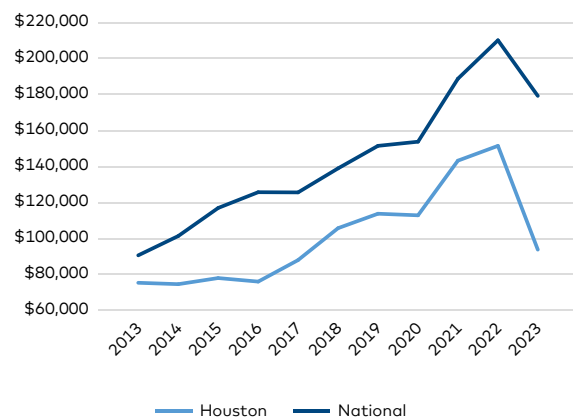
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
West End/Downtown	616
Bammel	317
Piney Point Village - North	246
Richmond	233
River Oaks	231
Piney Point Village - South	210
West Bellaire	204

Source: Yardi Matrix

¹ From June 2022 to May 2023

Houston vs. National Sales Price per Unit



Source: Yardi Matrix

Top 10 Markets for Multifamily Construction

By Anca Gagiuc

U.S. multifamily construction was robust at the start of the new leasing season, with the pipeline amounting to nearly 1.1 million units underway across 4,910 properties, according to Yardi Matrix data. However, deliveries were slow, with just 73,506 units coming online this year through April. That's less than 7% of the national pipeline and accounts for 20% of last year's 369,827-unit total.

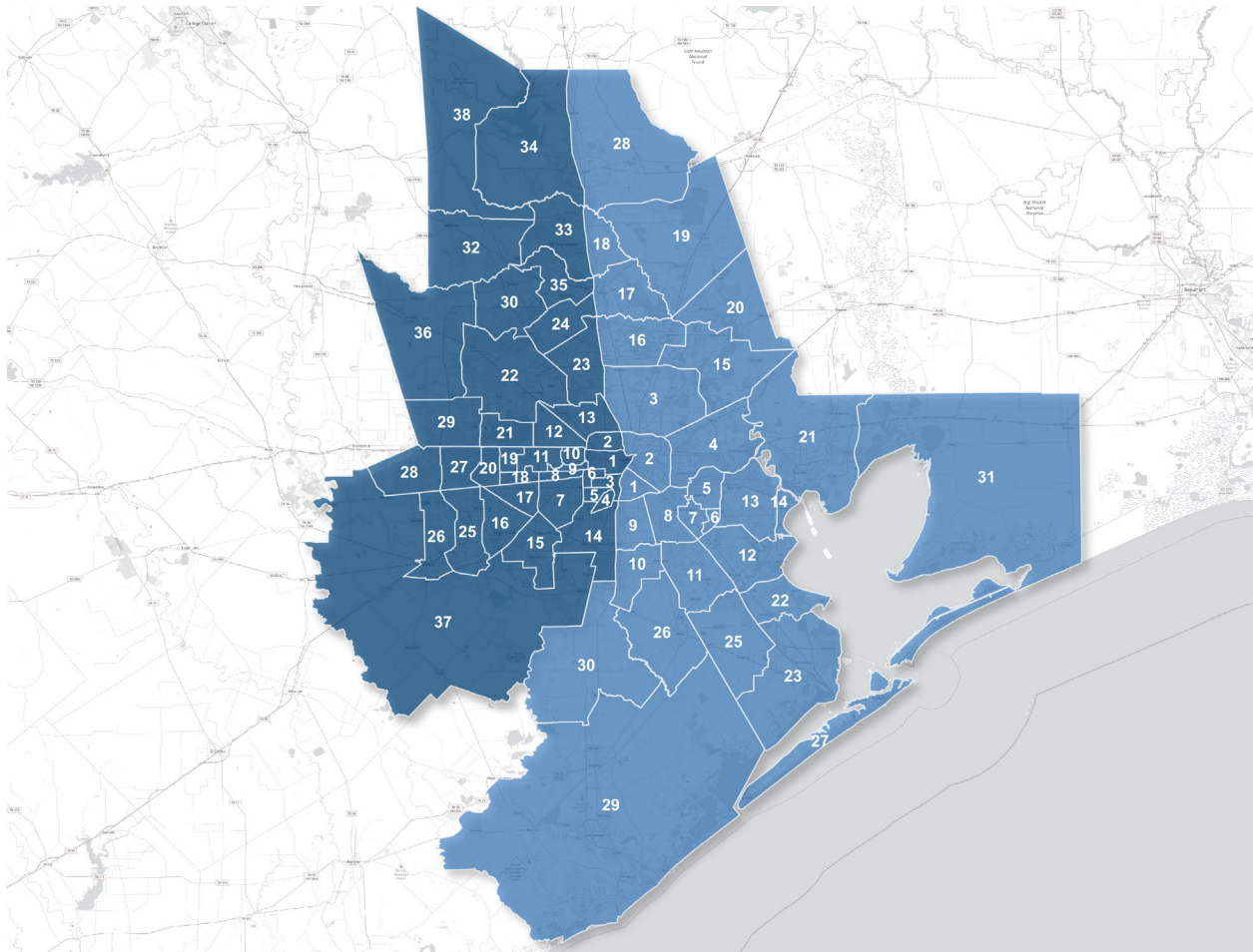
Metro	Units Under Construction	Units Completed Year-to-Date	Construction Starts/Units January - March 2023
Austin	61,873	2,547	6,013
Dallas	60,532	2,016	5,864
Miami	44,533	2,732	3,612
Atlanta	41,204	2,679	4,120
Phoenix	39,875	3,811	1,985
New York City	38,859	137	3,304
Denver	35,893	1,696	1,580
Houston	34,709	1,686	1,660
Los Angeles	32,306	1,926	814
Charlotte	32,188	1,538	1,459

Houston

The third Texas market on this list, Houston's multifamily construction pipeline had 34,709 units underway across 132 properties and 71,000 units in the planning and permitting stages. Meanwhile, developers delivered 1,686 units through May, or 2.3 percent of the metro's total stock, and the third-lowest volume among metros in this ranking. Coming at the heels of last year's 5.1% inventory expansion—which placed it second in the nation for deliveries as a percentage of existing stock—the number of new projects breaking ground in Houston plummeted.



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 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.



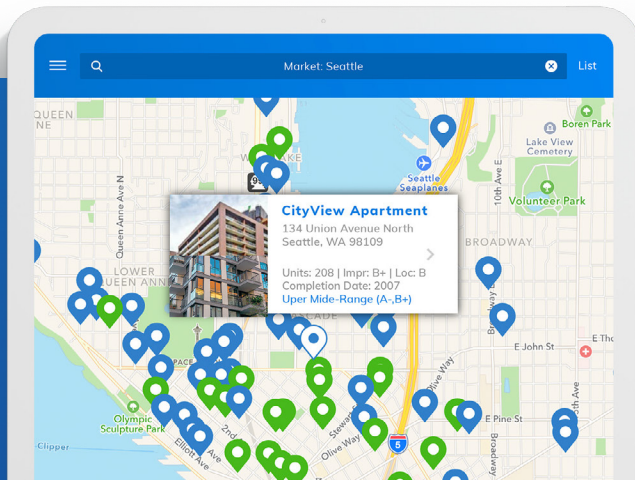
Yardi[®] Matrix

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.



(800) 866-1144

Learn more at yardimatrix.com/multifamily

Contact
US



DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2023 Yardi Systems, Inc. All Rights Reserved.