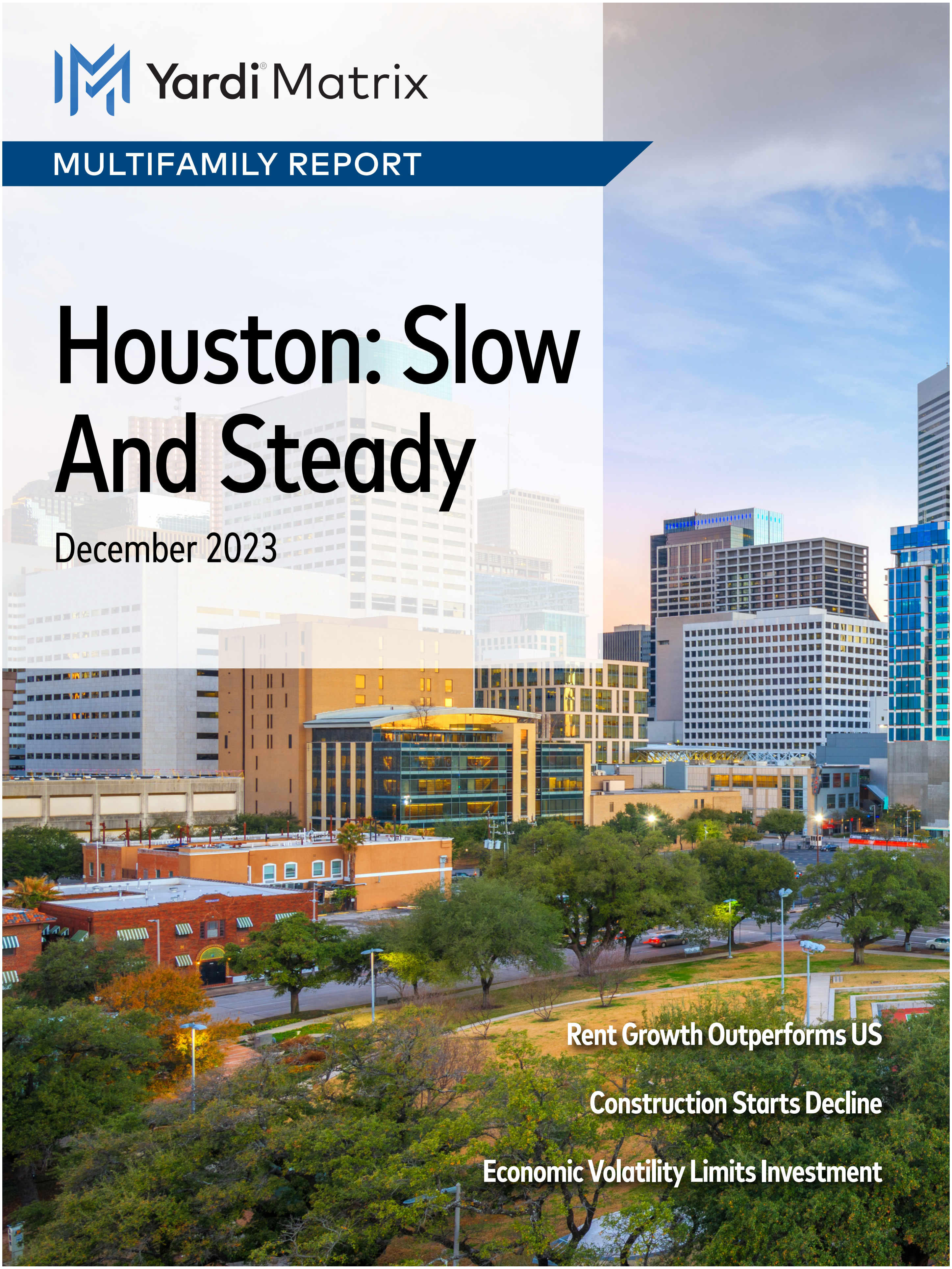
Yardi Matrix

MULTIFAMILY REPORT

Houston: Slow And Steady

December 2023



Rent Growth Outperforms US

Construction Starts Decline

Economic Volatility Limits Investment

HOUSTON MULTIFAMILY

Yardi Matrix

Healthy Demand Sustains Rents, Occupancy

Despite challenging economic conditions, Houston's multifamily fundamentals persisted, though not without some impact. Bucking the national trend, rent growth was positive, although rates remained stagnant, at $1,353 in October. Meanwhile the U.S. average slid 0.1% on a trailing three-month basis, to $1,718. The occupancy rate in stabilized properties also remained flat, at 93.4% in September.

Unemployment stood at 4.4% in September, according to preliminary data from the Bureau of Labor Statistics. Despite a 50-basis-point month-over-month improvement, the rate trailed the U.S. (3.8%), the state (4.1%) and all other major Texas metros. Still, the job market expanded 3.5%, or 94,700 jobs, in the 12 months ending in August, outperforming the U.S. by a solid 100 basis points. During the period, two sectors contracted for a combined 6,400 positions: mining, logging and construction and other services. Growth was led by trade, transportation and utilities (26,300 jobs) and education and health services (23,300 jobs).

Development activity remained steady, with 37,067 units under construction, but deliveries softened to 10,730 units through October. Amid high interest rates, investment activity dwindled to $1.5 billion in multifamily assets during the first 10 months of the year. The price per unit decreased by a considerable 28.6% year-over-year through October, to $109,988.

Market Analysis | December 2023

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Recent Houston Transactions

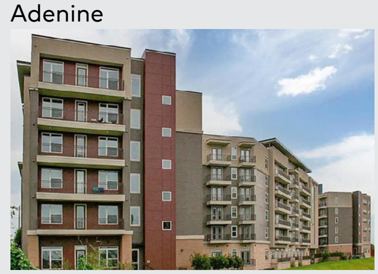
55 Fifty at Northwest Crossing

City: Houston
Buyer: Vesta Corp.
Purchase Price: $79 MM
Price per Unit: $208,000

The Waterview

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

Adenine



City: Houston
Buyer: Madera Cos.
Purchase Price: $56 MM
Price per Unit: $211,195

Avenue Grove

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

RENT TRENDS

- Houston rates remained flat for the second consecutive month in October at $1,353, while national rents declined for the second straight month, down 0.1% on a trailing three-month (T3) basis through October, to $1,718. On a year-over-year basis, Houston's rate growth stood at 0.7%, surpassing the national figure by 30 basis points.

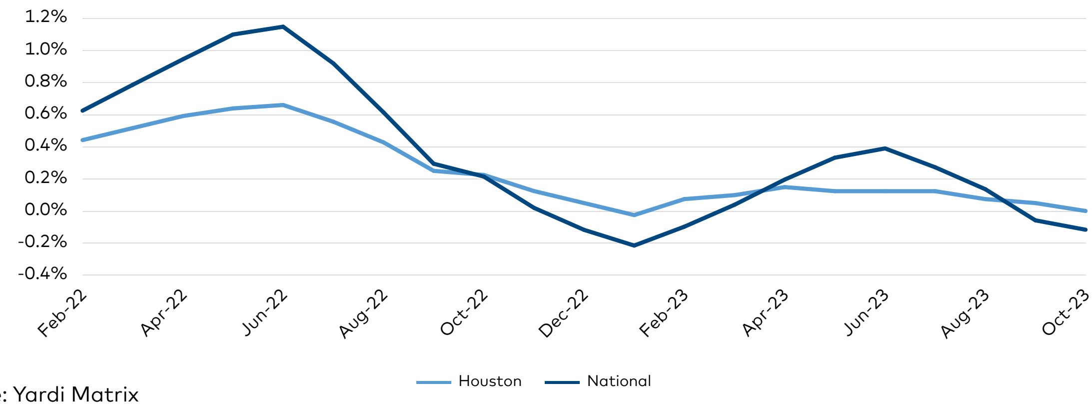
- Houston's rents didn't slip into negative territory largely due to the working-class Renter-by-Necessity segment, up 0.3% on a T3 basis through October, to $1,079, while Lifestyle figures contracted 0.2%, to $1,628.

- The occupancy rate in stabilized properties remained flat in the metro, at 93.4% as of September. By asset class, Lifestyle occupancy gained 10 basis points in the 12 months ending in September, at 93.4%, while RBN occupancy decreased 10 basis points to 92.7%.

- Rates contracted in 23 of the 39 submarkets tracked by Yardi Matrix, including in the metro's most expensive area—West End/Downtown (-0.3% year-over-year to $2,061). The submarket also had one of the most robust construction pipelines. The next most-sought-after submarket was Museum District, where prices increased 0.5%, to $2,060.

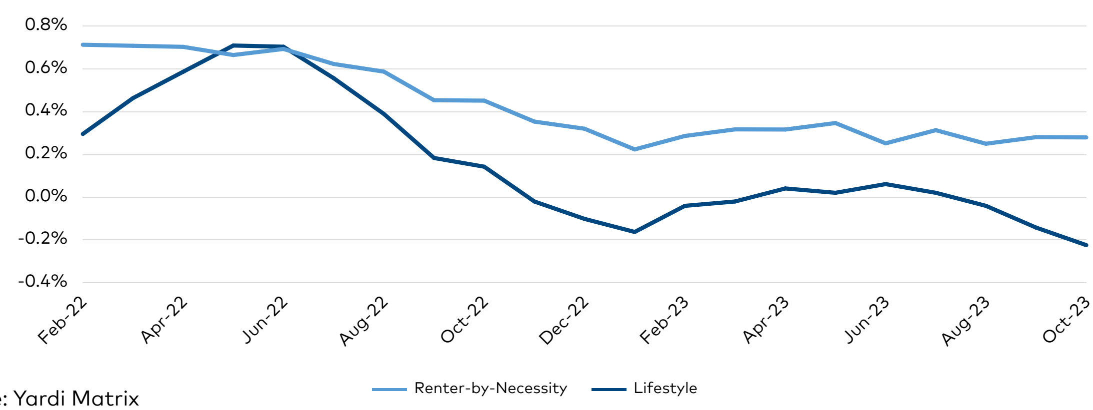
- Houston's single-family rental segment rebounded after a slight softening registered around the middle of the year. Rents increased 2.0% year-over-year as of October and occupancy inched up 0.4% in the 12 months ending in September.

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 unemployment stood at 4.4% in September, according to preliminary data from the BLS, a 50-basis-point improvement from August and 10 basis points lower than the January figure. The metro trailed the U.S. (3.8%), as well as the state (4.1%) and all other major Texas metros—Austin (3.6%), Dallas (3.9%) and San Antonio (3.8%).
- In line with national trends, job growth in Houston saw a noticeable slowdown, but still remained healthy, up 3.5%, or 94,700 jobs, in the 12 months ending in August. Although moderating, it still outpaced the U.S. rate by 100 basis points. Mining, logging and construction (-5,700 jobs) and other services (-700 jobs) contracted.
- Trade, transportation and utilities led job gains, adding 26,300 positions. The Port of Houston's overall container volume totaled 2.5 million twenty-foot equivalent units in August, a 4.0% year-to-date decline. The drop was expected, following the port's record total in 2022, when the volume reached nearly 4 million TEUs. Meanwhile, work continues on the Houston Ship Channel Expansion and by late 2024, more than 27 miles of the Galveston Bay area are expected to be completed.
- Education and health services gained 23,300 jobs. The biomedical research campus Helix Park opened its first phase, adding to Houston's status as an emerging life sciences market.

Houston Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	696	20.6%
65	Education and Health Services	455	13.5%
60	Professional and Business Services	560	16.6%
90	Government	446	13.2%
70	Leisure and Hospitality	352	10.4%
55	Financial Activities	189	5.6%
30	Manufacturing	233	6.9%
50	Information	33	1.0%
80	Other Services	120	3.6%
15	Mining, Logging and Construction	289	8.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Houston had one of the strongest demographic increases between the 2010 Census and 2021, adding nearly 1.3 million residents.
- The figure represents 21.2% population growth, which is roughly three times the 7.3% U.S. average.

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

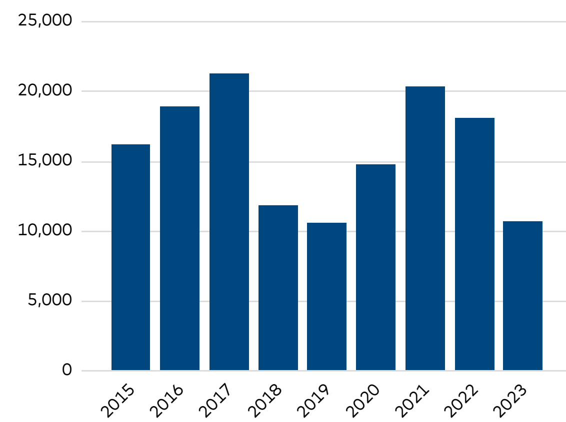
SUPPLY

- Developers added 10,730 units to Houston's multifamily stock through October, accounting for 1.5% of existing inventory and 30 basis points below the U.S. figure. Nearly all deliveries were in the western half of the metro (9,148 units), while East Houston gained just 1,582 units. Nearly 93% of the new inventory comprised Lifestyle units and just 5.4% were apartments in fully affordable communities. Yardi Matrix anticipates that another 3,600 units will be delivered by year-end, taking the annual volume to 14,336 units. This total will make 2023 the second weakest year since 2015 for supply expansion.

- The construction pipeline had 37,067 units underway and another 65,000 in the planning and permitting stages. Some 27,600 units were underway in West Houston, and 9,500 units on the eastern side. Strong demand for upscale apartments encouraged developers to focus on the Lifestyle segment, which accounted for about 90% of the pipeline. Just 6.3% of the units under construction were in fully affordable communities. By volume of construction starts, Houston's multifamily market remained steady: 14,484 units broke ground in 2023 through October. During the same period last year, developers had broken ground on 16,890 units.

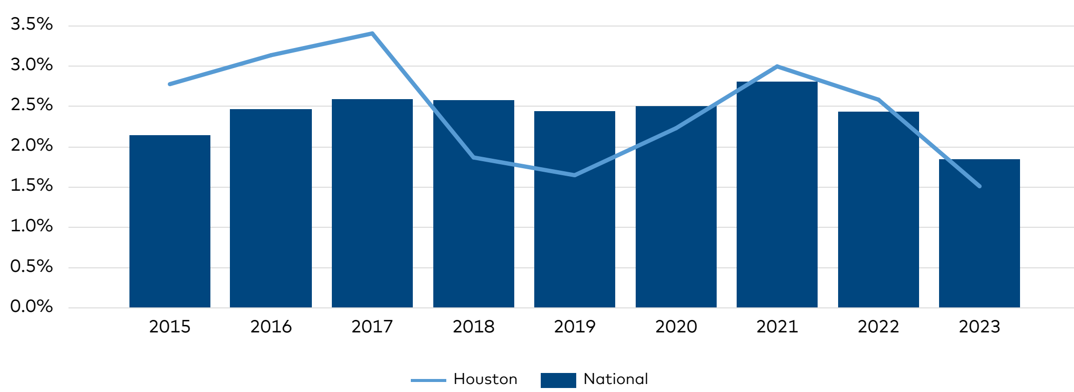
- Construction activity was most intense in Cinco Ranch-North (3,867 units), West End/Downtown (3,048 units)—both in West Houston—and the latter posted the highest rents in October. The largest project delivered through October was the 429-unit Modera Six Pines in The Woodlands, built by Mill Creek Residential, with aid from a $73 million construction loan originated by PNC Bank.

Houston Completions (as of October 2023)



Source: Yardi Matrix

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

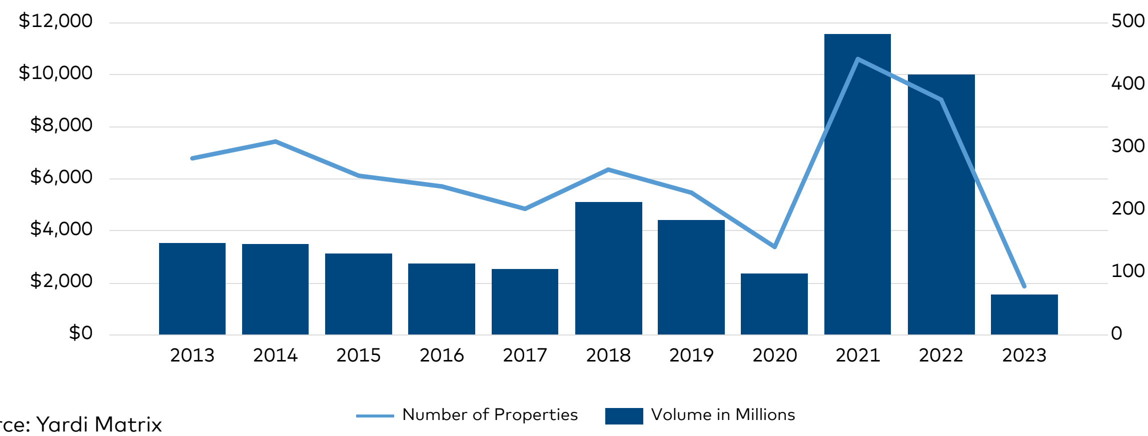


Source: Yardi Matrix

TRANSACTIONS

- Investors traded $1.5 billion in multifamily assets in 2023 through October, and it's likely this will be the lowest year for sales volume in the last decade. Transaction activity plummeted in Houston due to persisting financing woes, and just a slight increase was recorded in the quarter-over-quarter volumes.
- The sales composition reflects higher investor interest in value-add plays, with two-thirds of sales involving Renter-by-Necessity assets. Consequently, the price per unit dropped considerably, by 28.6% year-over-year, to $109,988 in October, well behind the $187,497 national average. The average RBN price per unit posted a 31.6% decline during this period, to $77,939. Meanwhile, the Lifestyle figure decreased 15.7%, to $161,229.
- Fundamental Partners was one of the most active investors in the metro, following its acquisition of 3,208 units back in April.

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



Source: Yardi Matrix

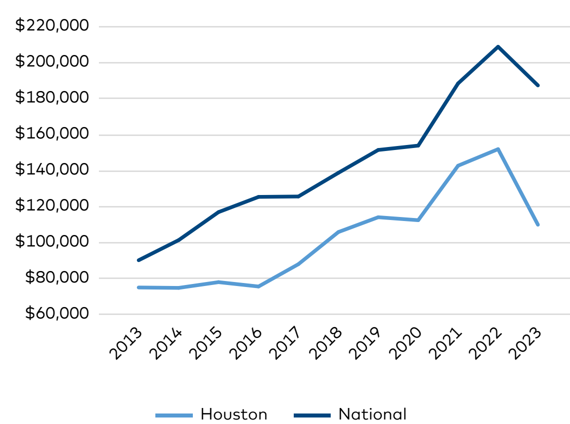
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Piney Point Village – North	194
West End/Downtown	190
West Bellaire	179
Richmond	138
Rosslyn	111
Louetta	110
Bammel	103

Source: Yardi Matrix

[1] From November 2022 to October 2023

Houston vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS
data by Yardi Matrix

Top 10 Markets for Multifamily Deliveries in H1 2023

By Anda Rosu

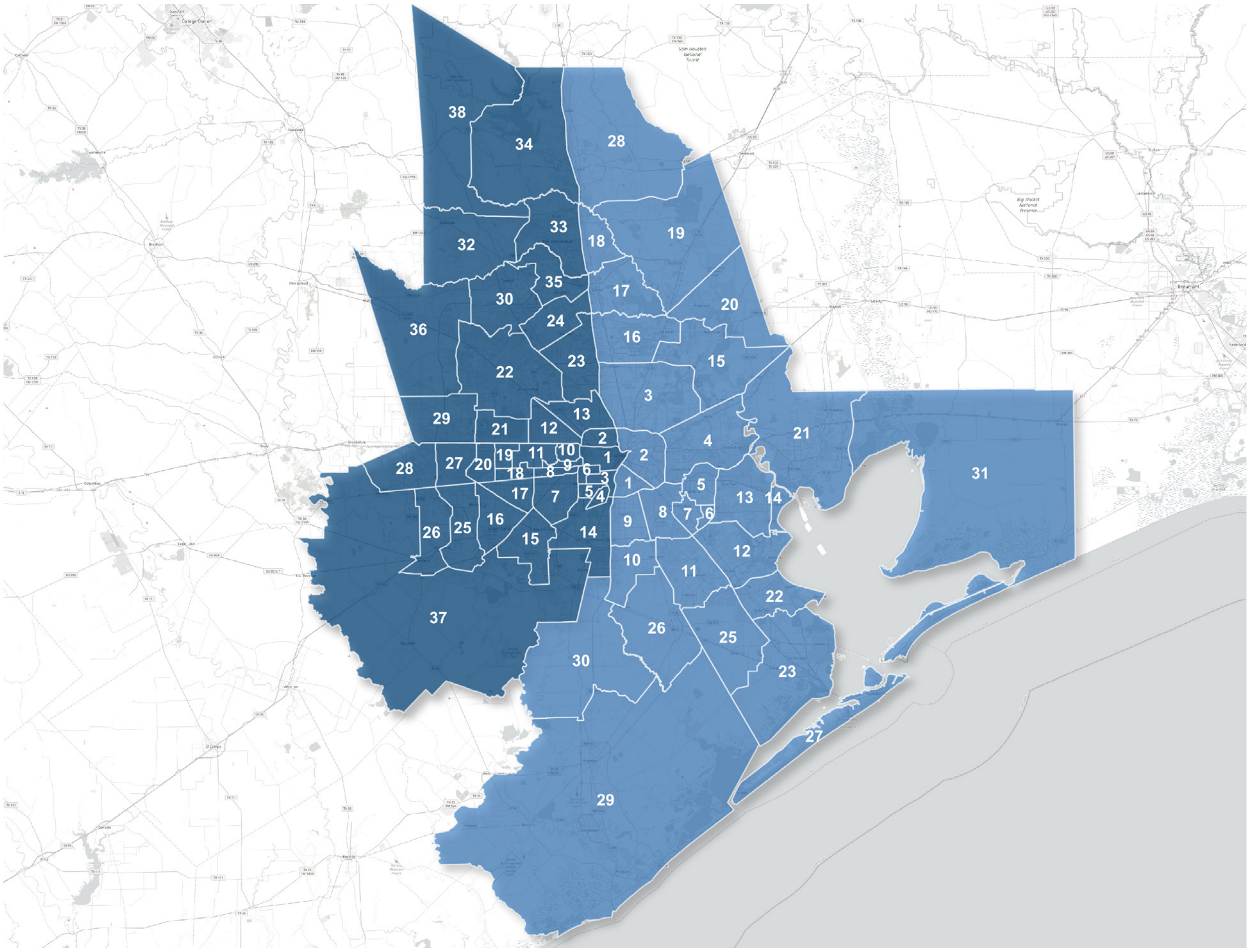
Multifamily demand remained healthy in 2023 despite major economic headwinds, although the sector lagged the performance recorded in the first six months of 2022. According to Yardi Matrix data, 154,366 units came online nationwide between January and June 2023. The volume of multifamily deliveries accounts for a 60-basis-point increase from the 153,314 units that were delivered last year during the same period.

Rank	Metro	Projects Delivered 2023 H1	Number of Units Delivered 2023 H1	ConstructionStarts 2023 H1 Units
1	Phoenix	36	8,062	10,886
2	Washington, D.C.	25	6,333	5,288
3	Atlanta	29	6,178	10,380
4	Austin	23	5,473	11,220
5	Dallas	20	5,133	15,747
6	Miami Metro	22	5,109	9,969
7	Charlotte	21	4,595	6,441
8	Orlando	19	4,445	5,437
9	Denver	23	4,270	6,046
10	Houston	17	3,910	6,562

Houston

After ranking second in 2022, Houston is now in 10th place. The metro added 3,910 multifamily deliveries to its stock between January and June 2023. This was 48.6% less than the new stock registered during the same period last year (8,035 units) and 1.5% of the total stock. Yardi Matrix anticipates Houston's rental inventory will grow by 2.1%. As of June, another 38,552 units were under construction.

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.

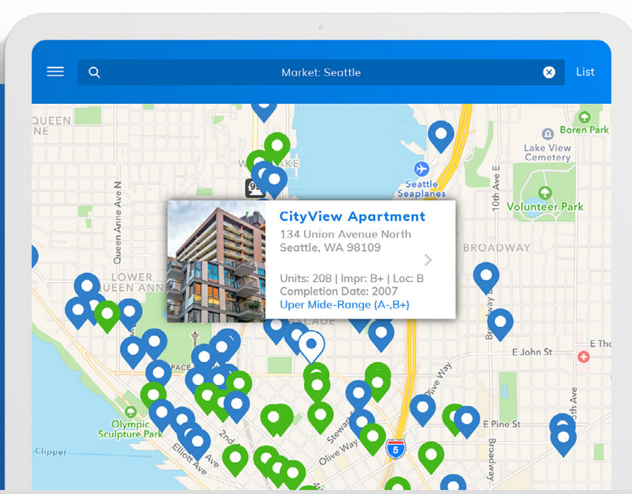
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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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