

A high-angle photograph of a city skyline, likely Houston, featuring several prominent skyscrapers and modern buildings. The foreground is filled with lush green trees and a multi-lane road with some traffic. The sky is blue with scattered white clouds. The overall scene is bright and clear, suggesting a sunny day.

Yardi® Matrix

Houston Pulls Through

Multifamily Report Summer 2018

Local Economy Bounces Back

New Stock Targets Luxury Renters

Rent Growth Outpaces US Average

Market Analysis

Summer 2018

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Job, Population Growth Bolsters Demand

Recovering after the oil crisis and Hurricane Harvey, Houston's economy is once again in full swing. While causing more damage than any other natural disaster in U.S. history, except for Hurricane Katrina, Harvey has also contributed to moderating the supply imbalance of the past couple of years. After a prolonged dry spell, Houston rent growth is once again outpacing the U.S. average, having reached 3.9% year-over-year through June.

Oil prices have risen nearly \$40 per barrel above the trough of early 2016, boosting employment across sectors and bringing the metro back on track. Job creation in professional and business services acted as the backbone of Houston's recent recovery, with the metro adding roughly 30,000 jobs in the sector during the 12 months ending in April. The positive momentum is boosting investment once more—generating demographic growth that, in turn, helped the metro absorb its recent oversupply.

The metro added roughly 5,200 units in the first half of 2018, with an additional 13,000 units underway. After struggling with overbuilding and contracting rents over the better part of the past two years, Houston's supply-and-demand balance is back to its sweet spot. We expect rents to advance 1.8% for the whole of 2018.

Recent Houston Transactions

The Vista on Gessner



City: Houston
Buyer: Dalcor
Purchase Price: \$51 MM
Price per Unit: \$62,963

The Beverly Palms



City: Houston
Buyer: Cypress Point Equity Partners
Purchase Price: \$33 MM
Price per Unit: \$91,576

Generation Grove



City: Humble, Texas
Buyer: Avesta Communities
Purchase Price: \$30 MM
Price per Unit: \$114,786

Crossings at Cherry

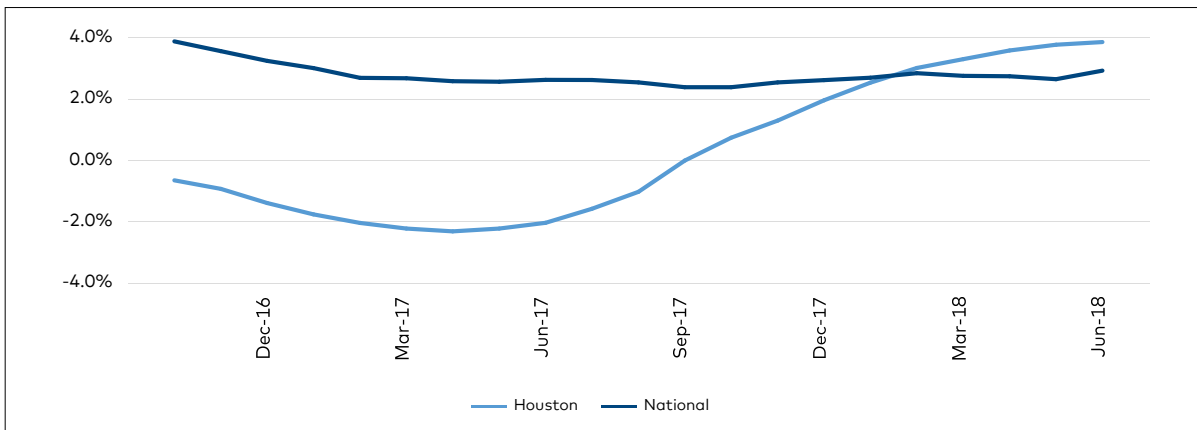


City: Tomball, Texas
Buyer: Veritas Equity Management
Purchase Price: \$14 MM
Price per Unit: \$109,796

Rent Trends

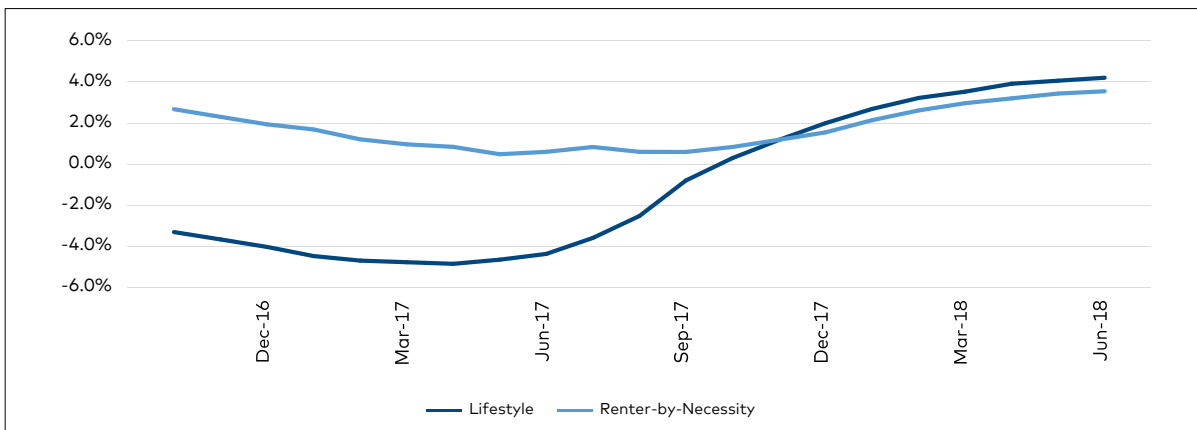
- Rents in Houston rose 3.9% year-over-year through June, 100 basis points above the U.S. average. In the wake of Hurricane Harvey, the multifamily market got an unexpected boost, as displaced Houstonians and people helping with relief efforts pushed up rental demand for the short and medium term. The average rent increased to \$1,102 in June but remained well below the \$1,405 U.S. figure.
- Lifestyle assets led rent growth in the year ending in June, up 4.2% to \$1,387. The working-class Renter-by-Necessity segment also improved, up 3.6%—the highest rate since July 2016—reaching \$875. Despite the recent woes affecting the housing market, Houston's diversifying economy, job opportunities and demographic expansion have offset the headwinds, pushing up rents once again.
- Fringe submarkets west of Interstate 45 led growth, including Magnolia (up 8.6% to \$1,100), Tomball (7.6%, \$1,159), Avonak (7.5%, \$1,384) and The Woodlands (7.2%, \$1,302). Nonetheless, core submarkets remain the most expensive by far: Museum District (\$1,962 average rent), West End/Downtown (\$1,837) and River Oaks (\$1,750).
- As the city's economy has regained its pace and recent oversupply is slowly absorbed, the market is slated to stabilize in the coming quarters. We expect rents to improve 1.8% in 2018.

Houston vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Houston Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

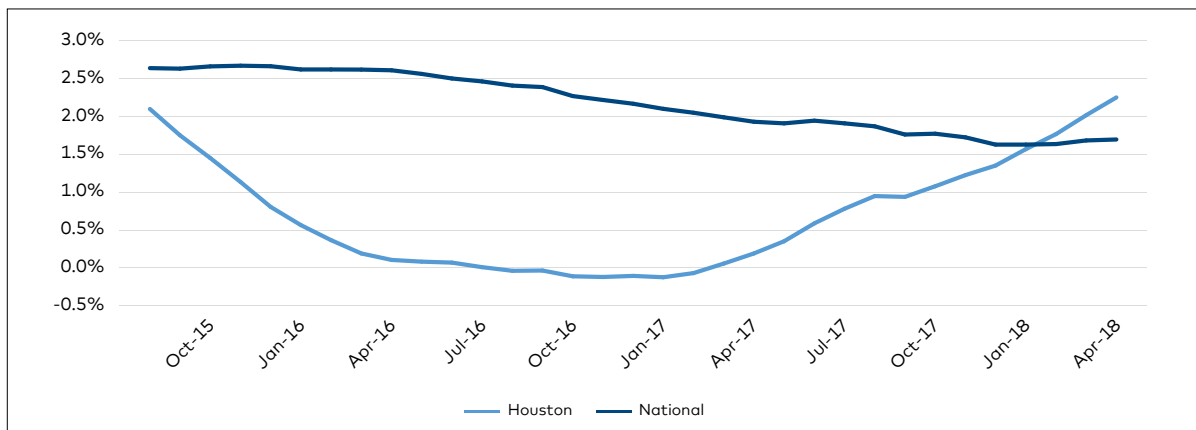


Source: YardiMatrix

Economic Snapshot

- The city's economy recorded a solid rebound and job addition is on a strong upward trend. Having added 84,500 positions in the 12 months ending in April, Houston is once again one of the country's top metros for job creation.
- Professional and business services led growth, with almost 30,000 jobs added in the year ending in April. Construction and trade, transportation and utilities also performed well, having added 27,700 jobs combined. Several large-scale infrastructure projects—such as the \$820 million Houston Ship Channel marine terminal—as well as private investments are about to indirectly boost other sectors. Ridgeline Property Group broke ground on SW International Gateway Business Park, a 540-acre rail-served development set to bring almost 10 million square feet of Class A industrial space to El Campo. Moreover, McNair Interests is planning to transform a vacant six-acre site in the Uptown District into a 1.2 million-square-foot mixed-use development, with an estimated price tag of \$500 million.
- Despite roughly 15 million square feet of office space being damaged during Hurricane Harvey, the market continues to power through. According to Yardi Matrix data, the Houston market had 4 million square feet of office space under construction, more than half of it located along or within the Interstate 610 Loop.

Houston vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Houston Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	506	16.3%	29,800	6.3%
40	Trade, Transportation and Utilities	625	20.2%	14,300	2.3%
15	Mining, Logging and Construction	306	9.9%	13,400	4.6%
30	Manufacturing	228	7.4%	10,100	4.6%
70	Leisure and Hospitality	324	10.5%	7,800	2.5%
55	Financial Activities	162	5.2%	4,300	2.7%
65	Education and Health Services	388	12.5%	3,500	0.9%
90	Government	415	13.4%	1,700	0.4%
80	Other Services	112	3.6%	1,100	1.0%
50	Information	31	1.0%	-1,500	-4.6%

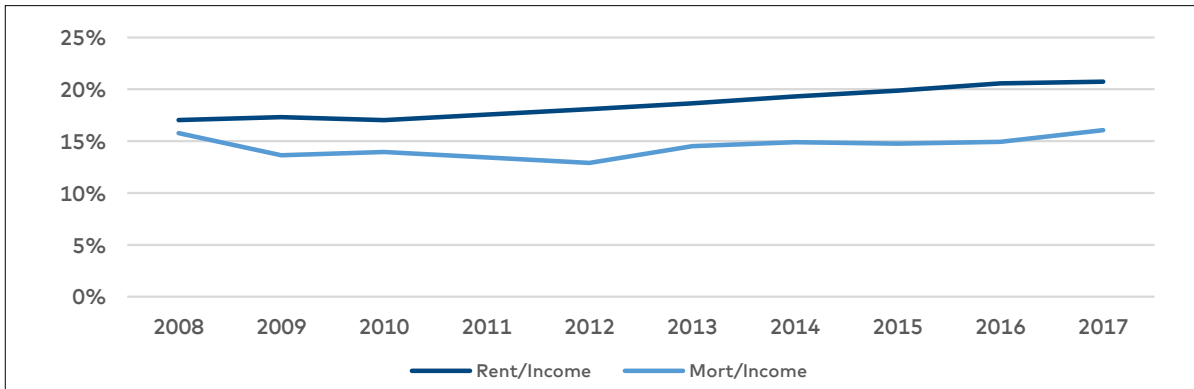
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

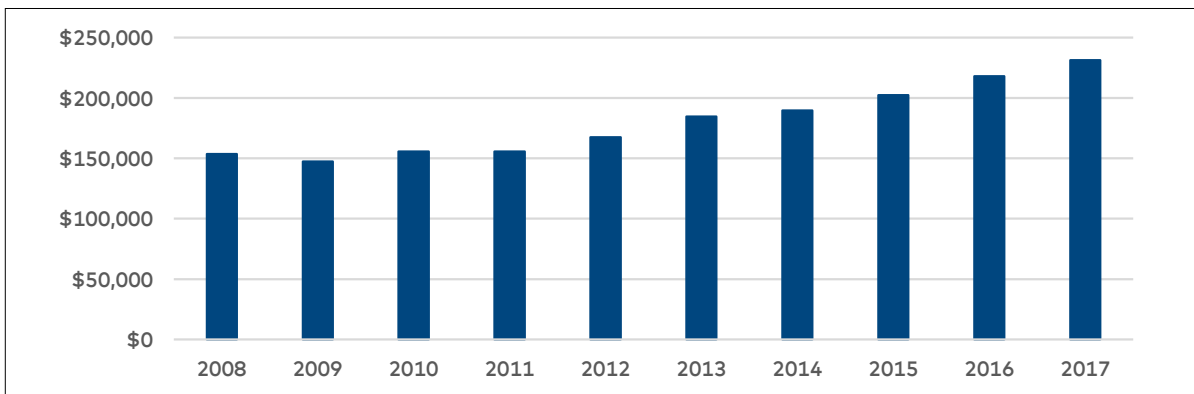
- The median home price in Houston reached \$206,278 in 2017, a new cycle high. With the average monthly rate at \$1,102 as of June 2018, renting remains the most expensive option, accounting for 20% of the median income. Meanwhile, the average mortgage payment equated to only 15%.
- Prior to the hurricane, Houston was one of the most affordable Texas metros. However, recent high demand pushed home prices above 2006 figures. The affordable rental housing market rapidly reached no-availability status, due in part to the displacement of residents. According to Yardi Matrix data, between 7% and 11% of the metro's multifamily stock became uninhabitable in the wake of Harvey.

Houston Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Houston Median Home Price



Source: Moody's Analytics

Population

- Houston added almost 95,000 residents in 2017 for a 1.4% expansion, twice the national average.
- Since 2013, the metro gained more than 560,000 residents, making it one of the fastest-growing cities in the U.S.

Houston vs. National Population

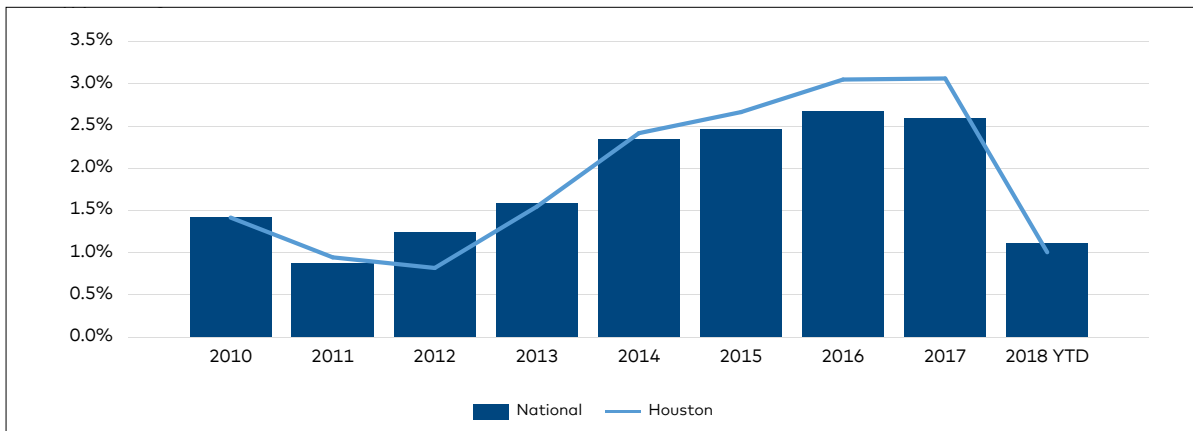
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Houston Metro	6,329,553	6,496,862	6,664,187	6,798,010	6,892,427

Sources: U.S. Census, Moody's Analytics

Supply

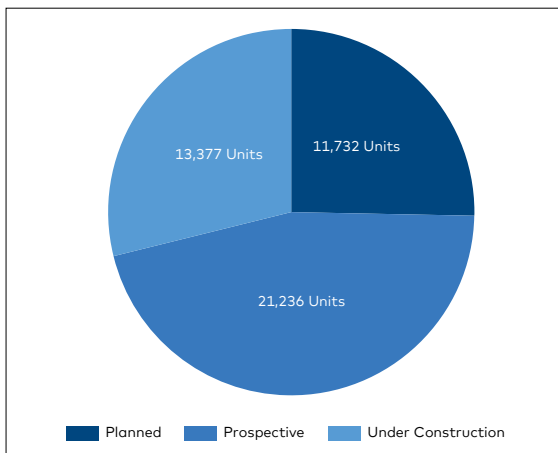
- Houston added approximately 5,200 units this year through June. This comes on the heels of last year's cycle high of more than 19,000 units, which accounts for 3.1% of the total stock. All properties delivered in the first two quarters of 2018 are Class A communities, in line with nationwide trends. We expect the completion of at least 6,400 units for the whole of 2018.
- The metro had more than 13,000 units under construction as of June, with another 33,000 units in the planning and permitting stages. Houston's occupancy rate for stabilized properties was 93.8% as of April, one of the lowest among major U.S. metros. Nonetheless, surging demand and accelerated job growth are expected to boost the absorption of new apartments.
- West End/Downtown leads multifamily development by far, with 4,458 units underway, more than one-third of the whole pipeline. Other core submarkets such as the East End (725 units under construction) and Cloverleaf (546 units) also have sizable pipelines. However, the largest property underway is in Katy. Judwin Realty Group is building ParkLane Fulshear, a 410-unit community in western Houston, slated for completion by the end of this year.

Houston vs. National Completions as a Percentage of Total Stock (as of June 2018)



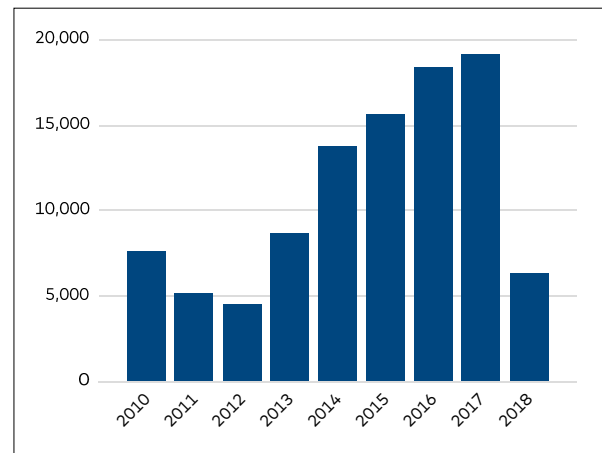
Source: YardiMatrix

Development Pipeline (as of June 2018)



Source: YardiMatrix

Houston Completions (as of June 2018)

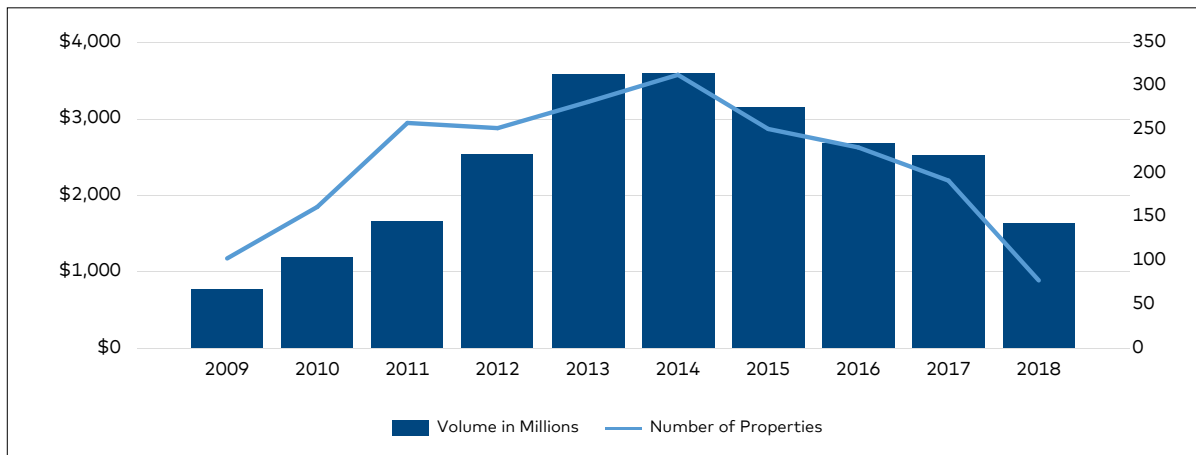


Source: YardiMatrix

Transactions

- Although investor appetite had gradually dampened due to oversupply fears and the city's economy, more than \$3.2 billion in multifamily assets traded year-over-year through June. Roughly \$1.6 billion in properties changed hands during the first half of 2018.
- The average price per unit exceeded \$100,000 year-to-date through June. Real estate investors have regained their interest in assets located in flood-free, calamity-sheltered areas. Nonetheless, the average unit still traded well below the \$150,760 U.S. figure.
- Western submarkets such as Bammel (\$254 million) and Jersey Village/Salsuma (\$250 million) attracted the most capital in the 12 months ending in June. Nitya Capital and Mosaic Residential were two of the most active companies in the metro, having invested more than \$380 million combined during this time frame.

Houston Sales Volume and Number of Properties Sold (as of June 2018)



Source: YardiMatrix

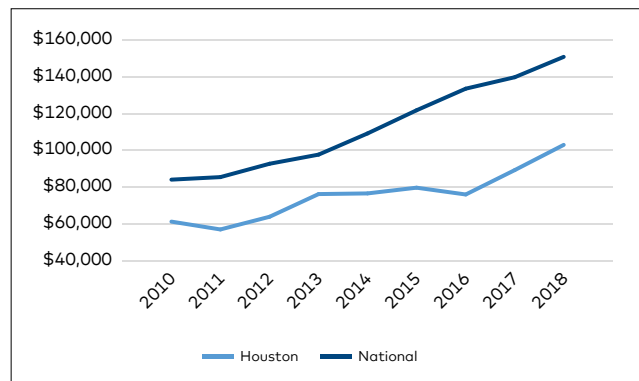
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Bammel	254
Jersey Village/Salsuma	250
West Bellaire	187
Louetta	165
Piney Point Village-South	139
Royal Oaks Country Club	138
West End/Downtown	133
Nassau Bay/Seabrook	118

Source: YardiMatrix

¹ From July 2017 to June 2018

Houston vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:



Dalcor Holdings Secures \$52M For Affordable Housing

The company's plan to acquire and restore the 805-unit Vista on Gessner is significant to the area, as Hurricane Harvey caused damage to the housing stock.



JV Lands \$72M For Houston Asset

Dinerstein Cos. and Coventry Real Estate Advisors secured the loan to refinance Millennium High Street, a 340-unit community with 26,000 square feet of retail space in the Inner Loop/River Oaks submarket.



HUD Approves \$5B State Action Plan For Harvey

The Texas General Land Office will directly administer and oversee the programs associated with the Community Development Block Grant – Disaster Recovery funds.



Ryan Cos., Grand Living Plan 2 Luxury Senior Communities In Texas

The properties include the Grand Living at Riverstone in Sugar Land and Grand Living at Georgetown. Both will have 180 units and feature an age-in-place model.



Houston Apartment Portfolio Attracts Competitive Offers

Florida-based One Real Estate Investment has purchased Houston Southwest Two Pack, which comprises Airport Gardens and Airport Landing, totaling 412 units.

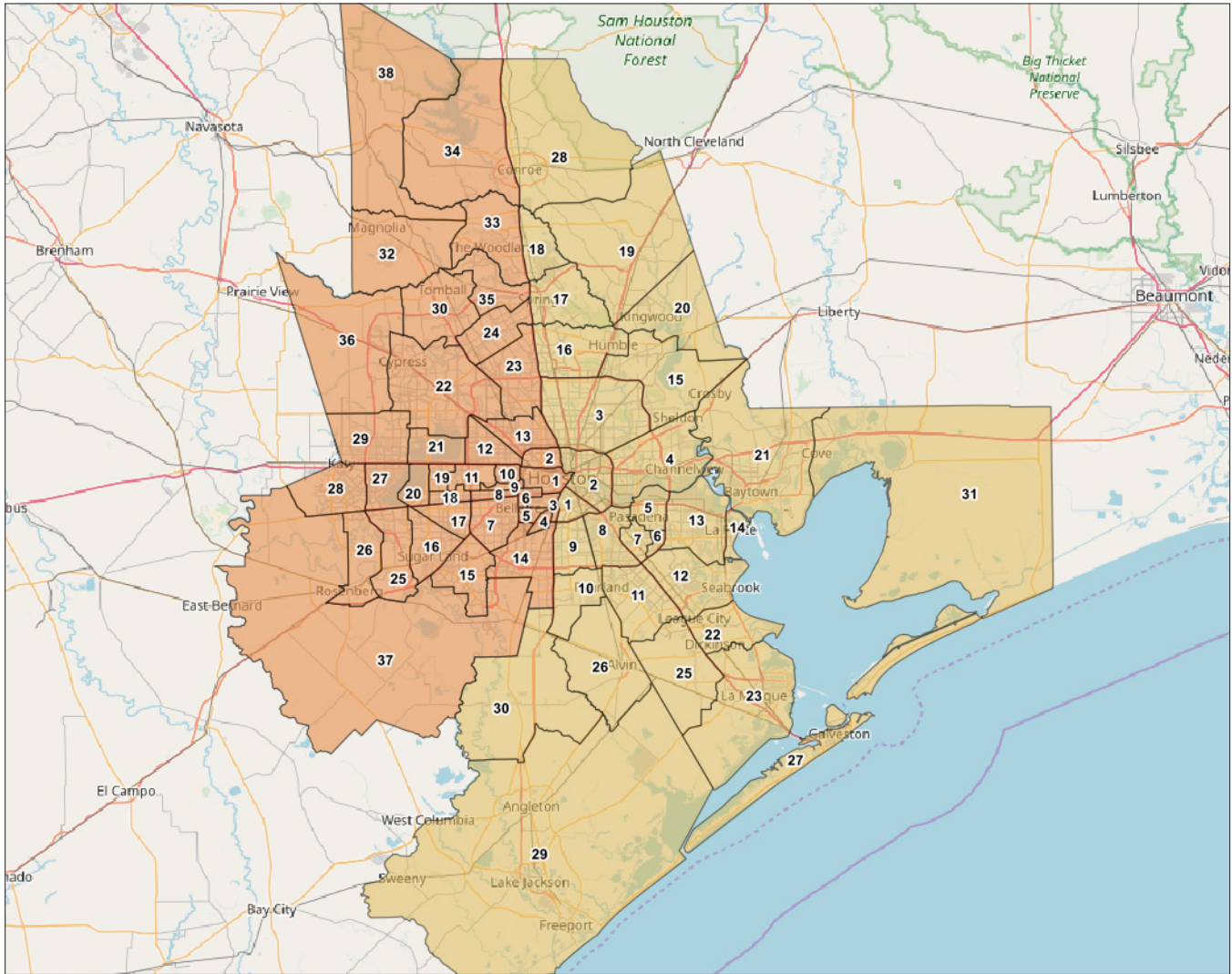


Advenir Secures \$173M to Refinance Denver, Houston Properties

HFF arranged the loans on behalf of the borrower through Freddie Mac's CME Program. Proceeds will refinance floating-rate debt on five assets.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

Houston Submarkets



Area #	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	Sugar Land-South
16	Sugar Land-West
17	Sugar Land-North
18	Royal Oaks Country Club
19	Addicks
20	George Bush Park

Area #	Submarket
21	Bear Creek Park
22	Jersey Village/Salsuma
23	Bammel
24	Louetta
25	Richmond
26	Rosenberg
27	Cinco Ranch-South
28	Katy
29	Cinco Ranch-North
30	Tomball
31	Outlying Fort Bend County
32	Magnolia
33	The Woodlands
34	Conroe-West
35	Avonak
36	Northwest Harris County
37	Northwest Brazoria County
38	West Montgomery County

Area #	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 #	Submarket
17	Spring
18	The Woodlands-East
19	Porter
20	Kingwood
21	Baytown
22	League City/Dickenson
23	Texas City/San Leon
25	League City-West
26	Alvin
27	Galveston
28	Clear Creek
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 may 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 may 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, may 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.

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