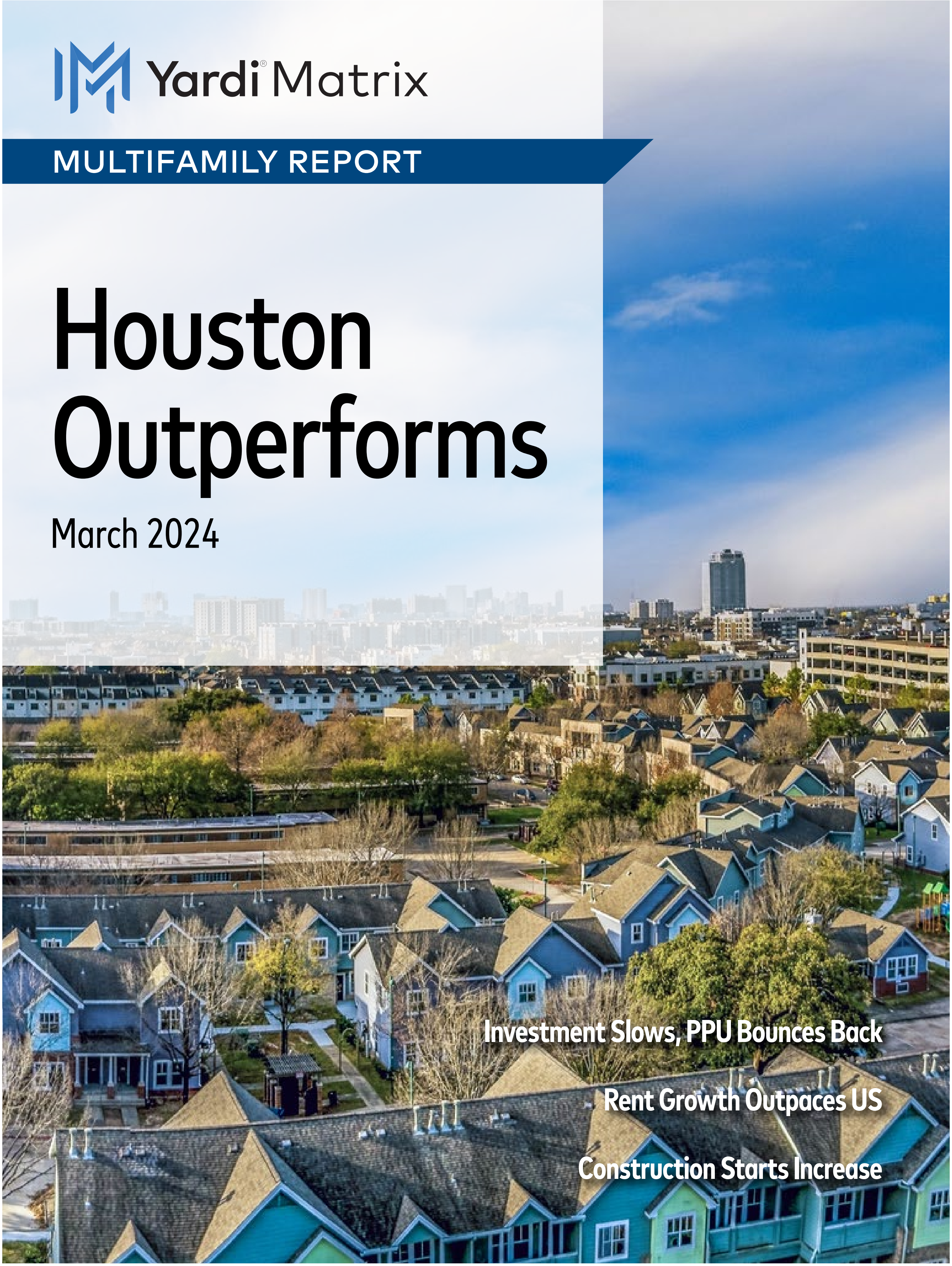
Yardi Matrix

MULTIFAMILY REPORT

# Houston Outperforms

March 2024



Investment Slows, PPU Bounces Back

Rent Growth Outpaces US

Construction Starts Increase

# HOUSTON MULTIFAMILY

Yardi Matrix

## Pipeline Grows, Rents Endure

Houston multifamily fundamentals entered 2024 on a steady path. Rent growth outpaced the nation and remained flat on a trailing three-month basis, while the U.S. rate contracted 0.2%. Year-over-year, Houston rents rose 0.7% as of January, to $1,351, outperforming the U.S. average, which climbed 0.5%, to $1,710. Meanwhile, the metro's occupancy rate slid 50 basis points in the 12 months ending in January, to 92.9%.

Unemployment clocked in at 3.8% in December, slightly behind the 3.7% U.S. figure and just ahead of the 3.9% state rate. Houston's jobless rate was the highest among major Texas metros. In the 12 months ending in November 2023, employment expanded by 2.9%, or 77,800 net jobs, surpassing the 2.2% national rate. All sectors gained jobs, except for information, which remained flat, and mining, logging and construction, which lost 2,400 jobs. Education and health services led gains (23,400 jobs), followed by trade, transportation and utilities (18,300 jobs) and professional and business services (10,500 jobs).

Developers completed 1,201 units in January and had another 33,211 underway. Yearly deliveries moderated further in 2023. However, new construction starts jumped nearly 20% year-over-year, even as the national pipeline slowed. Investment was tepid, with only $119 million in assets trading in January. However, the price per unit rose to $158,865 for the limited sample size.

## Market Analysis | March 2024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### Recent Houston Transactions

Encore Rise

City: Conroe, Texas
Buyer: Quarry Capital
Purchase Price: $47 MM
Price per Unit: $183,984

The Meritage

City: Houston
Buyer: Houston Housing Authority
Purchase Price: $43 MM
Price per Unit: $181,100

Bayou on the Bend

City: Houston
Buyer: Galium Capital
Purchase Price: $43 MM
Price per Unit: $179,063

The Henry at Lake Houston

City: Humble, Texas
Buyer: Momentum Multifamily
Purchase Price: $42 MM
Price per Unit: $143,514

## RENT TRENDS

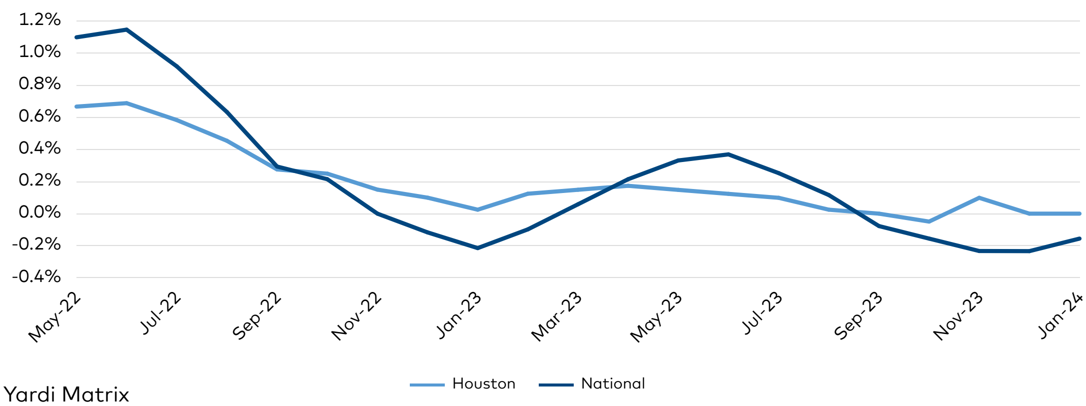
- Houston rents remained flat on a trailing three-month (T3) basis for the second consecutive month in January, at $1,351. Meanwhile, the national average contracted 0.2%, to $1,710 in January. Bucking the national trend, the metro's post-pandemic rent growth remained positive, albeit slow or, at times, flat. Year-over-year, Houston rents were up 0.7%, above the 0.5% U.S. rate.

- In January, Lifestyle rents held steady for the third straight month, at $1,627. Meanwhile, working-class Renter-by-Necessity rates saw a slight decline, dropping 0.1% on a T3 basis, to $1,075, marking the first decrease in a while. Occupancy in stabilized properties decreased 50 basis points in the 12 months ending in January, to 92.9%. The decline was greater in the RBN segment, which fell 60 basis points, to 92.3%. Lifestyle occupancy slid 30 basis points, to 93.4%, during the period.

- Average asking rents in the most expensive submarkets continued to increase: West End/Downtown (1.1% year-over-year to $2,074) and the Museum District (0.1% to $2,066). The former had one of the largest pipelines in January, which might soften gains as deliveries arrive. Clear Creek was the most expensive submarket on the eastern side of the metro, and the average rent there declined 2.0%, to $1,593.

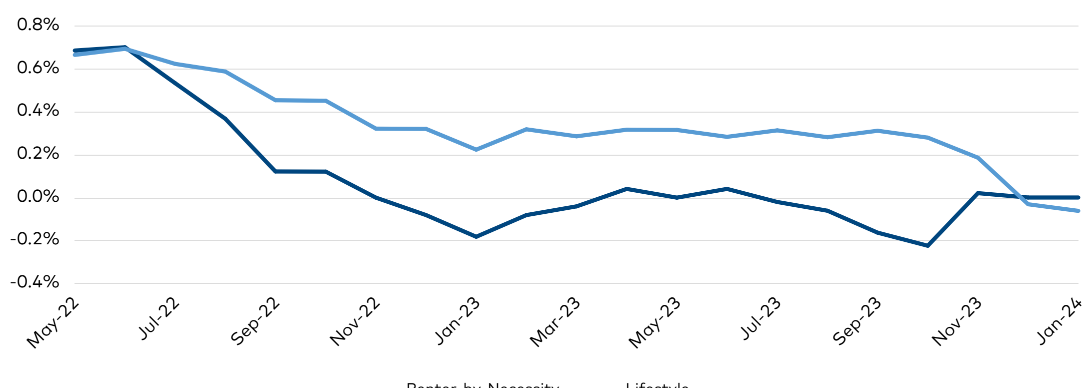
- Houston's single-family rental segment outperformed multifamily. The average rent increased 1.9% year-over-year through January to $2,019, while the occupancy rate was up 2.6%, to 96.5%, during the same time frame.

**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 ended the year at 3.8%, slightly above the 3.7% national rate but outperforming Texas' 3.9%, according to preliminary data from the Bureau of Labor Statistics. Among major Texas metros, Houston posted the highest jobless rate, trailing Austin (3.0%), Dallas (3.3%) and San Antonio (3.1%). Despite slower performance compared to its peers, the metro's unemployment rate had a positive streak in the second half of 2023, marking a 1.1% improvement from the 4.9% recorded in August.
- In the 12 months ending in November 2023, Houston's employment market expanded 2.9%, or 77,800 net jobs, above the 2.2% national rate. All but two sectors gained jobs during the period—information remained flat, while mining, logging and construction lost 2,400 positions.
- Education and health services led job gains, adding 23,400 positions during the interval. The sector's growth is being driven by projects such as Helix Park, a medical campus. Its initial phase has already opened, and upon full completion, it will provide a 37-acre haven for the life sciences sector.
- Trade, transportation and utilities, added 18,300 jobs, fueled by strong performance at Port Houston. In December, cargo volumes rose 11% year-over-year to 325,020 total TEU, a new record for loaded exports.

### Houston Employment Share by Sector

| | | Current Employment | |
|---|---|---|---|
| Code | Employment Sector | (000) | % Share |
| 65 | Education and Health Services | 462 | 13.6% |
| 40 | Trade, Transportation and Utilities | 710 | 20.9% |
| 60 | Professional and Business Services | 565 | 16.6% |
| 90 | Government | 458 | 13.5% |
| 55 | Financial Activities | 189 | 5.6% |
| 30 | Manufacturing | 234 | 6.9% |
| 70 | Leisure and Hospitality | 347 | 10.2% |
| 80 | Other Services | 119 | 3.5% |
| 50 | Information | 33 | 1.0% |
| 15 | Mining, Logging and Construction | 288 | 8.5% |

Sources: Yardi Matrix, Bureau of Labor Statistics

## Population

- Houston gained 93,649 residents in 2022, for an annual growth rate of 1.3%. That was more than three times the 0.4% national rate.
- The 2022 figure marked an acceleration for metro Houston, with the previous rate at 1.0% in 2021.

### Houston vs. National Population

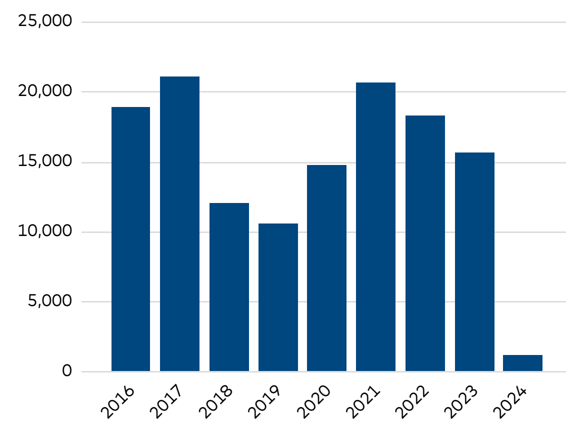
| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| National | 324,697,795 | 326,569,308 | 329,725,481 | 331,097,593 |
| Houston | 6,884,138 | 6,979,613 | 7,048,954 | 7,142,603 |

Source: U.S. Census

## SUPPLY

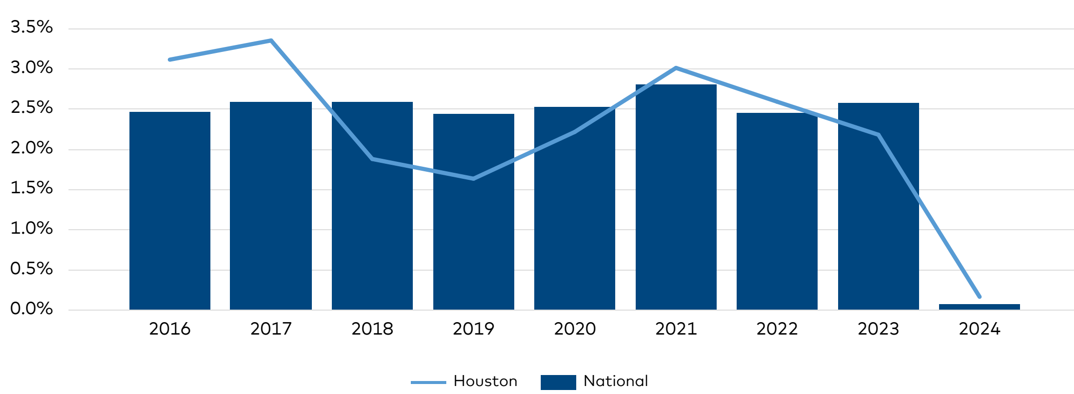
- Developers brought 1,201 Lifestyle units, or 0.2% of existing stock, online in January. All units were in submarkets on the western side of the metro. Meanwhile, the national average was below 0.1%. Last year, Houston's deliveries amounted to 15,719 units (2.2% of stock), on a moderating trend for the second consecutive year, but higher than the volumes registered in 2020 and 2019.
- In January, the construction pipeline consisted of 33,211 units underway and another 65,000 units in the planning and permitting phases. The composition was heavily tilted toward the upscale segment, which accounted for 90% of units under construction. Units in fully affordable communities represented 6% of the total pipeline.
- Houston's fundamentals once again tilted in the opposite direction of general trends, with multifamily starts actually increasing in 2023 compared to the previous year. Last year, developers broke ground on 18,303 units across 77 properties, up almost 20% year-over-year.
- Construction activity remained more intense on the western side of the metro, accounting for nearly 80% of units underway. Cinco Ranch–North led by volume, with 3,934 units under construction, followed by the West End/Downtown (2,898 units). On the metro's eastern side, the East End led with 2,509 units.
- The largest project underway as of January was Resia Ten Oaks in Cinco Ranch–North. The 573-unit project broke ground in July 2022 and is slated for completion in mid-2024. Owner Resia took out a $72 million construction loan from Santander Bank.

**Houston Completions** (as of January 2024)




Source: Yardi Matrix

**Houston vs. National Completions as a Percentage of Total Stock** (as of January 2024)

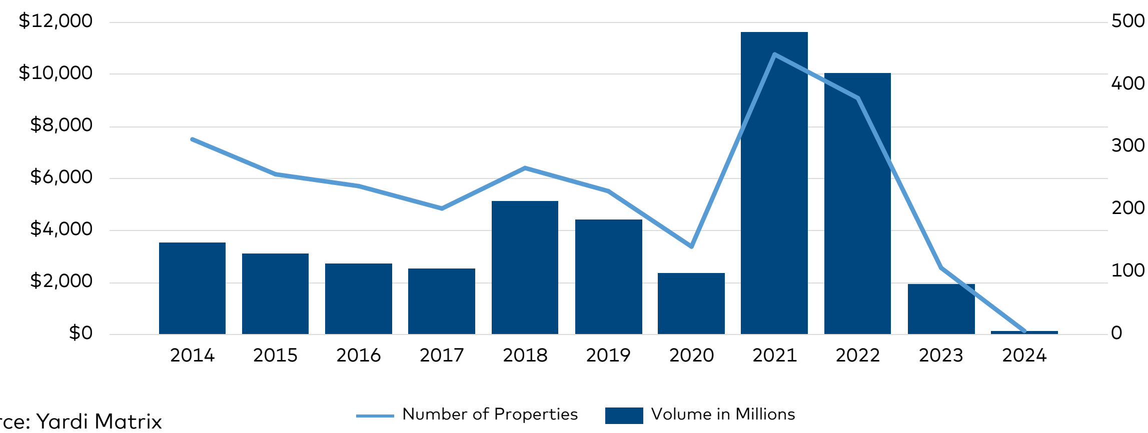



Source: Yardi Matrix

## TRANSACTIONS

- Investors traded $119.5 million in multifamily assets in January, with transaction activity still shaken by expectant capital markets. Houston investment activity plummeted in 2023, when only $1.9 billion in multifamily assets changed hands, marking both the lowest volume by dollar amount and the lowest volume of properties (107) over the past decade.
- The average price per unit for January sales was $158,865, a substantial 43% increase from last year's figure, albeit based on a minimal sample size. Meanwhile, the U.S. per-unit price clocked in at $201,010. The sales composition contributed to the increase, as four of the six assets that traded in January were upscale properties.
- In line with the pipeline, transactions were heavily concentrated in the metro's western half during the 12 months ending in January. Of the top 10 submarkets by dollar volume, only three were in Houston's eastern half.

**Houston Sales Volume and Number of Properties Sold** (as of January 2024)




Source: Yardi Matrix

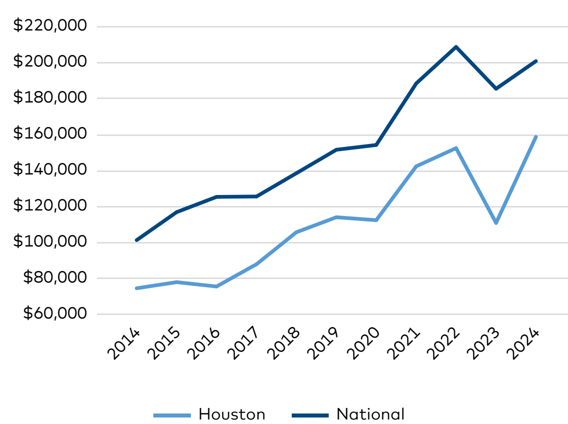
**Top Submarkets for Transaction Volume**[1]

| Submarket | Volume ($MM) |
|---|---|
| Richmond | 165 |
| Rosslyn | 160 |
| West Bellaire | 145 |
| West End/Downtown | 117 |
| League City/Dickenson | 101 |
| Piney Point Village–South | 101 |
| River Oaks | 96 |

Source: Yardi Matrix

[1] From February 2023 to January 2024

**Houston vs. National Sales Price per Unit**




Source: Yardi Matrix

## Can the Texas Multifamily Market Grow More in '24?

By Adina Rogoz

Following the pandemic-induced boom in population, investors' and developers' interest in the Texas multifamily market grew tremendously. In Houston, Austin and Dallas-Fort Worth combined, some $8.5 billion in multifamily assets changed hands in 2023. Sandy Schmid, director of acquisitions and development with StarPoint Properties, expands on what's behind the state's allure, and also touches on the potential headwinds this year could bring.

*What makes Texas multifamily so attractive to investors today?*

Major markets of Texas have been hubs of growth for quite some time, demonstrating strong immigration patterns and job growth. Texas has a highly diversified economy, with a wide range of employment opportunities and industries that are alive and well.

With such rapid population growth year after year, the need for multifamily housing is acute. Multifamily assets are an important solution to filling housing demand.

*Is there anything in particular that Texas investors worry about?*

While the Texas markets remain among some of the most sought-after markets in the country, the state—like any other region—is experiencing the impact of interest rate hikes. Investors are concerned about cap rates and future property values. However, even with this concern, the Texas market remains at the forefront of many investors' priorities.

*What will make multifamily assets competitive as more investors enter the Texas market?*

Making sure that you have the right product in the right location is key. Listen to local renters, look at tenant interest trends, and take note of desired amenities within homes and living spaces.

*How will the new wave of supply impact demand in the near future?*

A scarcity of construction financing is an issue all developers will face and may delay construction starts. This could give markets time to absorb the current construction pipeline which is good news for existing units and under construction units, as they're poised for plenty of opportunity.

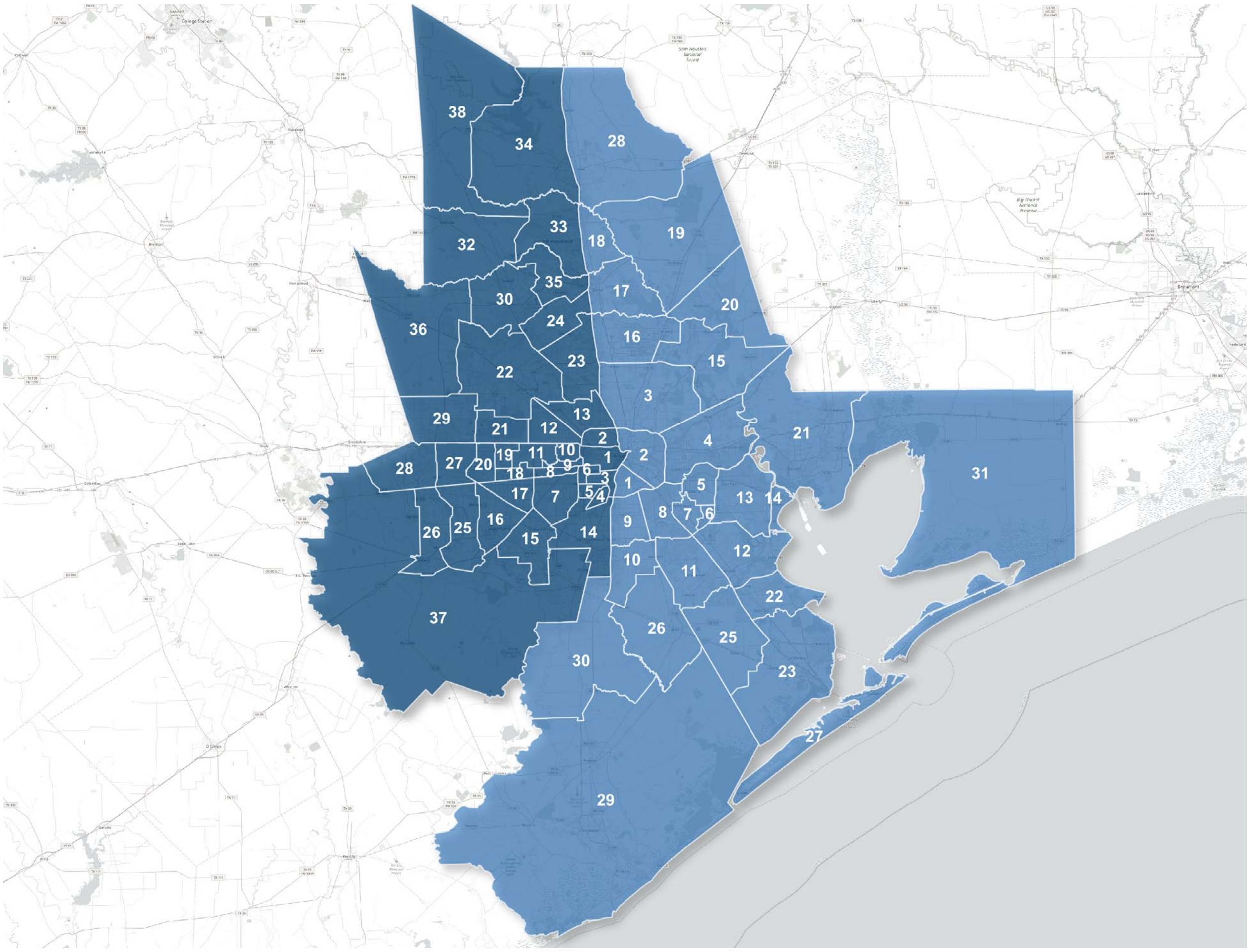
Big picture, there is a possibility of rent growth remaining in that 2-to-3 percent annual growth range as developers start to deliver the bulk of what is under construction, but as more product gets absorbed, we'll see rent growth reaccelerating again which will offer market opportunity.

*Do you remain bullish on the state's long-term growth prospects?*

Given the current state of the national economy, yes, we continue to remain bullish on long-term prospects. However, for 2024, we anticipate some bumps in the road. Texas is one of the most sought-after markets in the country, yet there are still fewer buyers active in the market now compared to two years ago.

*(Read the complete interview on multihousingnews.com.)*

## 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.