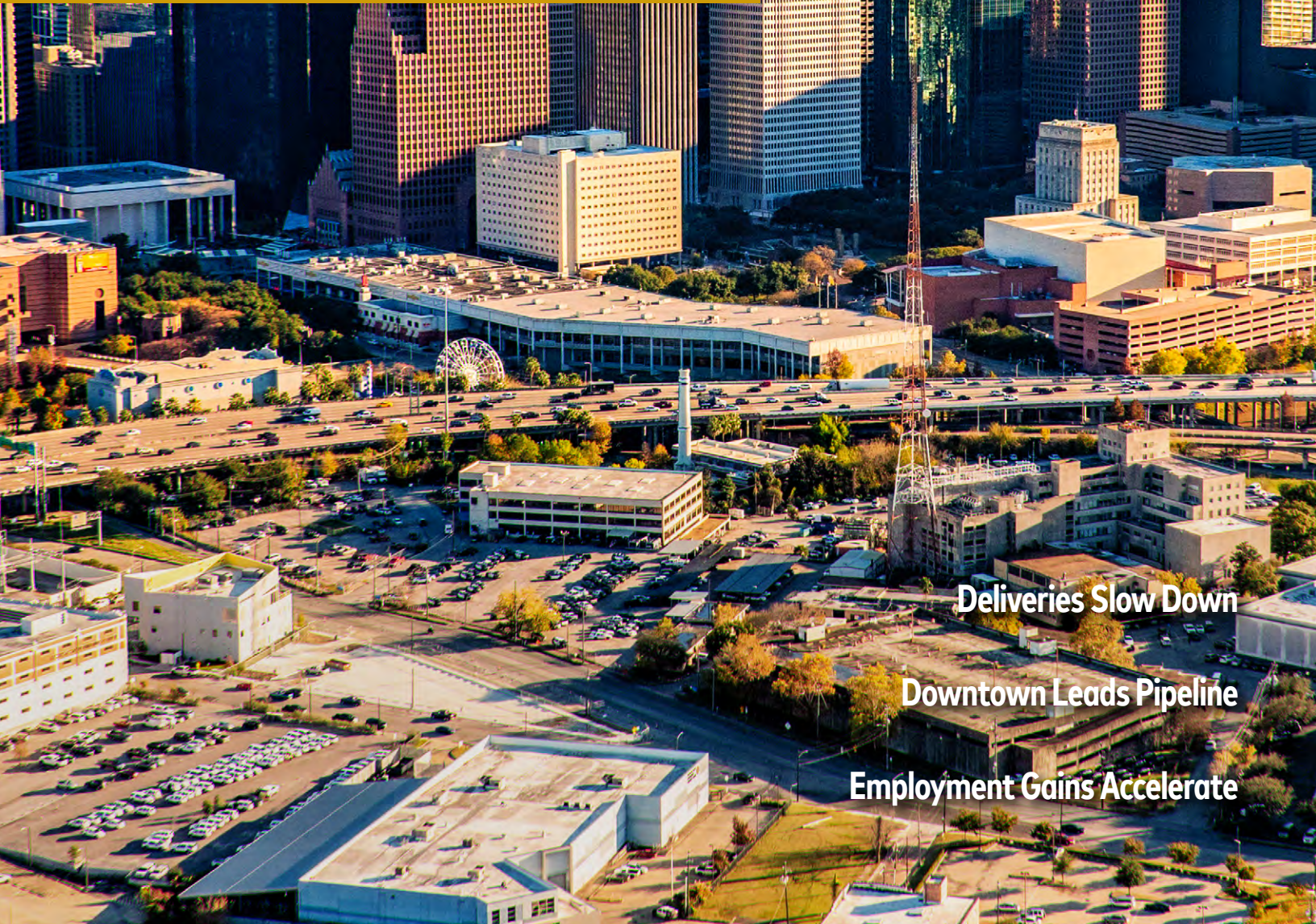# Yardi® Matrix

Productive Houston

Winter 2020

Deliveries Slow Down

Downtown Leads Pipeline

Employment Gains Accelerate

Yardi® Matrix

Bayou City Relies On Diversifying Economy

Despite several woes during the first half of this cycle, Houston's economy is once again on a prolonged upswing. Rent growth is slowly but steadily rebounding again, bolstered by strong employment gains and a solid demographic expansion.

Metro Houston gained 82,800 jobs in the 12 months ending in September 2019, with the professional and business services sector accounting for nearly one-third of the total. Manufacturing and construction rounded out the top three, gaining a collective 25,600 positions. The latter is likely to get another boost from one of the largest infrastructure projects in the country. Texas Central has signed a design-build contract with the joint venture of Salini Impregilo and Lane Construction Corp. for a high-speed rail line connecting Houston and Dallas. The team aims to kick off the project this year, with the total civil works investment expected to exceed $14 billion.

More than 80,000 units were delivered between 2014 and 2018, creating fears of overbuilding in select submarkets. On the other hand, development decelerated in 2019 with only 5,814 units completed year-to-date through November. Meanwhile, multifamily investment sales remained strong. Although underperforming once again in rent growth, Houston's multifamily sector is expected to remain relatively steady, at least in the short term, due to positive population and job growth fundamentals.

Market Analysis | Winter 2020

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Recent Houston Transactions

Alexan Enclave

City: Houston
Buyer: F&B Capital
Purchase Price: $60 MM
Price per Unit: $168,098

Everly

City: Houston
Buyer: Praedium Group
Purchase Price: $53 MM
Price per Unit: $137,812

The Promenade
Champions Forest

City: Houston
Buyer: Madera Cos.
Purchase Price: $52 MM
Price per Unit: $127,558

Asheville at Spring Branch

City: Houston
Buyer: Knightvest Capital
Purchase Price: $51 MM
Price per Unit: $151,587

➤ Houston rents were up 1.4% year-over-year through November, less than half of the 3.1% national rate. The average rent reached $1,127, below the $1,473 national figure. Houston's multifamily market was a roller coaster this cycle, hand in hand with the metro's economy; the market took a hit from the decline in oil prices coupled with an oversize rental pipeline, only to receive a temporary boost in the aftermath of Hurricane Harvey. Rent growth eventually picked up slowly, moving closer to a more predictable trend.

➤ Rents in the working-class Renter-by-Necessity segment led growth, up 1.8% year-over-year through November to an average of $897. Meanwhile, Lifestyle rates were up only 1.0% to $1,400.

➤ Eastern Houston areas such as Alvin (average rent up 4.0% to $917), The Woodlands–East (3.8% to $1,161) and South Houston-Crenshaw Park (3.6% to $1,036) recorded some of the strongest hikes. However, core urban submarkets in the metro's western half remained the most expensive, with rents hitting $1,960 in the Museum District, $1,839 in the West End/Downtown and $1,730 in River Oaks.

➤ Houston's population continued to expand rapidly, twice as fast as the national rate. This, along with the city's diversifying economy, is likely to sustain demand and slowly improve rent growth going forward.

Houston vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
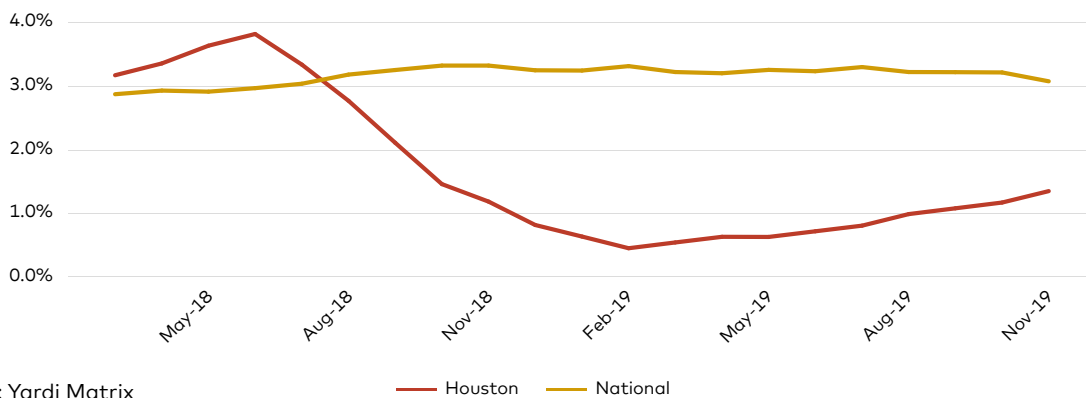
Source: Yardi Matrix

Houston — National

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

Source: Yardi Matrix

Lifestyle — Renter-by-Necessity
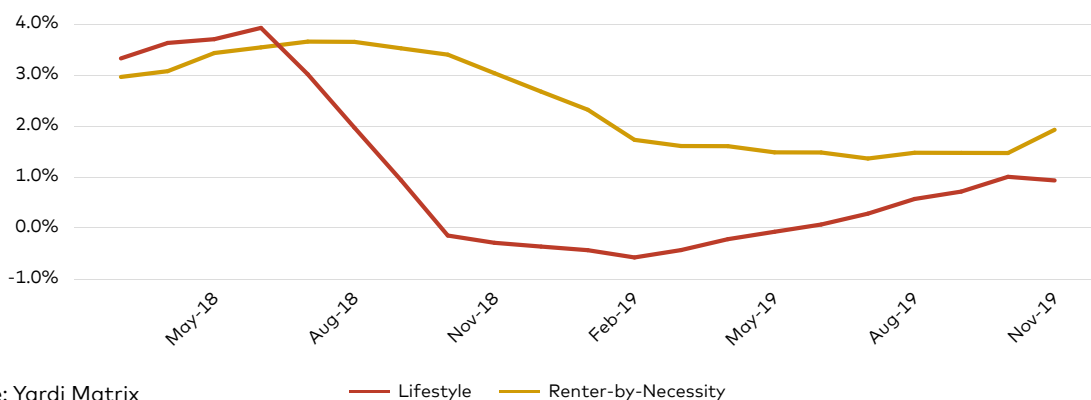
ECONOMIC SNAPSHOT

➤ Houston gained 82,800 jobs in the 12 months ending in September, up 2.8% and 100 basis points above the national rate. While Dallas (3.2%) still led the state for the pace of job creation, Houston's growth is on a strong upswing.

➤ Professional and business services led gains with 26,300 jobs, increasing demand for Lifestyle rentals along the way. Moreover, with the metro's economy broadly diversifying away from energy, Houston continues to attract businesses looking to expand or relocate. Tech company Bill.com opened its first office outside of the San Francisco Bay area, making its debut in West Houston. Meanwhile, Hines and Ivanhoe

Cambridge's 47-story Texas Tower has two anchor tenants: Vinson & Elkins signed a 16-year lease for 212,000 square feet and Hines will relocate its headquarters to 155,000 square feet in the upcoming property.

➤ Construction and manufacturing gained 25,600 positions combined. In November, a $3.5 billion bond for new transit projects was approved. The money will be used to boost investment in the region's transportation system over the next two decades. In the meantime, crews began work on the first phase of the $1.2 billion George Bush Intercontinental Airport expansion.

Houston vs. National Employment Growth (Year-Over-Year)
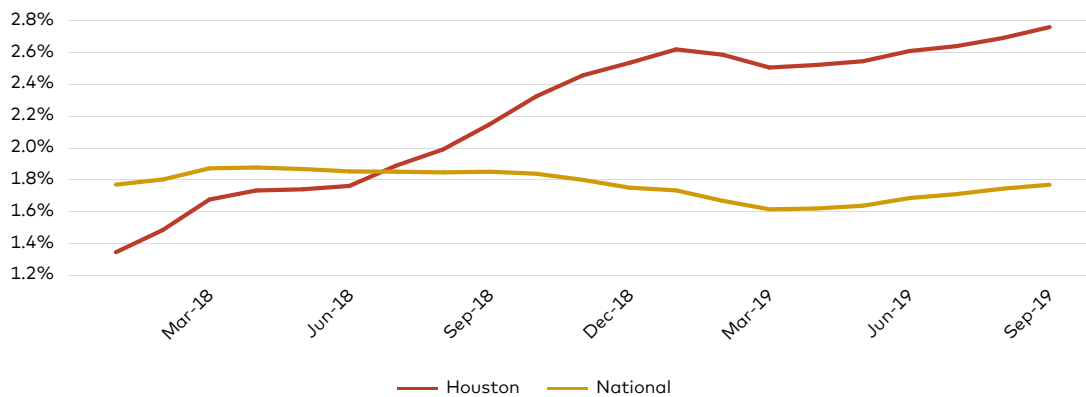
Sources: Yardi Matrix, Bureau of Labor Statistics (not seasonally adjusted)

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

| Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	521	16.4%	26,300	5.3%
15	Mining, Logging and Construction	319	10.1%	15,300	5.0%
30	Manufacturing	242	7.6%	10,300	4.5%
80	Other Services	120	3.8%	8,600	7.7%
90	Government	414	13.1%	6,300	1.5%
65	Education and Health Services	402	12.7%	5,300	1.3%
40	Trade, Transportation and Utilities	627	19.8%	4,800	0.8%
70	Leisure and Hospitality	330	10.4%	4,200	1.3%
55	Financial Activities	168	5.3%	3,300	2.0%
50	Information	30	0.9%	-1,600	-5.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Affordability

➤ Houston home prices continued to increase through the second part of this cycle, fueled by strong employment growth and continued population increases. The median home price in Houston climbed to $217,789 in 2018, up 44% from this decade's low point of $151,004 in 2009. Despite the steady rise of home values, the metro remained one of the most affordable large cities in Texas, alongside San Antonio ($203,006 median home price).

➤ In 2018, the average rent accounted for 20% of the area median income, while the average mortgage payment equated to just 16%.

Houston Rent vs. Own Affordability as a Percentage of Income
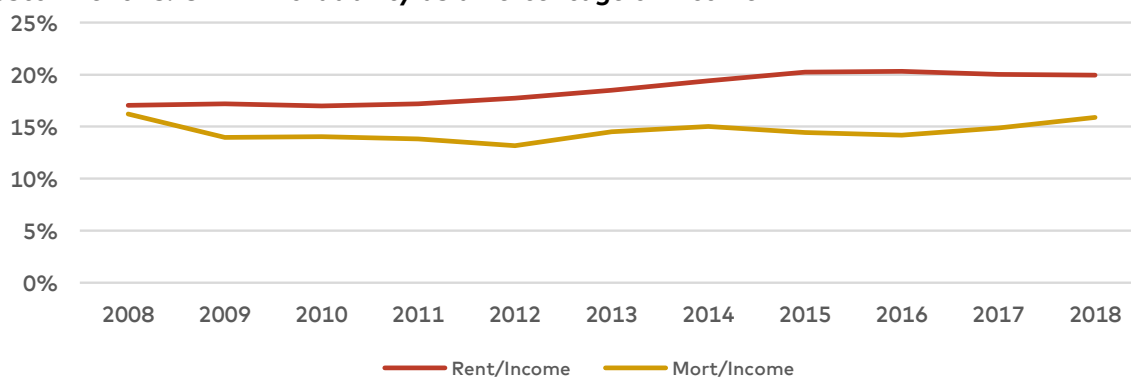
Sources: Yardi Matrix, Moody's Analytics

Houston Median Home Price
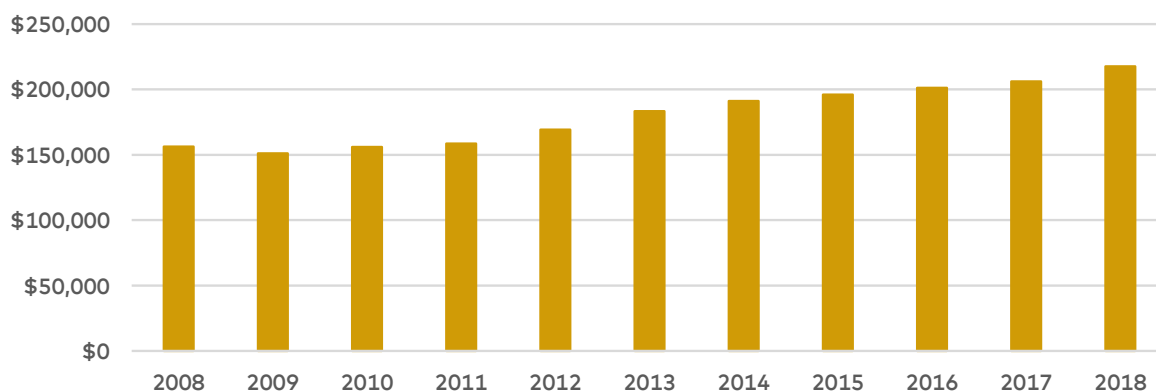
Source: Moody's Analytics

Population

➤ Metro Houston gained 91,689 residents in 2018, marking a 1.3% increase, more than double the 0.6% national figure.

➤ Since 2010, Houston has gained more than 1 million residents, for a 17.7% demographic expansion.

Houston vs. National Population

|	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Houston Metro	6,676,565	6,812,260	6,905,695	6,997,384

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

➤ Houston had 19,955 units under construction as of November, with 80% of the upcoming supply catering to Lifestyle renters. One urban core submarket—the West End/Downtown (4,982 units)—accounted for a quarter of all apartments underway, followed by Cinco Rancho-North, The Heights and the East End, with more than 1,000 units each.

➤ After five years that brought more than 80,000 new apartments across metro Houston, the development surge halted. The metro added only 5,814 units in 2019 through November.

➤ Houston's prolonged supply boom, which caught some developers on the wrong foot following the 2014 oil price crisis, has taken its toll. The metro's occupancy rate in stabilized properties clocked in at 93.0% as of October, up 10 basis points over 12 months, but 200 basis points below the national average.

➤ Although core Houston submarkets still lead the pipeline, development in the suburbs remained significant, particularly in the metro's western half. Howard Hughes Corp.'s Two Lakes Edge was the largest project underway as of November. The 386-unit, eight-story building at Hughes Landing Boulevard and Lake Woodlands Drive topped out in early June and is expected to come online this spring.

Houston vs. National Completions as a Percentage of Total Stock (as of November 2019)
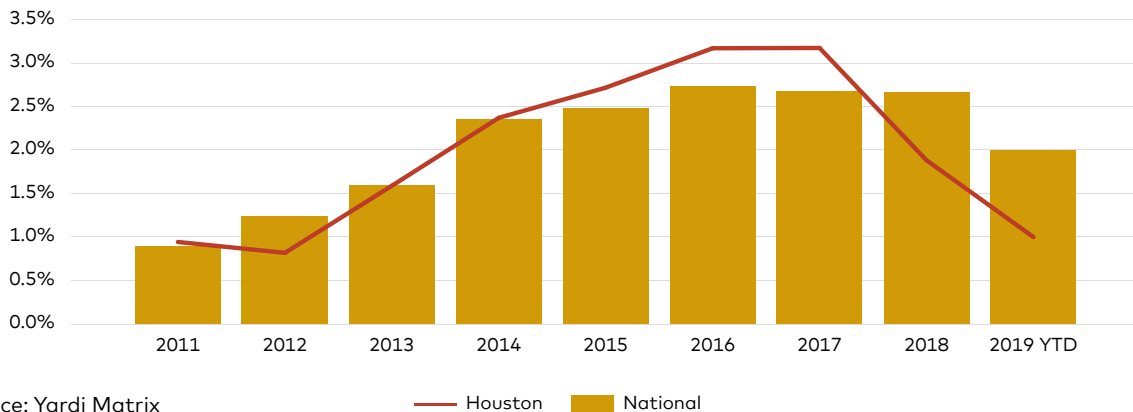
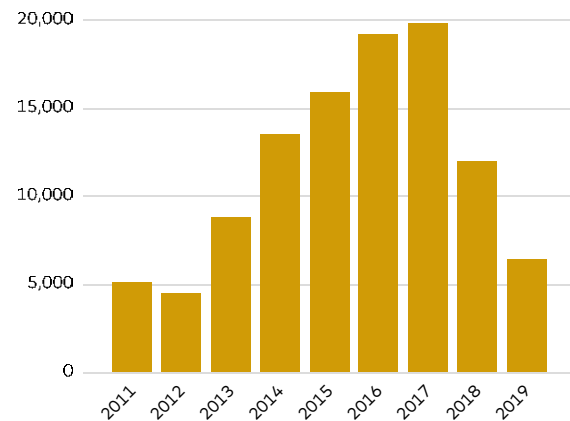Source: Yardi Matrix

Development Pipeline (as of November 2019)

24,228 Units
23,175 Units
19,955 Units

■ Planned ■ Prospective ■ Under Construction
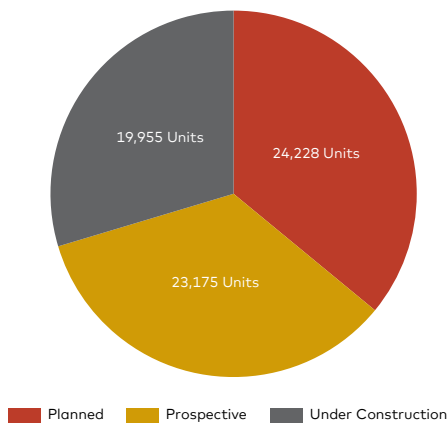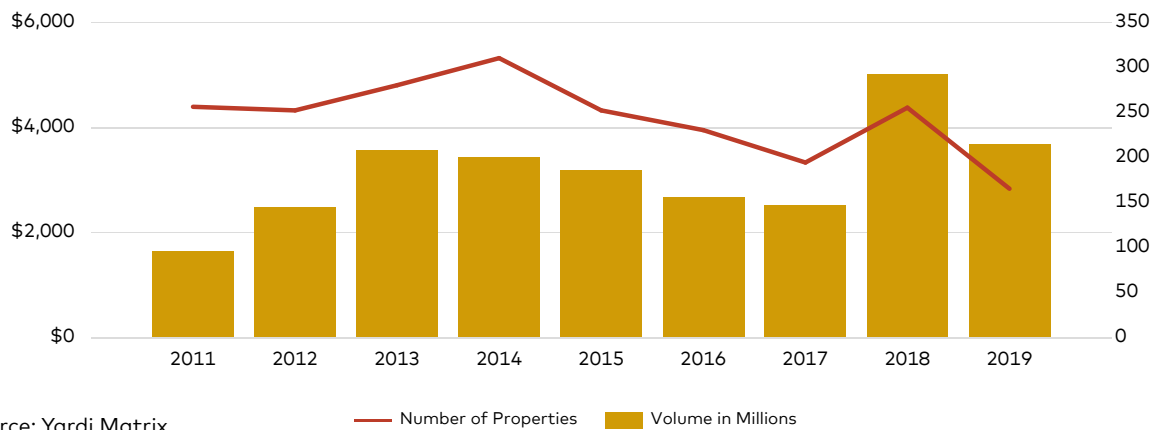
Source: Yardi Matrix

Houston Completions (as of November 2019)

Source: Yardi Matrix

➤ Following the 2018 cycle high, when more than $5 billion in multifamily assets traded, 2019 came in second for the whole decade. During the first 10 months of the year, $3.7 billion in communities had already changed hands.

➤ The average per-unit price for the first 10 months of 2019 climbed to $111,204, although still below the $162,751 national average, with investors targeting both stabilized Class A properties and value-add assets.

➤ Houston's western half took the lion's share of investment activity, encompassing 19 of the top 20 submarkets for transaction volume in the 12 months ending in October.

➤ Although Jersey Village/Salsuma ($457 million) was the most sought-after submarket, the largest transaction of the 12 months ending in October took place in Bellaire, where Alliance Residential Co. purchased the 474-unit Broadstone Toscano for $98 million, or $206,751 per unit.

Houston Sales Volume and Number of Properties Sold (as of November 2019)

Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Jersey Village/Salsuma	457
Addicks	344
Bammel	284
Nassau Bay/Seabrook	254
The Woodlands	228
Piney Point Village-North	156
Richmond	156
Bellaire	149

Source: Yardi Matrix
[1] From November 2018 to October 2019

Houston vs. National Sales Price per Unit
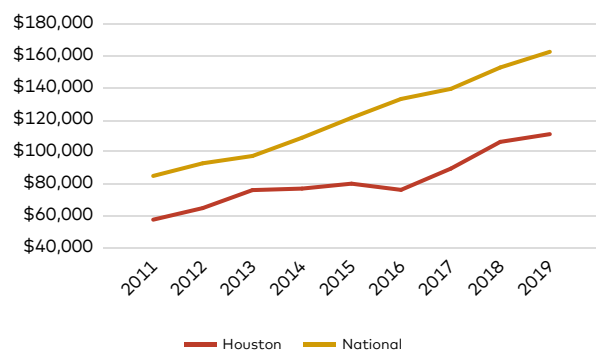
Source: Yardi Matrix

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GID Development Begins Phase 2 Of Luxury Project

The developer is planning 600 units along with retail, restaurants and public spaces at Regent Square.

Cortland Sells Area Portfolio

The two properties house a combined 484 units and together will undergo $5.9 million in capital improvements.

Peak Campus to Manage Student Housing Community

The 405-bed luxury project serving the University of Houston is scheduled to come online in 2020.

Starwood Capital Sells Property

Berkadia represented the owner and originated a $19.7 million Freddie Mac acquisition loan.

Indus Management Acquires Vintage Bellaire Asset

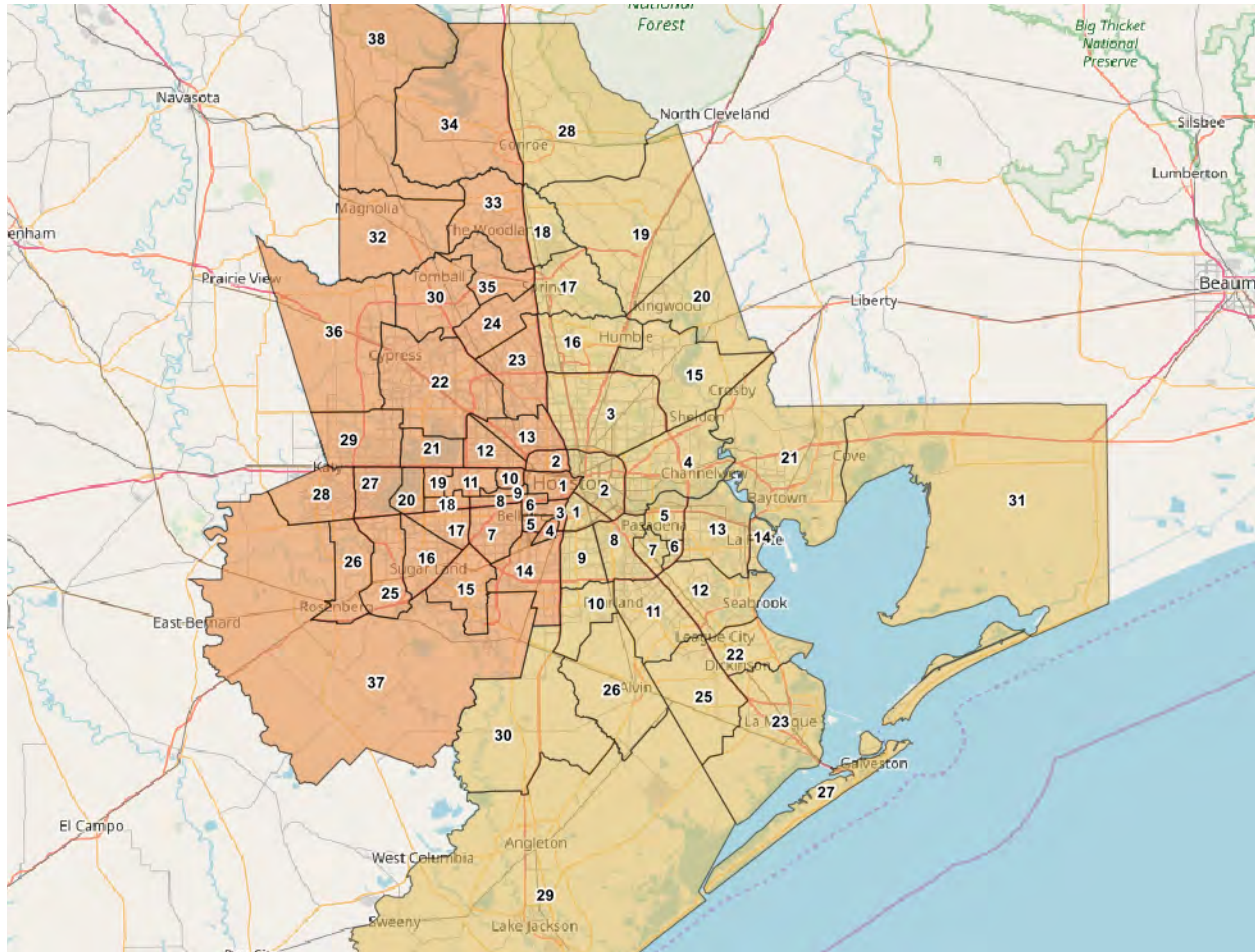The company purchased a 144-unit workforce housing property with plans to increase the asset's value.

American Landmark Expands Presence

The new owner will rebrand the 360-unit community and implement a capital improvement program.

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/Salsuma
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

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.

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