



## Looking Ahead in the Lone Star State

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## Lone Star State

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After several years of anemic activity, the Lone Star State's multifamily sector is showing signs of life. Selective multifamily construction is occurring, but the feverish pace of building experienced over the last several years has cooled. To a large extent, multifamily developers have become more cautious in providing housing units, particularly in areas where supply has outpaced demand.

In San Antonio, construction is expected to begin soon to convert the city's historic Comal Power Plant into luxury residences. Plans for the proposed Landmark Lofts call for 109 units inside the building with an undetermined number of additional garden homes to be located along the 23-acre grounds. The development is expected to be completed in spring 2006.

Multifamily markets in Texas are positioned to capitalize on coming growth.

At left is 1001 Ross, the first new ground-up multifamily development to be completed in the west end of Dallas in more than 30 years.



Retail and restaurants comprise the ground floor of 1001 Ross, with residential on the upper floors.



More than 200 miles away, in Texas's largest city, Houston, development firm Commerce Equities has begun construction on the 242-unit, six-story Bayou on the Bend multifamily development that should be completed in the second half of this year. Commerce president Matthew Dilick explains that Houston's Inner Loop multifamily market remains strong due to empty nesters, young professionals, and others who want to move closer to downtown.

More than 900 apartments, condominiums, and townhouses are in various stages of construction north of downtown Dallas. Work is expected to begin in the second quarter on Harwood International's 31-story Azure luxury condominium tower on 1.3 acres of vacant land in the city's uptown district. Azure is one of a new collection of high-rise residential developments that includes Meyer Development's 22-story Cresta Bella luxury high-rise project adjacent to famed Mansion on Turtle Creek hotel, among others.

"The Texas multifamily market is still challenged, but there are encouraging signs on the horizon," says Ron Witten, president of Witten Advisors, an apartment market advisory firm based in Dallas. "The economy is recovering and that has a dual benefit for the Texas multifamily market. It is creating more jobs, which provide more people with paychecks so they can afford housing. Second, slightly higher interest rates are making homeownership somewhat less affordable and more people are renting."

Ric Campo, chief executive of Houston-based Camden Properties, one of the nation's major multifamily owners, agrees, noting that the Texas multifamily market in general is not strong, with some multifamily markets on the mend but others still in intensive care. "Take Dallas," Campo points out. "The situation there is very painful. And there doesn't appear to be any light at the end of the tunnel. Telecom companies continue to lay off, airlines continue to hemorrhage, and the economy remains mediocre—not bad but not that great either. There doesn't seem to be an economic driver that's creating jobs and you still have new multifamily construction, albeit at a lower rate."

### Dallas Strengthens

Overall multifamily occupancy is not that strong throughout the Texas market, with Dallas on the weaker end of the continuum, notes Mark Humphreys, chief executive of Dallas-based Humphreys & Partners Architects. "The market appears to be a lot stronger in Houston from a number of projects we've seen," he adds. "There is selected development, particularly in major urban areas where there are a number of infill, high-density developments."

Humphreys cited 1001 Ross Avenue, designed by his firm and developed by Toronto-based FRAM Building Group, as an example of selected building. The 204-unit three-story development has retail and restaurants on the ground level with residential on the upper floors. "It's the first new ground-up, multifamily development completed in more than 30 years in the west end of Dallas," says Humphreys. "Most of the new ground-up deals are in Dallas's

uptown area. With its retail component, 1001 Ross has been extremely well received."

A strengthening job market in the Dallas/Fort Worth area, coupled with builder restraint, will aid the area's multifamily sector, says Tim Speck, regional manager of Marcus & Millichap Real Estate Investment Brokerage's Dallas office. Increased hiring at trade and transportation companies will likely increase renter demand in areas near major distribution hubs, such as Grand Prairie and Irving, he adds.

"Investment activity in the urban core will continue, especially in the uptown and Deep Ellum neighborhoods in Dallas," continues Speck. "Buyers who are unwilling to pay the rapidly escalating prices and who want greater upside potential are going to secure properties just south of downtown Dallas, near the Trinity River corridor project."

At the same time, Metroplex developers are slowing the rate of multifamily completions. After delivering more than 9,000 units in 2004, builders are forecast to finish 8,000 units this year, with urban projects continuing to come online in both the Dallas and Fort Worth central business districts over the next 12 to 24 months.

"Dallas also didn't have quite the spike in multifamily starts that Houston had," says Witten. "Starts in Dallas peaked at around 10,000 and that number held from 2001 to 2003, before declining in the right direction to about 7,000 annual starts."

### Houston Slows

Multifamily activity in Houston, on the other hand, was counter-cyclical. "Construction starts didn't peak for this cycle until the end of 2003," Witten explains, "so the slowdown in new construction is only just beginning, with starts down noticeably from about 15,000 in mid-2003 to about 10,000—still a substantial number, but volume is slowing pretty rapidly."

Houston's job growth is anticipated to double from last year's figures, with the energy industry strong, but not booming. Financial firms most likely will increase hiring, and these higher-paying jobs will create more demand for luxury apartments, particularly

STORY CONTINUED BELOW



The Boardwalk at Town Center in the Woodlands is a high-density project on the Woodlands Waterway, and residents will have access to water taxis.

HUMPHREYS & PARTNERS ARCHITECTS, L.P.

in prime areas such as the Galleria, Westchase, and Midtown, say those in the industry. "Houston's employment market will continue to gather strength in 2005. Economists estimate that there will be 50,000 to 60,000 new jobs added in Houston this year," says Camden's Campo. "That's the good news. The bad news is that because Houston peaked in supply last year, its multifamily market will continue to be weak probably through the end of 2005."

Toni Nelson, president of the Houston Association of Realtors and division vice president of Coldwell Banker United, Realtors, adds that she expects the Houston real estate market overall to remain strong. "The number of jobs in Houston should increase in 2005 due to corporate relocation and company expansions," she says. "Diversification of industry also has helped, and the oil and gas sector—Houston's atypical industrial mainstay—most likely will expand and add jobs this year as well."

"After three consecutive years of rising vacancy rates, the Houston multifamily market will record positive absorption in 2005, producing a 100 basis point drop in vacancy, to 13 percent," says Michael E. Hoffman, vice president and regional manager of Mar-

cus & Millichap's Austin office. "Apartment owners will welcome a decrease in new deliveries. Construction activity is expected to decline by 43 percent, to 7,400 units, this year—a respite from several years of vigorous building."

Still, exciting new developments are underway in Space City. For example, in the Woodlands, Houston-based Cambridge Development Group is building the 335-unit Boardwalk at Town Center in the urban core of one of the nation's most successful new towns. "It is a high-density project on the Woodlands Waterway, where water taxis will be available to residents," explains Humphreys.