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EXCELLENCE FROM THE GROUND UP

Apartments to multiply inside the loop

July 18, 2012 12:06 PM Eastern Daylight Time

High occupancies and rising rents for apartments are driving a new wave of development in Houston's high-end urban neighborhoods.

More than 3,500 units in a dozen complexes are under construction primarily inside the 610 Loop and around the Galleria. Nearly 8,700 more are proposed, according to Houston-based Apartment Data Services. Most, if not all, are being planned with top-notch finishes and high-dollar rents.

The flurry of activity is meaningful after a period where construction was virtually nonexistent. Amid the nation's economic crisis, developers couldn't get loans to start new construction and the appetite for apartments soured as renters moved in with relatives or doubled up in units.

But with the local job market beginning to recover, demand has been ramping back up, and the numbers of available units are dwindling. Few are concerned about a glut.

"If we ever needed construction, we need it now and need it soon," said Bruce McClenny, president of Apartment Data Services.

Most of the units won't be ready until late 2012 at the earliest.

As a result, rents are escalating and landlords of upscale Inner Loop properties have stopped offering aggressive concession packages.

The occupancy rate for high-end apartments is 93.4 percent, and the rents are up about 8 percent over last year to an average of $1,237 per month, according to the data firm. That's the highest rents have been, McClenny said.

Developers are reacting fast.

They've been tying up vacant inner-city parcels or buying buildings in good locations that they can demolish.

The Houston-based Morgan Group recently tore down the former Central Presbyterian Church in the Greenway Plaza area to develop a new complex where rents are expected to top out at around $2,300.

To be sure, the bulk of the construction is inside the Loop - mostly concentrated in the western portion. There are a smaller number of new projects in The Woodlands, Kingwood and Katy. More are planned for those areas, and others, too.

Companies that provide equity financing largely prefer so-called "core" areas, developers say, referring to the nicest parts near the center of town.

As development heats up, could the market get overheated?

Most experts say no.

"It's meaningful construction, but not over the top construction for Houston standards as long as you're in a period of economic growth," said Greg Willett, vice president of research and analysis for the Carrollton-based MPF Research.

While developers are paying close attention to the single-family housing market - whose troubles have benefited the apartment industry - job growth is the biggest driver of apartment demand.

Traditionally, every six to seven jobs will create demand for one apartment, McClenny said.

The Houston economy is on pace to finish 2011 with more than 66,000 jobs added for the year, according to economist Ted C. Jones of Stewart Title Guaranty Co. He predicts another 62,000 jobs will be added next year, with oil and gas exploration and production, construction and manufacturing to be among the sectors leading the growth.

Also, not all the projects in the planning stages will be built.

The most recent peak for multifamily construction was in 2008, when more than 21,000 units were completed.

While there's more capital moving into the multifamily market, financing commercial real estate can still be a challenging experience in today's shaky global economy.

Developers in the business are optimistic.

"On the whole, we feel really good and are not too concerned about the number of units getting proposed," Greystar's Scott Wise said. "But there is a herd mentality for equity to go to infill locations, and it could result in a concentration of deliveries and temporary softness."

Wise said he's watching the supply situation, but isn't too worried - particularly because the company has already broken ground and will have one of the first new projects to open.

There are other signs the market is on an upswing. Some companies are stepping up their efforts in the sector.

Earlier this year, the Hines real estate firm that built many of downtown's skyscrapers said it was expanding its multifamily business and announced a 300-unit project for a site near the Williams Tower. Groundbreaking is expected early next year.

And just last month, an executive with a Los Angeles-based real estate fund affiliated with basketball legend Magic Johnson said the company was scouring the Houston real estate market for multifamily developments to invest in.

"There's a sea change of where and how people live," managing partner Bobby Turner told the Chronicle in October. "There's been a migration from homeownership to home-rentership."