MHN Asks: Can the Texas Multifamily Market Grow More in '24?

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The Lone Star State is a capital magnet, but it's not immune to economic woes. StarPoint Properties' Sandy Schmid weighs in.

Texas is one of the most sought-after markets in the country, Sandy Schmid believes. *Image courtesy of StarPoint Properties*

Following the pandemic-induced boom in population, investors' and developers' interest in the Texas multifamily market grew tremendously. Today, the Dallas-Fort Worth metro, for example, has one of the largest multifamily pipelines in the U.S., with 76,312 units under construction, Yardi Matrix shows. Development activity is strong in the Austin area, as well, where more than 60,000 units were underway at the beginning of the year.

Meanwhile, in Houston, Austin and DFW combined, some $8.5 billion in multifamily assets changed hands in 2023. This followed the previous year's total investment volume of $24.1 billion and the $32.2 billion in 2021, according to the same source.

"Every segment of the Texas economy is quickly growing, especially in areas like DFW, Houston and Austin," said Sandy Schmid, director of acquisitions and development with **StarPoint Properties**.

The real estate investment and operating company focuses on both acquisitions and development in high-growth U.S. markets like Texas, so we asked Schmid to expand on what's behind the state's allure, but also touch on the potential headwinds this year could bring.

What makes Texas multifamily so attractive to investors today?

Schmid: 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. The demand for both manufacturing and office workers, in tandem with the movement of many well-known technology companies bringing their corporate headquarters to the state, has helped to fuel new residents moving to Texas at a staggering rate. 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.

To what extent is the current economic volatility impacting Texas multifamily investment? Is there anything in particular that investors worry about?

Schmid: 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. This is causing concern on the part of investors looking to fund multifamily housing projects.

As investors, we are consistently working to determine when and where that right entry point is, or if there will be better opportunities ahead. 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?

Schmid: 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.

Specifically for our team at Starpoint, we noted that pet amenities have become increasingly sought after. Hence why we incorporated those amenities into our DFW asset, Legends at Chase Oaks. Having the ability to operationally serve pets and their owners allowed us to meet an underserved demand in the market.

Another trending yet overlooked amenity we've seen is functional work and/or coworking space for those who have hybrid work schedules. Developmental design solutions like this can address these market demands and properties can separate themselves from the competition.

Supply is increasing at a rapid pace across most major Texas metros. How will this new wave of construction impact demand in the near future?

Schmid: It's important to acknowledge the challenging environment for the capital markets at present. 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. Simply put, the right projects in the right places set to develop over the next year are already ahead of the game.

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.

Legends at Chase Oaks includes 33 buildings.

The DFW metro area has been at the forefront of new development lately. What is driving demand in the area?

Schmid: In the past, we've only truly seen these types of primary markets exist on oceanfronts—places like Los Angeles, for example. But conversely, a place like Los Angeles is likely to see population growth stagnation, meanwhile a market like DFW is on track to reach the level of size like L.A. but with access to even more job opportunities, land for development, residents etc.

With so many properties in your portfolio, what drives you to continue pursuing new business opportunities?

Schmid: In a growing market like Texas, it makes sense to expand our portfolio by investing there given that there is so much opportunity. We know we can deliver to metros like DFW and Austin, and add to our holdings without overweighting the market. Our team is focused on several strategies to continue expanding our portfolio in the Texas market, including traditional development, multifamily value-adds and our Opportunity Zone program that offers tax advantages to provide incredible returns to our investors.

Are there any particular Texas metros that appeal to you when it comes to future investment and/or development?

Schmid: Dallas-Fort Worth, Austin and San Antonio are the top markets we're looking to get involved with. Each of these metros are undergoing significant development to address growing migration, population and employment types that can meet market needs.

How do you expect the Texas multifamily market to evolve? Do you remain bullish on the state's long-term growth prospects?

Schmid: 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. This is largely due to concerns over interest rates, which we've seen slow down transaction activity across all markets these past few years. However, in 2024, we'll likely see more interest in the market overall in comparison to 2023 as new capital will come into the picture, causing sellers to adjust accordingly.

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