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Why SoCal Investors Are Falling For Vegas

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The market was late out of the recovery but is now becoming a favorite of investors, like San Diego's Tower 16, which plans to buy 1,000 units there in the next 12 months.

Tower 16, a new real estate investment from industry veterans **Mike Farley** and **Tyler Pruett**, has partnered with **Henley USA** to take advantage of the tremendous growth in the Las Vegas market. The partnership is buying value-add multifamily assets and rebranding them as Altura after a major renovation. The joint venture has acquired its first property in the market, the 228-unit Winsome West Apartments, which will be rebranded as Altura on Duneville. The buy is the first of many more to come—they plan to amass a portfolio of 1,000 to 1,500 units in the next 12 months. We sat down with Farley and Pruett to talk about the joint venture and why Las Vegas is seeing so much buzz.

GlobeSt.com: Tell me about your investment strategy in Las Vegas and your partnership with Henley USA.

Mike Farley: We have aligned ourselves with Henley USA to form a joint venture specifically in the Las Vegas market for value-add multifamily investments. We bring the boots on the ground deal sourcing and operational capacity, while Henley, which certainly has operation capacity, are really assisting in raising capital and putting the capital structure together. We saw this as a very valuable joint venture where both parties are binging something unique to the table. We really looked at the Las Vegas market in the same way. We have seen a lot of value in creating an overall brand for the market that would be representative of our company and our vision and our overall plan for these investments. That is the broad-brush overview.

GlobeSt.com: Why are you attracted to the Las Vegas market?

Farley: We launched Tower 16 a year ago, Las Vegas is one of the markets that we wanted to focus on specifically for the multifamily asset class because of all of the great growth that we have seen in that market and the opportunities that we saw arising. The big picture behind Las Vegas is that it is lagging a lot of the other Western markets in terms of its recovery from the downturn. As we have seen that market recover, we have seen the economy grow and diversify in ways that are very exciting for us, and as we compare it to other markets around the United States, we see tremendous job growth and we see those jobs diversify away from gaming. We are really seeing the blossoming of Las Vegas into a true city with entertainment options off the strip, like the NFL team and NHL team. It is really growing up and becoming a more sophisticated and dynamic city. Because of that, we are seeing a net in-migration of people to the area, especially from Southern California. That is because there are good quality of life opportunities, housing affordability and general affordability overall. We believe in all of those growth factors, and we think they are going to continue to demand for apartments and specifically workforce housing apartments.

GlobeSt.com: There has been a surge of investment interest in secondary markets like Phoenix and Las Vegas in the last year. What is competition like as a result, and how are you staying ahead of competition?

Tyler Pruett: We have definitely seen increased competition in the market over the last six to 18 months. In terms of ownership, you are seeing institutional groups like Blackstone and Oaktree that have made huge bets in Las Vegas. These are groups that were not as active in markets like Las Vegas in previous cycles, but these groups see opportunity and they see the demographic changes. Phoenix is another market that has really heated up over the last 12 to 18 months, and we are starting to see that spillover into Las Vegas. That has forced us to be creative and find unique opportunities that weren't massively marketed by the large brokerage companies.

Farley: That isn't to say that we wouldn't bid on those properties. We are relatively new, and we are building our track record. We need to get a little more creative than some of the groups that have been out there for a long time and might garner more attention in a bidding situation. We have spent a lot of time digging up off-market opportunities and reaching out directly to owners. I think it is getting harder and will continue to get harder over the next 12 to 18 months.

Pruett: We were on the institutional equity side of the business at Rialto Capital, and I think that we have a disciplined approach and style. Likely, you aren't going to see us at the top of these so-called bidding wars. We have maintained a disciplined approach, and we are going to continue to do so going forward.

GlobeSt.com: You recently made your first purchase in the market, but said that it is the first of several this year. What are your investment goals in the next 12 months?

Pruett: For all of the reasons that we have been discussing, we see the next 12 months as being our window of time to try and make our acquisitions in the Las Vegas market. We would like to buy between 1,000 and 1,500 units in the next 12 months.

GlobeSt.com: What does your capital stack look like on these deals?

Pruett: Every deal is a little bit different capital structure. The first couple of deals that we have been working on we will be using a bridge debt program with groups that are more along the lines of debt funds. We are also looking at opportunities where we can bring in agency debt, which has great pricing today. Those will be lower leverage options. We try to be very disciplines on the debt side, and we are generally not leveraging anything beyond 60% to 70%. Beyond that, everything is typically equity.

Farley: We typically underwrite on a four to five year hold, and reevaluate every year.