

Need money for **MULTIFAMILY**



Altura in Las Vegas.

The Number-One Multifamily Market for People Leaving L.A.

▸ CARRIE ROSSENFELD / 📅 JUNE 11, 2018 / 🏠 MULTIFAMILY

San Diego-based Tower 16 Capital Partners and Henley USA recently partnered to launch Altura, a new brand of multifamily communities in Las Vegas, and the partnership also made its first acquisition, a 228-unit class-B property that was acquired off-market from the seller. This project represents the first of several acquisitions planned for this year in the Las Vegas market.

Tower 16 is planning an extensive renovation of the property formerly known as Winsome West Apartments, including rebranding the property to Altura on Duneville. The firm's business model is to purchase under-performing properties in high-demand markets and modernize them with a more contemporary look, updated amenities and professional management.

SoCal Real Estate spoke with Mike Farley and Tyler Pruett, principals of Tower 16 Capital Partners, about the firm's acquisition strategy, the difficulty of acquiring multifamily properties in such a competitive market and how multifamily investors' strategies are changing.

SoCal Real Estate: What is behind your new acquisition strategy?

Farley: Both Tyler and I came from Rialto Capital, a subsidiary of Lennar, and ran CRE operations on the West Coast. We're based out of SoCal, but we spent time working in the major U.S. markets.

Our strategy in Las Vegas is based on a few high-level trends happening in the marketplace, particularly in the multifamily arena. It has to do with a lot of the outmigration of jobs and people from more expensive coastal markets, particularly SoCal, the Bay Area, and to a lesser extent the Pacific Northwest. In those markets, people are looking for affordability and quality of life. Job and population growth are key factors in the markets we look for: Phoenix, Las Vegas, Denver, Salt Lake City, Dallas, and Austin. We see that as a long-term demographic trend that will continue to create demand for workforce housing in those markets.

To drill down a little bit more as to why we like Las Vegas, we see a lot of trends happening in the Las Vegas market that excite us again in the multifamily space. For one, there's job growth — we're seeing a lot of growth that's more diversified in this cycle than we've seen in past cycles. While hospitality continues to be big employer, we're starting to see more of a back-office, light-manufacturing, and tech presence in the Las Vegas market. Nevada tends to be a very business-friendly state, and it goes to the workforce and the ability of companies to attract good employees at wages and salaries that make good economic sense for their business. They're creating a lot of middle-class, blue-collar jobs for people. In the previous cycle, saw a lot of homes developed in this market, and apartments got out of balance. We're seeing much healthier levels of development in this cycle. We like Las Vegas and believe the trends we're seeing will lead to at least several years of positive rent growth and strong demand for apartments in the Las Vegas market.

Pruett: Over the last 10 years, California has had a net outflow of one million people, specifically to all of the markets Mike had mentioned. We tend to track this stuff pretty closely and have found that the number-one destination for people leaving L.A. is Las Vegas.

What is the most difficult part of acquiring multifamily properties?

Pruett: It's a very competitive landscape. A lot of groups are focused on the workforce-housing segment, which creates a lot of competition. From our standpoint, we've tried to find more dislocated or even off-market opportunities. Traditional broker-processed properties are heavily chased by our competition — in some cases, they will get 10 to 20 offers, so it's very competitive.

Farley: As far as prospecting and looking for new opportunities, we spend a lot of our time trying to deal with owners. We love our broker colleagues and have strong relationships with brokers in the markets we focus on, and we do spend time focused on those deals that meet our criteria. But we also spend a lot of time working on off-market transactions, which is great to do in a competitive market. One of the reasons we like Las Vegas is that the pricing in this market is such that we can earn strong return and current cash-on-cash on these deals at reasonable cap rates. In Denver, there might be a half-point or even a full-point difference in acquisition cap rate as compared to Las Vegas, so there are better yields in that market, at least right now.

How do you see investors' strategies changing as this sector becomes more competitive?

Farley: Whereas we've enjoyed over the last year or so in the Las Vegas market a relatively less-competitive landscape for multifamily than in other markets, we are starting to see that change. We're seeing more competitors entering the market, more people acquiring properties for the first time, and more institutional capital entering the market, either directly or through operators like ourselves. It's no secret that job growth is there — actual wage growth for the middle class. We're seeing the population growing, but we're also seeing the city getting its first NFL team in the Oakland Raiders moving to Las Vegas, which will be a huge catalyst for Las Vegas (along with having a hockey team in the Stanley Cup playoffs). In the next decade, will see Las Vegas emerge as a real borderline gateway city in the Western U.S. like we haven't seen in the past. It will continue to attract people and has a lot to offer people in terms of quality of life and entertainment options.

What else do you look for in the markets in which you acquire properties?

Pruett: In addition to population and job growth — they have to be growing markets — specifically related to multifamily, we tend to look at supply and demand. We look at the jobs-to-permits ratio a lot and prefer markets with higher jobs-to-permits ratios, relatively speaking. That transcends then to rent growth, given strong demand with a relatively limited supply. We're typically looking for workforce housing, class-B and -C assets that we can buy, stabilize, and sell at less than replacement cost. In most markets we mentioned, we can certainly do that.

Farley: That's kind of on a macro basis when you think of supply and demand in these markets. In the markets where there's less competition, it may even be within a submarket. We may be focusing on markets like Mesa, which are not premier locations but may tend to have a little less competition as well. Drilling down to the property level, in most cases we're really looking for properties that are privately owned, in need of capital investments, and may have unsophisticated unprofessional management.



MIKE FARLEY AND TYLER PRUETT | IMAGES COURTESY TOWER 16 CAPITAL PARTNERS

OUR SPONSORS

Category ▾

◀ JULY 2018 ▶

| MO | TU | WE | TH | FR | SA | SU |
|----|----|----|----|----|----|----|
| 25 | 26 | 27 | 28 | 29 | 30 | 1 |
| 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 9 | 10 | 11 | 12 | 13 | 14 | 15 |

EVENTS FOR JULY 9

No Events

| | | | | | | |
|----|----|----|----|----|----|----|
| 16 | 17 | 18 | 19 | 20 | 21 | 22 |
| 23 | 24 | 25 | 26 | 27 | 28 | 29 |
| 30 | 31 | 1 | 2 | 3 | 4 | 5 |