Wednesday, 10 October 2018

Ex-Rialto Capital Execs Form Company to Pursue Value-Add Apartments in Western U.S.

Commercial Real Estate Direct Staff Report

Tower 16 Capital Partners, a company formed last year by former Rialto Capital Management executives Mike Farley and Tyler Pruett, is looking to expand its portfolio of value-add apartment properties in the Western United States.

Earlier this year, the Carlsbad, Calif., firm formed a venture with Henley, a United Kingdom private-equity firm, to pursue workforce apartments in Las Vegas. The venture so far has acquired three properties with 1,280 units. It has another 320-unit complex under contract and expects the deal to close by the end of the year.

Last week, it paid $49.75 million, or $92,129/unit, for the Cornerstone Crossing Apartments at 666 West Washington Ave. The 540-unit property was constructed in 1984 and has studio, one-, two- and three-bedroom units. Tower 16 plans on investing $6.5 million on renovations and upgrades.

The venture bought its other two properties this year, paying $24 million, or $105,263/unit, for the 228-unit Winsome West, at 5050 Duneville St., and $50 million, or $97,656/unit, for the 512-unit Foothill Village, at 6255 West Tropicana Ave. It has re-branded those complexes as the Altura on Duneville and Altura on Tropicana, respectively.

Tower 16 also has agreed to buy a 100-unit property in California's Inland Empire. That deal is not part of the Henley venture. The company is seeking additional properties in Las Vegas and the Inland Empire and is considering other Western markets, including Salt Lake City and Phoenix. It wants to build a portfolio of at least 2,000 to 3,000 units in each of the markets it enters.

Farley and Pruett began working together in 2004 at Lennar Corp., a Miami homebuilder and real estate company. In 2010, they joined Rialto, Lennar's investment management and special servicing arm that was launched two years earlier. They were put in charge of Rialto's West Coast investments in multiple asset classes.

When they went out on their own last year, they named the company Tower 16, an homage to a lifeguard tower in Farley and Pruett's hometown of Cardiff, Calif., a San Diego suburb. They had become familiar with the multifamily sector while working at Rialto and decided to pursue properties in areas with expected growth in jobs and population, and a lack of supply of workforce housing.

Tower 16 is pursuing class-B and -C properties that were built in the 1970s and 1980s and are in need of renovations. It pays $20 million to $60 million for each property, capitalizing them on a deal-by-deal basis through its network of high net-worth individuals and institutional investors. It obtains mortgages from local banks or debt funds for 65 to 70 percent of the properties' value.

The company invests about $12,000/unit on renovations and upgrades to units, common areas and amenities. It raises rents to be in line with other renovated older assets but keeps them significantly cheaper than those charged at newer class-A properties.

"We're looking to acquire these later vintage assets, invest in them, bring them up to a more current standard and still be able to offer an affordable apartment," Farley said. "It's nice to go into a market where we can provide what's in demand, which is affordable housing."

Farley expects the demand for such housing will remain strong even if the market turns because people will always need a place to live and may not be able to afford more expensive housing options. The company may also eventually make opportunistic and value-add investments in industrial and office properties, in which Farley and Pruett have experience from their time at Rialto.

"We think any kind of pullback in the next couple of years would be a perfect opportunity for us to make the move into other asset classes," Farley said. "But for now, we think workforce housing is somewhat of a hedge against where we are late in the real estate cycle."

Comments? E-mail Tim Casey or call him at (267) 397-3347.