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RESIDENTIAL REAL ESTATE

Exec: Investors chasing Fort Worth multifamily as supply dwindles



Over the last two years, a significant amount of capital wanted to be in Texas and identified Fort Worth as a key market, according to Drew Kile, Institutional Property Advisors with Marcus & Millichap.

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Institutional capital has gotten more aggressive in the Fort Worth multifamily market. And given that supply is nowhere near catching up to demand, the folks at Institutional Property Advisors don't see a slowdown any time soon.

While North Texas, in general, has seen strong multifamily performance, the Fort Worth side has generally outperformed due to less overall supply and strong demand fundamentals. Many investors have been

looking to park capital in Fort Worth, which has led to a



interest rates dropped, and buyers got aggressive,' but it's a lot more than that," said Drew Kile, senior managing director at Institutional Property Advisors.

Institutional Property Advisors, a division of Marcus & Millichap (NYSE: MMI), brokered multiple notable transactions in the Fort Worth multifamily market in April.

Among recent transactions was the sale of the Heights of Cityview, a 344-unit multifamily property located near the intersection of Chisholm Trail Parkway and Interstate 20 in southwest Fort Worth. Institutional Property Advisors represented the seller and procured the buyer.

Magma Equities recently acquired a large multifamily portfolio with 1,361 units from Hilltop Residential in several Texas markets, including North Texas. Hilltop

Residential was advised by Institutional Property Advisors



class A buildings in the heart of Fort Worth, Kile said. Over the last two years, a significant amount of capital wanted to be in Texas and identified Fort Worth as a key market.

“10 years ago, the perception was that Fort Worth was a suburb of Dallas,” Kile said. “I think more and more people are realizing that Fort Worth on its own is one of the largest cities in the country.”

Current market conditions are dictated by capital that’s hungry to be in the area coupled with a finite amount of properties available for acquisition. It’s also becoming more difficult for developers to get new products off the ground.

According to Marcus & Millichap’s Dallas-Fort Worth Multifamily Investment Forecast report, this year, North Texas once again lays claim to the nation’s largest multifamily pipeline. However, the pace of building has dampened, and the projected inventory growth of 2.5%

will be the slowest expansion in eight years. This



Kile spoke with the *Dallas Business Journal* about the white-hot Fort Worth multifamily market.

How have multifamily acquisitions changed over the last couple of years, given the amount of capital in the market?

The number one thing I'd point to, even before talking about types of buyers or numbers of buyers, is you've got operating fundamentals that have changed materially. Five years ago, the average occupancy was right around 95%. Lease up in new buildings might take 15 to 18 months to fully stabilize. There was very little rent growth, 1% to 2%, and many of the lease-up deals offered one to two months free throughout the lease-up. When buyers were looking to acquire those assets, they were thinking, 'Hey, is it going to take me one or two years to burn off the concessions? Can I get 0% or 2% rent growth?'

With what happened as the first wave of the lockdown



month concession and even more a blended two to three weeks of concession.

The market had 18.6% rent growth last year. So acquisitions start with the fundamentals of buyers acquiring apartments in DFW or Fort Worth and underwrite significant high single to low double-digit rent growth, underwrite a complete burn-off of concessions in their first year of ownership underwrite 96% occupancy, and that might be conservative.

So the returns are achieved because the asset class's performance has greatly improved and is approaching what we had been seeing in places like Phoenix or a Florida market. That same performance is here. So everyone who wants to own multifamily, what they can underwrite from the property level is significantly better than it was three years ago. They can see it in their own portfolio, which helps them be aggressive.

Because of the pandemic, people are seeing Texas



not historically had Texas in their top five markets. They may have been more coastal-focused: LA, San Francisco, New York, DC, etc. Now, their top markets are central markets: Phoenix, Denver, Texas and Florida (markets).

You're getting new private capital trying to diversify out of some of the coastal markets because of the better performance here and increased government oversight and taxes in (coastal) markets. You've also got institutional capital that was here in a lot of ways that's now more aggressive. Or, in the case of a few REITs, like EQR (Equity Residential) and AvalonBay (Communities), they left Texas markets for coastal markets and now they're back.

I think it starts with the operations. Those operations are attracting more investors. It's not... just more people wanting to buy at lower yields; the operations are way better, driving more return. At the same time, you're also seeing more people that physically want to be investors

here in Texas and Fort Worth. That leads to a lot of



For sure. When you look at the demand, you have to macro into micro a little bit. It's much harder to own a house today. So we've got demographics of a lot of 18- to 34-year-olds that are moving to Texas, that population base is growing in Texas. That tends to be a metric that shows people are staying in apartments longer ... renters by choice. They make plenty of money, but they're not in a hurry to run out, buy a house and be locked down. They haven't had kids yet, and they want to be mobile.

So the demand drivers for multifamily are extremely strong, from the demographics to the higher level of difficulty to own a home. It's going to keep people in apartments longer, some by choice and some because they can't get into a home.

Fort Worth is the 12th largest city in the country which often gets overlooked, and Fort Worth has a lot more landmass to continue to grow. I think we're seeing

urbanization in Fort Worth, and it also has the ability,



Fort Worth looking to attract more jobs...

There are a lot of tailwinds in Fort Worth.

What advice would you give someone interested in making a multifamily acquisition in Fort Worth?

A lot of it comes down to the fundamentals. We're a record high occupancy, record-high rent growth. It's gotten a lot harder for developers to develop new products.

(Development) is extremely expensive, with costs going up at a record pace. The cities are pretty difficult regarding what they will approve or rezone.

The easy sites are gone. Now people have to be more creative, or they have to buy something to knock it down. There's just less down the middle of the fairway tracts of land to build apartments on, and if there are, the cities aren't excited about it because many people living in neighborhoods don't want apartments in their backyards.

But, as an asset class and looking at all the demographic



seen in record rent growth, and it's getting harder and harder to build. So there's a growing barrier to entry. I think that's why you're seeing a lot of capital go into the space for all those reasons. While pricing has gotten more aggressive, those fundamentals are still the best they've ever been. In a lot of our acquisitions, looking at cap rates, internal rate of return, all of those things, certainly those returns have been compressed. But there's still a lot of a mindset that people will be able to outperform the baseline because of how healthy the fundamentals are in our industry.

This interview has been edited for clarity and brevity.

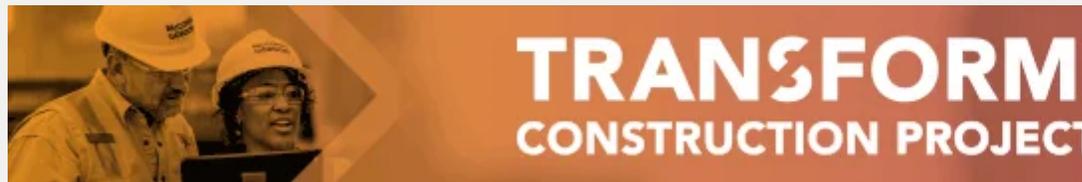
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