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Multifamily Sector Tempts More New Players

By *Connie Gore*

(Read more on the [multifamily market](#).)

DALLAS--Today's lull in the multifamily market is just that--a lull. All stars are aligned for a strong surge in the last half of the year.

"The bet is capital flow is increasing in our direction. I think you're going to see the market become very, very aggressive in the last half of this year," Linwood Thompson, managing director for Encino, CA-based Marcus & Millichap Real Estate Investment Services, told the crowd at yesterday's inaugural forum for the Balthrope Group in Dallas. His belief is grounded in the fact that institutional investors are pumping up allocations because they've "finally figured out" that investment in the sector means being able to continually price the entire asset every 12 months. "That's one reason why institutional America has started allocating more to this sector," he explains.

The increased institutional interest, with multimillion-dollar pools to spend, has brought new players to the field like Oak Brook, IL-based Inland American Real Estate Trust Inc. and Dallas-based Behringer Harvard Funds. In fact, the local investment group has jump-started a \$100-million revolving credit facility with a capacity of \$400 million for the Behringer Harvard Multifamily OP I LP, which for now is classified as a private fund. The revolver has a one-year shelf life with a one-year option to extend, according to an SEC filing. [Inland American](#), on the other hand, has raised \$1.7 billion for a \$5-billion goal to invest in all types of real estate. A company executive previously told GlobeSt.com that this year's focus is multifamily, predominately class A.

As the Feds steer the "soft landing" for the US economy, the multifamily sector stands to gain on all fronts. Demand is and will continue to outpace supply, building in some level of rent growth for practically all markets. "We're settling into a healthy dynamic of supply and demand," says Hessam Nadji, also a Marcus & Millichap managing director and part of yesterday's panel at the Hilton Lincoln Centre in North Dallas.

According to the firm's research, multifamily sales dropped 30% nationally, but deal sizes were significantly larger. Nadji credits the pricier deals to institutional capital juicing the competitive field and private investors consolidating portfolios and reinvesting into larger properties. "On the pricing side, I'm seeing things holding up very strong," he says. And it's shifting from cap rate-reliant decisions to NOI-driven decisions.

Nadji points to the housing market as the wild card for the US economy. From his perspective, he says the nation isn't recession-bound and interest rates are more likely to drop than rise this year, but the psychological impact of subprime mortgages and slowing appreciation will take their toll. The difference between now and other recessionary periods is "the interconnectivity of the US economy is what's changed," he says.

The economy's other wild card is the reliability of the new jobs count, says Greg Willett, vice president of M/PF YieldStar in Carrollton, TX. "Don't get misled by the job numbers that are out there because they are really questionable at this point," he says, voicing concern over Texas construction as a result of the high numbers.

Houston and Dallas/Fort Worth are each poised to deliver 10,000 units. Austin developers are rolling out 6,000 and San Antonio is getting another 5,000. Meanwhile, Houston's occupancy is

just shy of 92%; Dallas/Fort Worth, 93.1%; Austin, 95.8%; and San Antonio, 93.7%. Only Austin hits the national average, 95%. Not one Texas metro made Marcus & Millichap's Top 10 list for improved occupancies in the past year.

The good news is all Texas metros are showing rent growth. "It's OK, but not spectacular," Willett says. Houston's average rent picked up 3.8%; Dallas/Fort Worth, 3.4%; Austin, 4.6%; and San Antonio, 2.8%.

But the future, particularly in a border state like Texas, looks bright from owners' perspectives as the Echo Generation matures and immigrant counts skyrocket, both fueling the renter pool. Marcus & Millichap projects 4.3 million more renters will have moved into the pool between 2005 and 2015.

"The industry is not prepared to meet the demand," Thompson says. "Current rents don't justify development." Factor in other forces like rising financing costs, impact fees and the "not in my backyard syndrome" and, he concludes, the end result "will be upward pressure on rents."

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