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Multifamily Value-Add Space Remains Best Move for Strategic Investors

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AUSTIN, TX/HOUSTON—San Antonio-based Lynd Acquisitions Group/LAG recently acquired a portfolio of three garden-style apartment communities in Texas valued in excess of $150 million. One property is in Houston and two are in the Austin metro area with a total of 1,059 units.

Lynd Acquisitions Group, which is an affiliated acquisition company of LYND, a national multifamily management firm, has plans to sink $20 million into renovations.

“This is the kind of value-add opportunity you dream about as an apartment investor,” said A. David Lynd, CEO of LYND. “We have been working with this seller for two years in order to secure this portfolio and are very excited to finally be closing this transaction and getting on with the renovations.”

The seller, Sy Li, had acquired all three properties from the original developers within the last 20 years and had performed no upgrades during that period.

“Lynd approached me directly and I liked what they had to say,” said Li. “They executed exactly like they said they would.”

While there was one portfolio involved, there were two separate closings: one for the Houston apartment and another for the Austin properties, which are located in the suburb of Round Rock. The two communities in Round Rock were built in 2001.

The Enclave Frontera located at 2800 La Frontera Rd. has 411 units of one, two and three bedrooms. The 366-unit Lakeside at La Frontera is located at 941 Hesters Crossing. It has one-, two- and three-bedroom options. Both feature structured parking which is unique for garden-style product. The two properties were capitalized with an equity investment from a major New York-based institution and a $105 million loan from TPG Real Estate Finance.

“The Austin multifamily market has been on fire for some time now,” said Constantine Scurtis, co-CEO of LAG who sourced the portfolio. “Dell’s headquarters is nearby, and Apple has started construction on a 133-acre campus that will generate approximately 15,000 new jobs. Apartments in this area are highly sought after by investors, so securing these two deals says a lot about our ability to find tremendous value-add opportunities.”

The third asset in the portfolio is located at 11212 Westpark Dr. in Houston. The Royal Oaks at Westchase has 282 units with one, two and three bedrooms. Miami-based Florida Value Partners partnered with LAG on this deal. Prudential PGIM provided a $29 million loan.

“We are still very bullish on Texas, but considering where we are in this current cycle, we feel investing in value-add multifamily assets provides the best opportunities for us,” Scurtis tells GlobeSt.com. “The properties we just acquired were built extremely well, but they just need to be brought up to date so they can compete with new construction, allowing us to increase occupancy and rents. Developing new product in today’s environment can be trickier since the cost of land and construction is expensive and we are reaching a saturation point in many areas.”

LAG will invest $15 million on renovations and upgrades at the Round Rock properties and $5 million on the Houston community. The plan is to modernize all amenities and clubhouses, and improve parking areas. LAG will spend approximately $12,000 per unit bringing the interiors in line with new construction by adding quartz countertops and ceramic tile backsplashes in the kitchens, as well as quartz countertops in the bathrooms. Plans also call for new flooring throughout each unit, new cabinetry, stainless steel appliances, LED lighting, Nest thermostats and USB charging stations.

With this closing, LAG has completed $240 million in value-add acquisitions in the last six months and is working to close several others. Since 2017, LYND has acquired in excess of 5,400 multifamily units primarily throughout Texas, Florida and Illinois valued at more than $375 million, and performed more than $25 million worth of value-add rehabilitation work.

Lynd thinks the value-add space is still the best place to be in apartment strategies, given the timing of the current cycle.

“Lynd has always had a niche in the value-add space,” Lynd tells GlobeSt.com. “We have developed a knack for finding the right properties in the right locations at the right price. We can be patient, but when we do find a good deal, we go after it aggressively. I think sellers like dealing with us because they are confident we can execute: we have strong capital partners, know how to get a transaction done quickly and we have a proven record of doing what we say we are going to do. Lynd has always owned properties in Houston and Austin, so it's good to be back in those markets. Employment remains strong and we still see a lot of room for rent growth. The only unknown factor as this point is the effect coronavirus might have on the local economies. We'll have to wait and see how that plays out."

Indeed, value-add opportunities continue to highlight multifamily investment in the Bayou City, attracting a diverse pool of buyers, according to a report by Marcus & Millichap. Pasadena and southeastern sections of Houston proper remain enticing to many investors as employees at the nearby refineries help keep vacancy rates relatively tight.