

# Double-Digit Property Value Hikes Hammer DFW Apartment Owners

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Skyrocketing property values are the latest headache for multifamily owners in North Texas who have spent the last few months fending off hits to their bottom line.

Central appraisal districts across the region's four major counties — Dallas, Collin, Denton and Tarrant — are proposing increases of between 30% and 52%, according to data from Alliance Tax Advisors (<https://www.bisnow.com/tags/alliance-tax-advisors>). Values will come down once owners have gone through the laborious protest and litigation process, but owners say any significant increase will be difficult to absorb when the industry is being hammered by lost revenue and rising expenses.

“It’s not the funnest time to be a property owner, and it was so fun for a decade,” Ashland Greene founder and CEO Shakti C’Ganti said. “It makes sense that we have a couple years of pain — what goes up must come down.”



The rental industry in Dallas-Fort Worth was riding high in the early months of 2022, as explosive job growth, a flood of in-migration and a worsening affordability crisis in the for-purchase market created unprecedented demand for apartments. Year-over-year rent growth was hovering around the high teens (<https://www.bisnow.com/dallas-ft-worth/news/multifamily/dont-get-too-comfortable-texas-the-darling-of-us-multifamily-sees-slower-rent-growth-negative-absorption-115561>), far exceeding the long-term average of 6%.

But that all changed in late spring, when the Federal Reserve (<https://www.bisnow.com/tags/the-federal-reserve>) began its aggressive campaign to tame inflation by pushing up interest rates. The increases brought transactions to a near standstill, Alliance Tax Advisors Vice President Jon Redmond (<https://www.bisnow.com/tags/jon-redmond>) said, leaving central appraisal districts with only a short period of activity to base values on.

“You’re only really looking at the first quarter of 2022 — so you’ve only really got three to four months of sales,” he said. “They don’t have the sales to justify the double-digit increases.”

C’Ganti said he was shocked when Ashland Greene received its proposed values. After underwriting property taxes for the company’s Tarrant County portfolio at 85% to 90% of purchase price and landing on an average of 70%, the CAD’s estimates of up to 125% seemed hard to believe.

“I’m wondering if they just sort of randomly sent out valuations without really doing too much research,” he said.

The majority of buyers in the DFW multifamily market used bridge financing to acquire properties in the first half of 2022, C’Ganti said, and many have seen mortgage payments skyrocket amid a series of interest rate hikes totaling more than 500 basis points.

“Increased costs on the bridge loan are almost doubling our mortgage, which is by far our largest expense,” he said. “You’re having a cash crunch at all properties.”

Owners are also grappling with a slowdown in rent growth, higher utility and maintenance fees, increased labor costs, and skyrocketing insurance premiums due to a rise in extreme weather events, such as the historic freeze

that decimated Texas in 2021. Ashland Greene was underwriting insurance at \$350 per unit per year in 2017, but C’Ganti said premiums have increased almost threefold.

The sharp increase in expenses is making acquisitions harder to pencil, and Redmond said many buyers are seeing deals fall through as a result.

Institutional clients with enough cash on hand are able to bridge the gap, but smaller clients are left with fewer options, especially as the bid-ask spread (<https://www.bisnow.com/tags/bid-ask-spread>) continues to be wider than what many buyers believe is warranted.

“It’s a weird part of the market, where you have buyers that have been waiting for blood in the water, but some sellers don’t have to sell right now, and they don’t want to take a 20% drop unless they have to,” Redmond said.

That dynamic will change as loans that originated when interest rates were low begin to expire, C’Ganti said. The risk of defaults at a growing number of apartment buildings is on the rise as owners with floating-rate debt struggle to refinance (<https://www.bisnow.com/national/news/multifamily/storm-clouds-gather-as-apartment-owners-with-floating-rate-debt-scramble-to-pay-loans-118872#:~:text=In%20Dallas%2DFort%20Worth%2C%20rent,signals%20a%20onorn>) leaving many with no choice but to sell.

“You’re going to see some sales because they don’t have \$2M sitting on the side to go by a new interest rate cap,” C’Ganti said. “So we’re still trying to find deals that work, but we’re just having to work a lot more to get them.”

Ashland Greene is in the midst of acquiring two properties, and C’Ganti said higher valuations are throwing off the numbers. Lenders have lowered loan proceeds based on what they believe the property tax burden will be after values go up, leaving owners in the middle of the deal faced with two options – inject more equity or bow out.

C’Ganti said he and the seller’s property tax consultants are working collaboratively to protest values in hopes of achieving the lowest possible number before the acquisitions are scheduled to close in July.

Tax consultants like Redmond hope central appraisal districts will be sympathetic to the many challenges faced by the multifamily industry over the past year. When the pandemic ravaged the retail market, North Texas

appraisal districts chose to keep values mostly flat, Redmond said, but it is yet to be seen if the same grace will be extended to apartment owners.

“They did the right thing because they didn’t want to be an extra burden,” Redmond said. “I don’t think it’s going to be like that for multifamily or the other hot asset classes.”

In absence of relief this year, prolonged distress in the economy is expected to translate to lower valuations in 2024, Redmond said.

“This is the appraisal districts’ last-ditch effort for them to raise values as much as they possibly can, because next year is going to be the inverse,” he said. “We will have the data to support — or lack thereof — that there aren’t any sales or transactions going on right now.”

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