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From the Dallas Business Journal:
https://www.bizjournals.com/dallas/news/2022/04/11/david-auerbach-armada-advisors-housing-etf-reits.html

'No letup in site' for housing demand, rising prices in DFW 'for 5 to 10 years,' expert predicts

Apr 11, 2022, 6:46pm CDT **Updated: Apr 11, 2022, 7:12pm CDT**

Dallas-Fort Worth home prices for both resale and new construction are up 20% or more, depending on the study you're looking at, and apartment rents are soaring at a similar pace.

COURTESY OF ARMADA ETF ADVISORS
David Auerbach, the Dallas-based managing director Armada ETF Advisors, says home prices, demand, and rental rates will will continue to soar for five or 10 years.

Don't expect that to change anytime soon, says David Auerbach, the Dallas-based managing director of Armada ETF Advisors, an exchange-traded fund that invests in publicly traded real estate investment trusts or REITs.

Amid the ongoing boom in residential real estate, Armada has launched the Home Appreciation U.S. REIT ETF as what Auerbach calls the first active, pure-play U.S. residential exchange-traded fund. The fund invests in REITs that derive revenue from residential property ownership and/or management.

In the interview that follows, Auerbach, who's lived in the Dallas area for 40-plus years, weighs in on the housing boom in North Texas and across the U.S. as the market grapples with a severe supply-demand imbalance. He also shares his thoughts on the impact of inflation and rising interest rates on the housing market.

Where do you see the Dallas residential market headed?

Based on the lack of new supply on the home fronts right now, I don't see this letting up for at least another five to 10 years. Until we have a property value reset or some major structural shifts, there's going to be no letup in sight.

By "letup," do you mean a slowdown of price escalation?

Yes. And demand. Both. Dallas and Texas, in general, up until a couple of years ago, generally lagged the country in home appreciation prices. Think about how cheap Dallas was compared to places like Atlanta, Chicago, and some of these other big markets. Well, what did we see based on all that relocation and people coming to Texas?

Appreciation.

Home prices have caught up. Because of that, we're seeing a double-edged effect. Prices have run up rampantly, but there's still that demand for those houses. The average person, the 28-year-old married father of two, can't afford that $400,00 or $500,000 house because, frankly, that doesn't exist anymore. If you want to live in "Dallas" for $400,000-$500,000, you can do that, but you're going to be living in Rockwall or Celina or Hurst-Euless-Bedford — you're not living in (the city of) Dallas. You're priced out of the market. Until we see some kind of reset or, frankly, call it capitulation, this is just going to keep running rampant. If you want to live in the core Metroplex, that demand is not waning anytime soon.

How does that play out in the rental market, especially with rising interest rates?

The Fed is raising interest rates. We all know that. The end tenant doesn't care. All he cares about is, "How much is my rent going up from this year to next year? If I go from $1,000 to $1,100, I'm OK. If I go from $1,000 to $2,000, I've got a problem with that." In the same breath, remember, if the landlord's going to quote $2,000 to that tenant, and he says "no," chances are the landlord has already got a prospect lined up that's ready to take that space at $2,000 a month.

That's why we structured (the fund) the way we did because there is a massive supply-demand imbalance across the country. As a result, we're able to actively position this portfolio to go where the people are relocating.

What is the impact of inflation going to be?

I think it's like the interest rates. The end tenant doesn't necessarily care about rising inflation because they're going to pay the rent check, and that rent check is the most important bill that they have to pay every single month.

Rents have shot up 20-plus % in DFW and are projected to keep rising fast. How long can that continue?

We see again this reset in the housing supply situation. There is going to be no letup. With the number of companies that are relocating to Texas daily and all this inflow of folks, and no state income tax and all these things that Dallas offers and a lot of other states don't offer, again, I feel like this runway is going to continue. Listen to the results out of Invitation Homes and the results from Camden (Property Trust) or Mid-America, the guys that have that Dallas exposure. They'll tell you every month or every quarter, and you're going to be like, well, there's no letup in sight. It's still running.

How is Armada ETF Advisors positioning itself based on the supply-demand imbalance and where people are relocating nationally?

Where we live in Dallas, you know how crazy the housing market is. With so many people being shut out of home affordability based on the appreciation in certain areas, a lot of people have to come to alternative methods. Oil prices may be going up, which means your discretionary spending is going down. That being said, the landlord is still going to say on the first of the month, your rent is due. We've seen, especially in Dallas, the explosion of single-family rental platforms or in other markets the explosion of manufactured housing platforms. There's just not enough housing supply on the market for the average homeowner to buy the house that they can afford these days.

There's plenty of places like where we live in Dallas where you're seeing double-digit home price appreciation year over year. And the average house that's coming online is a million dollars plus these days across the country. What we grew up with a quote-unquote "starter home" doesn't exist anymore. That product isn't around. Who was the beneficiary of that? The apartment REITs, the single-family rental guys and manufactured housing, right? We're just trying to find a way, especially in places like Dallas where we see all of these corporate relocations happening, and with so many people being shut out, to actively position the portfolio.

How has COVID accelerated the relocations?

If you use COVID as an example, think about how many people relocated to Texas away from New York and San Francisco, due to taxes and lifestyle. Texas apartment REITs — Camden, Mid-America, some of these other guys — really benefited from that explosion of relocation. So we positioned that portfolio to capture where the migration trends are happening.

What Dallas-Fort Worth businesses are benefitting?

Dallas has a handful of big REIT players. Invitation Homes is based downtown. They're the largest single-family rental REIT in the country, publicly traded. Camden, which is based out of Houston. MAA Communities is based out of Tennessee, but they have a lot of properties in Dallas. Any of those apartment REITs always have a big presence in Dallas. They are the ones that are reporting big rent increases year over year, almost full occupancy at their properties, and as the consumer, the tenant, gets shut out of the housing market, they're in the driver's seat to capture that tenant.

How do Armada ETF Advisors fit into the picture?

We created the first active pure-play residential REIT ETF (exchange-traded fund) on the market. There are a few other residential REIT ETFs that are out there, but some have (product) like self-storage or exposure to hospitals, medical offices and stuff that may not be considered residential. And because we are active, we want to play into that strength of where the people are locating. We have a team in place that has about 150 years of experience covering both the REIT sector and the residential real estate market. So we're trying to take this active approach that whether you're the smartest real estate investor in the world, or your grandma and grandpa who lives in the villages in Florida is just collecting the retirement income through the REIT vehicle, we've put a team in place that can look out for the benefit of all investors and play into the strength of where we're seeing these residential migration trends.

How do you accomplish that?

It doesn't take a scientist to pull up something from Zillow or Redfin or the government to tell you where these people are relocating to. As a result, we know that if everybody is relocating to Austin, Texas, what does that mean? Property values have skyrocketed. The average investor can't buy a home. Nine out of 10 guys are getting shut out on the housing deals because there's people coming in with same-day, above-asking offers for deals. What is that person going to do? They have to have a roof over their head. Are they going to go rent an apartment? Are they going to go rent a single-family rental? They have to figure out something. That's how we come into play because we position this portfolio to capture where those people are going and what property types they're relocating to.

Obviously, the portfolio focuses on DFW and Texas, but what other geographies?

There's a lot of real estate funds that are out there. In most of the REIT real estate ETFs, you're exposed to data centers and office buildings and industrial, self storage. Well, if you look back at what happened during COVID, what do we see? Office buildings were dead, hotels were dead, the mall was dead, people weren't going shopping and everything was by way of Zoom and working at home. Looking at some of those broad-based ETFs, some of those sub-sectors like the data centers and industrial and towers did great, but on the other hand, offices, hotels, malls were dismal. And when the portfolio ETF rebalanced, you were still exposed to offices, malls and hotels. They didn't get out of it. We took a different approach. We're just focusing on residential. So for us, there's only 25 to 30 names that we're able to position the portfolio around.

When COVID was running rampant, people were leaving New York and San Francisco and LA and moving to Texas or to Raleigh or Nashville. People were renting RVs because that was the summer of the road trip and staying in manufactured housing communities. r they wanted to get out of their parents basement and go rent the house and try to achieve that American dream. So for us, looking again at this active portfolio, we would have positioned it to overweight Sunbelt apartments, manufactured housing and single-family rental, and underweight the coastal apartments and senior housing because that's where COVID was running rampant and there were a lot of bad headlines coming out of the senior communities.

Is the geographic trend reversing?

Now we're starting to see people go back to the New Yorks and the LAs and there is this coastal resurgence again. Does that mean we need to adjust the weightings to account for what we're seeing right now with our own eyes?

I would think so.

Correct. But the whole answer is, I always believe one month doesn't make a trend and one quarter doesn't make a trend.

Bill Hethcock
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