TUCSON

CUSHMAN & WAKEFIELD | PICOR

THOUGHTS FROM THE MULTI-FAMILY MARKET

PICOR's Thoughts

"As we jump into the start of 2023, the multi-family market has shifted drastically. The higher interest rates, low consumer confidence and drop in demand has led to "standstill" with buyers and sellers in the marketplace. The gap between buyer and seller expectation has significantly widened as we try to figure out this new market. I envision a slow start to the 2023 year but a very strong finish as the marketplace adjusts to the rapid change in the investment market. We have noticed an immediate "rush to quality" on the few properties we have recently sold in Tucson. The properties with inferior locations and quality will see the most significant impact on demand. The fundamentals are still very strong for Tucson and the affordability plus lack of supply will position the market very well for any pullback/recession"

Allan Mendelsberg – PICOR Commercial Real Estate – amendelsberg@picor.com – 520-546-2721

"2022 was a very interesting year for the Tucson Multi-Family market. The year started out hot with record pricing and significant demand from investors due to the expected growth of Tucson. As the year went on and federal interest rate hikes continued, we saw investor demand slow and transaction volume decrease towards the end of the year. Going in to 2023 I expect seller's having to lower property value expectations to come in-line with the market. One concern that I have about the Tucson market is the drastic slowdown in leasing that has occurred. Apartments which would have rented in just a couple days in early 2022, are now taking weeks to rent and at lower than what's being marketed. I do believe that the Tucson Multi-Family market will remain strong because of our still relatively affordable per unit cost and higher than other major MSA cap rates."

Joey Martinez – PICOR Commercial Real Estate – cmartinez@picor.com – 520-546-2730

Lender's Thoughts

"Commercial and Multifamily lending activity is expected to contract in 2023 compared to 2022's robust transaction volume. From a lender's perspective, investor demand has tapered as a result of rising interest rates and changing economic conditions. Treasury yields across the board have increased since early 2022, and are anticipated to rise well into 2023. Furthermore, lenders need to account for the anticipated Federal Funds Rate increases throughout the year to continue tamper inflation, which will continue to impact the short end of the yield curve resulting in higher short-term borrowing costs for financial institutions. The good news is that from a market perspective Tucson has relatively low vacancy, modest rent growth, and a lower price per unit compared to other markets. We don't anticipate a massive market downturn or a substantial decrease in property values, but we do expect values to remain stagnant or experience a slight decrease/normalization of values as cap rates have shown some upward trajectory. "

Robert Motz – Pima Federal Credit Union – rmotz@pimafederal.org – 520-202-0672

Appraiser's Thoughts

"From an appraiser's view, there are much fewer apartment and student housing deals coming through the pipeline, including new purchases and refinances. We have noticed that rents have been stabilizing, and have started seeing some street-side signs around Tucson offering one month of free rent. Cap rates have also started to increase with interest rates. Sellers are still in short supply, and they generally believe we are at or near the top of the market, and point out that there are limited options to park their money if they do decide to sell. There are currently 2,931 units under construction, 903 units pending final approval, and 3,243 units in the planning stages. This will add substantial inventory to the current supply. However, Tucson does continue to grow and attract new employers such as American Battery Factory and Shamrock Foods. Over the long-term, we have a positive outlook on multi-family assets in the Tucson market, and will continue to be a highly desirable asset."

Ajay Madhvani – AM Valuation Services – ajaym1999@gmail.com – 520-441-9030

Manager's Thoughts

"The rental market continues to be strong. With the exception of the holidays, which always tend to slow, our average number of rentals per month has remained static and high throughout the year. Early January activity is soaring. The rental prices on most units have largely leveled out, with fully remodeled units continuing to be the most sought out. While the number of applicants remains solid, we do find that we are having to decline a notable higher percentage of them due to inability to prove long term stable income, recent eviction history, or criminal background, especially in the lower income market. Properties in strong locations like 85716, 85712, and 85719 are continuing to perform positively as expected. Supply chain issues have increased overall expenses and have resulted in a higher, but manageable, number of days off market."

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