# TUCSON

CUSHMAN & WAKEFIELD | PICOR

# THOUGHTS FROM THE MULTI-FAMILY MARKET

## PICOR's Thoughts

"The first half of 2023 saw the institutional market come to a halt, leading to not one sale over 100 units in Tucson. The under 100-unit market saw a steady stream of sales occur as many long-time owners didn't want to ride the uneasy wave of the market going forward.  Demand saw a noticeable drop but still heavily outweighed supply. As other markets saw significant drops in value, the Tucson market for small/mid-sized complexes remained relatively strong. The rapid rental growth that Tucson saw over the last 4-5 years still has many owners/managers catching up to the new market rates. Rental appreciation has counteracted some of the typical value depreciation that we would see due to the substantially higher interest rates. The second half of 2023 shapes up to see a continued slowdown in inventory as many investors/owners are waiting and hoping for rates to come down from the current high."

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

"In a market and economy that seemed to be changing daily, the Tucson small to middle sized apartment market remained strong in the first half of the year. PICOR Multi-Family facilitated nearly 75% of all transactions sold in the first half of the year over 10 units. Some warning signs have come out of the first half of the year as well though, most notably the sharp increase in vacancy rate going up nearly 27% from the end of Q2 2022. Rent growth has also started to see some flat-lining with a nominal (normal in most years pre 2018) 3.10% YoY rent growth comparatively to Q2 2022. To round it all out, we have seen interest rates continue to hike as the year has progressed. This has put upward pressure on cap rates which we expect to continue to have to increase to meet investor return requirements. Transactions are getting tougher as the gap between seller expectation and buyer's feasibility spread."

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

## Lender's Thoughts

"From a lender's viewpoint, anticipated loan volume shrunk from the previous year's production. Out of 21 closed transactions, 13 were purchase money requests, demonstrating the strong demand for multifamily in the Tucson market. However, over the course of this year, underwriting has become more challenging. As market level expenses increased, a rise in vacancy rates/collection loss, and continuing interest rates hikes stress our DSCR standards. Typical loan to value ratio for new purchase requests fell between 60-65% with an occasionally 70%. The increased activity in the bond market and an approximate 75 bps increase in the effective federal funds rate from Jan 3rd to July 11th, 2023, have had a direct impact on lending rates. We anticipate the remainder of 2023 to have steady loan production, both purchase request, and refinance. Currently we are quoting 30-45 days to close for purchase request, and 60 plus days for refinance requests. While underwriting stresses have been more challenging, the fundamentals for Tucson multifamily are strong."

**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 lenders have been tightening their restrictions and most deals are cash, seller-financed, or 1031 exchanges. 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. It is important to note that there are currently 3,799 units under construction, 453 units pending final approval, and 3,426 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 in Tucson, Shamrock Foods and Amazon in Marana. According to Apartment Insights, the vacancy in metro Tucson is 8.09%, up 2.32% from last year. 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

"I believe the second half of the year will continue to be stable when it comes to the leasing volume. The substantial rent increases that happened during the covid era are no longer. Right now we are focused on tenant retention and minimal 2-5% increases as needed. The economy is uncertain right now and that can always change the forecast of the rental market with rents going up or down. I believe as you try to push rents from last year's rents you may see longer standing vacant units. Adjustments or promotions/concessions will have to be considered if they stand too long on the market. Renters have more inventory to choose from than they did a year ago. This allows the renter to have more time to choose where they will live. Ones that may have rented a house 3 years ago will now rent a 2-3 bedroom apartment/condo, just because of the elevated rents that happened during the hot market. It is also important that each manager focuses on the consumer/tenant experience, which will result in more retention and happy new tenants."

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