

THOUGHTS FROM THE MULTI-FAMILY MARKET

PICOR's Thoughts

"The Multi-family outlook for 2024 seems to mirror that of 2023. We are expecting limited inventory until the 4th quarter due to several factors. Buyers and sellers seem to be on the same page in a "wait and see" approach as they expect interest rates to continue to trickle down. The presidential election is a focal point in 2024 as there are differing views on the state of the real estate market with each potential Candidate. The lack of affordable rental units and increasing population will continue to have Tucson as one of the more desirable destinations for investors."

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

"In 2023 the Tucson Multi-family market experienced a drastic slow down in volume and activity as compared to 2021 & 2022. A lot of factors contributed to that but most revolved around lending difficulties and the gap between seller's pricing expectations and buyer's purchasing power. As we look forward to 2024, I think we can expect a slightly more active market than in 2023. With interest rates trending downwards or flat, this should motivate owners to pursue a disposition and for buyers to be able to be more aggressive. Groups who were on the sidelines in 2023 seem to be eager for 2024 and acquiring assets. The presidential election will be a common conversation as the market looks for insight and direction post election."

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

Lender's Thoughts

"Looking forward to 2024, we are anticipating stabilization. Interest rates should remain somewhat stagnant and have modest drops in late Q3. Refinance volume and sale volume should have an uptick this year, as many loans are hitting their 5-year maturity. Underwriting challenges, we faced in 2023 will be present in 2024. New acquisitions and refinance requests be limited to DSCR minimum, as value will remain the same or see modest increases. Typical leverage we anticipate is 60-65%, and we are closing the deal in less than 45 days. While underwriting stresses have been more challenging, the fundamentals for Tucson Multi-family are strong."

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

"Overall our team expects to see an increase in Multi-family lending from all capital sources in 2024 as lenders adjust to lower interest rates and hopefully an increase in acquisitions. Freddie Mac and Fannie Mae are still the leading sources for permanent, non-recourse debt through both their small balance programs (\$1 million to \$7.5 million) and their conventional programs (\$7.5 million and greater). Small Balance programs are still sizing based off a 1.25x DSCR with a 30-year amortization with a heavy emphasis on historical operations, and currently are pricing in the 6% to 6.5% range depending on loan terms. Larger conventional agency loans may qualify for a 35 year amortization and/or a 1.20x DSCR for sizing purposes depending on other underwriting factors and are currently ranging from 5.75% to 6.25%, although rate buy-downs have been used to increase proceeds and lower payments. Life insurance companies expect to be more aggressive on Multi-family in 2024, with some rolling out "bridge light" programs to compete with the banks for properties that are not fully stabilized. Life co's will also show a greater propensity to lend on Multi-family with 30-year amortizations and achieve higher leverages (up to 70% LTV) in order to compete with the agencies for quality assets. Ultimately our team expects rates to decrease slightly throughout the year, with expected Fed rate cuts providing an opportunity for lenders to get more aggressive as the year goes on."

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Appraiser's Thoughts

"From an appraiser's view, there are far fewer transactions and refinances. However, we have seen more activity as mortgage rates have dipped. Most of the properties selling right now seem to be in the 10-60 unit range, where we specialize in. We have seen cap rates rise back to the mid 6% to low 7% level. For our valuations, we have seen rents stabilize, vacancy has risen slightly but is also stable, and more apartments are getting reimbursements for utility expenses. On the expense side, we have seen repairs and maintenance, insurance, and have also seen replacement reserve costs rising with inflation. Most other expenses have been steady, such as management fees, utilities, and taxes. Sale prices have remained high on a price per unit, in the mid 2010's we would see studio apartments sell for as low as \$30K/unit, and now the base is closer to \$70K/unit. Most new construction we have seen are projects that were already in the planning and construction phases. We have not seen many new projects in the planning phases, except for projects that have been in the planning phase for a long period of time. For 2024, we are anticipating slightly more transactions than in 2023. This is an election year, but we typically do not see a significant change in activity between election years and non-election years. The biggest threat to apartment transactions in 2024 are probably bonds, which offer a slightly lower rate than a 10-60 unit apartment."

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Manager's Thoughts

"The 2024 rental market will experience ebbs and flows but will remain steady overall and will continue to improve year over year. While monthly rents are \$100 plus below rental rates for January 2023, these reductions reflect a stabilization of the sky-high increases Tucson experienced in 2022 and early 2023. Fully remodeled units continue to draw the most significant demand despite the affordability of the unremodeled units of similar size and location. 2024 will present new buying opportunities for Multi-family investors as interest rates decrease and the resurgence of seller financing opportunities. Additionally, many long-term investors are seeking to get out of the rental market, and heavily leveraged investment groups who relied on continued aggressive rent increases and failed to anticipate the cost of remodeling and supply chain issues will move to sell, potentially at a loss. The most significant opportunities continue to exist in value-add properties and affordable housing. Overall, Tucson is a growing and thriving economy, and an excellent place to invest in multi-family, especially for long-term holds."

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