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Multifamily Year In Review And What to Watch in 2023

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With a year not many could have predicted in the rear-view mirror, we are now looking toward 2023 and what could be in store for investors, particularly in the Multifamily sector. A year ago, most bankers and experts expected inflation would settle down and interest rates would be raised, but only slightly. Instead, the Fed ended up raising rates much faster and more aggressively as it tried to combat record inflation.

Melanie Richardson is Vice President of First Commercial Real Estate Services in Tulsa, Oklahoma, and President of First Commercial Multifamily Management Services. We sat down to discuss what happened over the course of 2022 and what trends she sees over the next 12 months. "We saw the first rate hike in March, and the beginning of the market starting to taper off," noted Richardson. That March rate hike ended up being just the beginning, at a relatively small increase of .25. The Fed found itself having to get more and more aggressive with a .50 hike followed by an unprecedented 4 consecutive .75 interest rate increases before dropping back down to .50 for the last increase of the year. "The market really slowed down with that hawkish outlook, and although I think Tulsa fared well, we were very much in sync with those bigger national market trends," said Richardson.

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First Commercial Companies

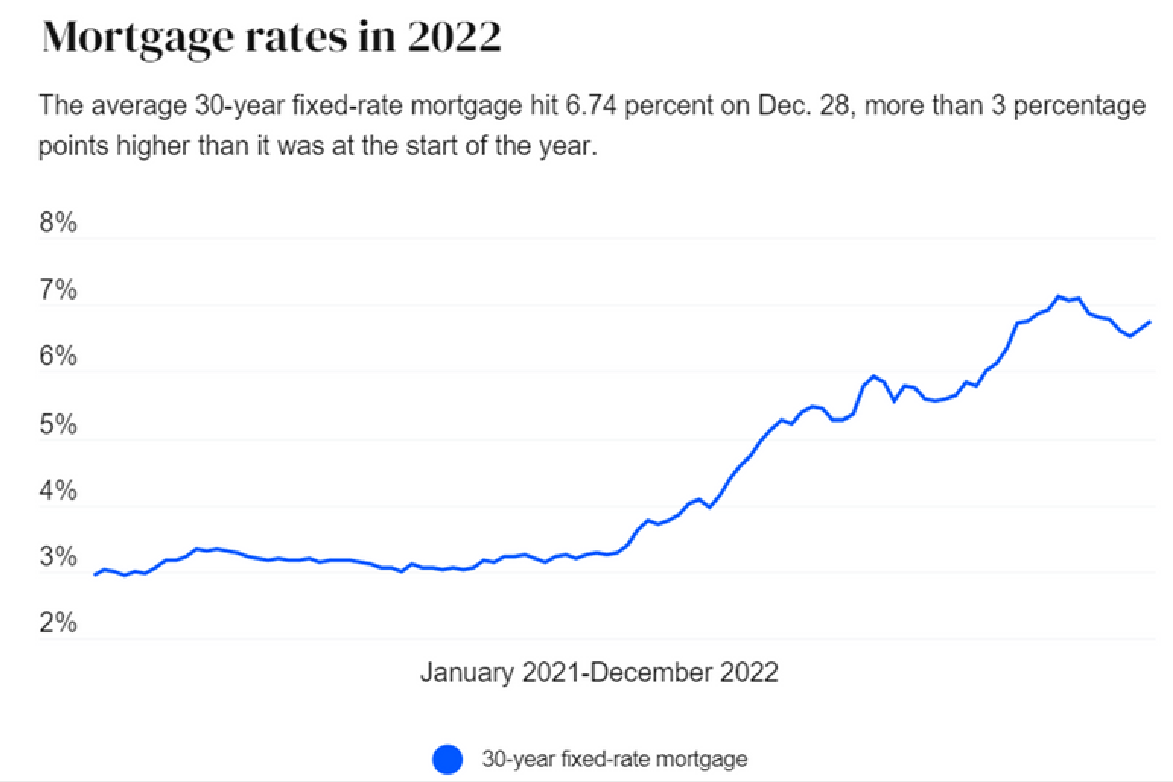
2022 Fed Rate Hikes

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.5%
June 16, 2022	+75	1.5% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

While there were still transactions taking place, Richardson did see a shift in the kind of properties being bought and sold. "I noticed there weren't as many A and B class properties changing hands. The sales I did see, where smaller C class properties," she said.

Richardson also sees that same trend when it comes to renters. "I have a few predictions when it comes to 2023 rents. One is that I think rents will become stagnant. We're already seeing layoffs, especially in the technology field," she noted. "The idea of a looming recession is a powerful motivator. Renters will be more cautious during uncertain times. They'll start to get creative, whether that's moving home with mom and dad for a while or finding a few roommates to share an apartment instead of being a solo renter with all the responsibility. Another way to save money is renting in an older building, maybe a class B property instead of an A and so forth."

One thing that is working in favor or the Multifamily industry – the housing market. "A struggling housing market is typically good for the Multifamily sector as a whole, simply because it is more difficult to buy," Richardson said.



Another positive for the local Multifamily market – there isn't a large amount of new product coming online, so there shouldn't be an oversaturation of supply vs demand. "I do think rents will flatten, and I do think we will see more properties offering "specials" to entice prospective renters, which will likely hurt the overall rental market. But, I don't necessarily see rents dropping yet," Richardson predicts. "We will see what midyear holds."

Surprisingly, Richardson says the struggling economy and uncertainty hasn't dampened investors desire to own, noting she has gotten a lot of interest from smaller investors looking to buy. As far as her advice going forward, because of rising interest rates, she has noticed a large gap in what Sellers think they can get price wise, and what Buyers are able to secure loans for. "I think that continues into 2023," said Richardson. "I expect this to be a challenging year overall. Maybe you not only bought at the peak, but now expenses to maintain your property are going up, and you're not able to increase rents like you originally thought when you paid that high price. We could potentially see a squeeze on investors, and certainly anyone who has a variable rate is in trouble." She encourages investors to be careful when making rent projections. "I really think you need to watch out for aggressive projections for future rent increases instead of making it work with what the rent is today. My advice is to be realistic and count on smaller rent increases going forward as we wait for interest rates and inflation to stabilize."

Finding the right financing for properties is another key going forward. "Do your due diligence and get the right financing," Richardson emphasized. "We started seeing some loan assumptions toward the end of 2022 and I expect to see that continue and possibly drive a lot of sales this year as long as banks are able to approve them."

Richardson is in a unique position, being in the business of both brokering transactions in the Multifamily industry, as well as managing apartments for Owners. "Being in both management and brokerage gives me a more complete picture of what is happening as well as early clues on what could be around the corner."

She ends on a positive note. "At the end of the day, everybody has to have a place to live and for many it's not feasible or simply doesn't make sense to buy. So, being in the rental business will continue to be a stable investment. We've been through this environment before, so it's my hope and opinion that we have the experience to navigate turbulent times and come out stronger and more profitable in the end."

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