

## Multifamily Is Sluggish As Owners Hang On

By Amy Wolff Sorter

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**PHOENIX** — The frenzy of single-family developments and condo conversions in the mid-2000s has given way toward more caution in Phoenix. As a result, when it comes to multifamily investments, the 300-, 400- and even 500-unit trades that were in vogue three and four years ago have given way to the smaller deals at \$10 million or less.

“If you look at our marketplace, the deals that have made sense today to potential investors are the smaller deals, and the distressed deals,” comments Todd Braun, executive director with Cushman & Wakefield of Arizona Inc. Braun tells GlobeSt.com that the buyers who acquired the larger complexes in the past four years and are able to take the loss are sitting out for the time being. “They’re hoping things can get better, then they’ll look to sell in 24 months, 36 months, or 60 months,” Braun adds.

**Marc Huisken**, senior vice president with Grubb & Ellis/BRE Commercial LLC’s Phoenix office says even among the investors who are looking for distressed assets, has been sluggish

to non-existent. He points out that so far in 2009, about six deals between 20 and 99 units have traded. The reason echoes Braun’s: buyers are still hanging on, waiting for better times.

“It’s the guys who are in trouble that would like to sell, but unfortunately don’t have any equity left in the property,” Huisken remarks. “They’re going to hang on until they go into foreclosure.”

**Tylor Anderson**, vice chairman with CB Richard Ellis’ Phoenix office adds that finding buyers hasn’t been the problem, either. The buyers are plentiful, he comments, and he receives a variety of offers whenever he brings something to market. Thanks to Fannie Mae and Freddie Mac, there’s financing available, too. However, he explains, the gap between what the seller wants and the buyer is willing to pay is still pretty vast.

“The buyers I’m talking to are looking for something over an 8-cap,” Huisken says, in agreement. “They want to buy notes, deals and so on. But the guys who bought

these things are looking at a sub-6 cap rate and they can’t sell their projects at what the buyers want.”

**The irony**, Braun says, is that it isn’t occupancy that’s creating the problems, either. Occupancy, especially at the infill locations, is in the 90s. “In my opinion, the deals that have any kind of distressed component are likely due to operational issues rather than occupancy,” Braun says. “Operations in Phoenix have deteriorated in certain submarkets.”

**Huisken says** recovery will likely happen when things bottom out. Things will bottom out, he continues, when the lenders take the properties and values can be established. The market is close, but not yet there.

“With so few sales going on, we really haven’t established where the market is,” Huisken says. “Once we know that, and once those who are hanging on understand they don’t have equity, they’ll let the properties go bank. It was the same cycle we saw during the RTC years.”

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