



nerej

**Despite uncertainties looming over multifamily sector, there is belief the market will maintain stability and strength in 2024
- by Mike Alves**

January 26, 2024 - Spotlights



Mike Alves

The multifamily sector has long been lauded as a reliable investment avenue, drawing interest from both developers and investors due to its resilience in the face of market fluctuations. Housing demand, a key driver for this sector, typically remains consistent regardless of economic cycles. However, the robust fundamentals that have historically characterized multifamily development are currently grappling with the complexities introduced by the current economic turbulence, leading to a mixed outlook for this asset class.

Over the past year, market fundamentals in the multifamily sector have demonstrated strength, buoyed by robust demand amid housing shortages and healthy occupancies. Yet, as we peer into the future, the landscape becomes clouded with challenges. Dislocated markets, supply-chain shortages, and hurdles in obtaining project approval are anticipated to usher in new difficulties for multifamily developments.

One of the primary concerns casting a shadow on the sector is the escalation of high expenses, gradually eroding net operating income. Coupled with tight financing terms and a surge in new supply, these factors pose a potential threat to the historically low-risk nature of multifamily investments. Investors and developers now find themselves navigating a landscape that demands heightened caution and strategic decision-making.

In the specific context of Rhode Island, the commercial real estate market has experienced a leveling off, particularly in the realm of 5 units and above multi-unit buildings. In 2023, these properties were fetching prices ranging from \$100,000 to \$200,000 per door. However, the market dynamics have shifted, with B & C class properties now commanding a lower price range of \$85,000 to \$95,000 per door. Similarly, A-class properties, once valued between \$110,000 and \$200,000 per door, have adjusted to a new range of \$95,000 to \$110,000.

The driving force behind this market adjustment is the increasing interest rates, a phenomenon impacting property values and affordability. Despite this, there is a glimmer of hope on the horizon. It is anticipated that there will be two incremental drops in interest rates throughout the year, potentially alleviating some of the challenges faced by the multifamily market. Additionally, recent legislative changes in Rhode Island, spearheaded by Joe Shekarchi, have introduced a new dynamic to the commercial residential landscape. The legislation allows for the conversion of commercial properties into residential apartments through special use permits, providing developers and investors with a more streamlined process for project initiation. This legislative shift is expected to have a significant impact on commercial conversions in Rhode Island throughout 2024.

Turning attention to the 2-3 family units segment, the market statistics present a more nuanced perspective. With 123 units sold and 240 pending sales, the demand remains robust. The median sale price stands at \$492,000, showcasing a healthy market for smaller multifamily properties. This segment's stability could potentially contribute positively to the overall health of Rhode Island's multifamily real estate market in the coming year.

In conclusion, despite the challenges and uncertainties looming over the multifamily sector in Rhode Island, there is an underlying belief that the commercial residential market will maintain stability and strength in 2024. The anticipated interest rate drops and legislative changes providing easier avenues for commercial-to-residential conversions may act as catalysts for a more favorable market environment. However, it's crucial to acknowledge the potential impact of mortgages coming due, which could introduce negative repercussions to the sector. As stakeholders wait to see how these dynamics unfold, strategic decision-making and adaptability will be key for navigating the multifamily landscape in the upcoming year.

Mike Alves is the president/broker owner of KW Elite Commercial Realty, Riverside, R.I.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540