

MULTIFAMILY ASSET ADVISORS

2023 in review

**In late 2022, the question on everyone's mind was:
What would 2023 bring?**

Dear Partners, Clients, Investors, and Friends: Greetings in the new year from Chico. We want to take this opportunity to give you an overview of 2023 and a few thoughts about what might await us in 2024.

We all have most likely read and listened to the many pundits and economic "experts" talk about interest rates, the economy and the commercial real estate market. With all the forecasts and warnings, the thing we find most interesting is for all intents and purposes, we ended the year just about where we started. That is not to say there weren't some dramatic changes in different parts of the economy but we found comfort that, in our small segment of providing a nice place for people to live, the market settled back down and performed very well.

The onset of Covid and the government-imposed rules on how we were required to operate our properties was unprecedented and unnerving.

Fortunately, our portfolio was positioned to withstand those 18 months without any real risk to our equity. We had adequate cash reserves, excellent management companies, and worked very hard to weather those stormy seas. Then, the last half of 2021 and most of 2022 brought unprecedented rent increases and low vacancy. We took advantage of those favorable market conditions but we knew that they were not sustainable.

As the market showed signs of cooling in late 2022, we began to plan to perform in a declining environment. This brings me to the good news for all of us. While we decreased rents for some units that had previously rented at the height of the market, the overall rate of rent growth continued to increase at its pre-Covid level.

All of our properties collected more revenue in 2023 than they did in 2022.

Additionally, our management of the overall operations resulted in an increase in the net operating income (NOI), a decrease in bad debt, an increase in our cash reserves and/or an increase in our cash distributions.

You all have received your December operating statement and along with it we provided a comparison of 2022 and 2023, which brings me to the point in this letter where I pause to give credit to **Pat Bloom** for all of her work in our operation. Pat's understanding of how to run an apartment community, her attention to detail and her relational skills, make her uniquely suited for her job. Wes, Randy, and I all sleep better at night knowing that she is looking after the \$350,000,000+ in assets you have entrusted us to oversee.

There were no new assets added to our portfolio in 2023. Last year was the first year in about a decade that we did not complete a real estate transaction. The sharp increase in interest rates all but extinguished a roaring fire of activity. Compared to 2022, in 2023 there was an 81% decline in the volume of transactions in our segment of the commercial real estate market. Most of the sales activity occurred with deals that were in contract with loan commitments already in place before the interest rate increases. Most deals that did occur later in the year were properties that had short-term debt issues that could only be resolved with a sale. Since the overall multifamily market was functioning well, most owners had no motivation to sell into a depressed price market.



And now to 2024.....

Looking forward to 2024, we believe that interest rates on commercial properties will decline by 50-100 basis points (0.50-1.00%) which will help sales volume significantly increase over 2023's very low numbers. We believe capitalization rates should remain the same or decline slightly.

We have always been opportunistic buyers and we sincerely hope to do a multifamily transaction in 2024. However, finding a great deal is still very difficult as the desirable multifamily assets are performing well. So far, sellers don't want to discount their prices to reflect more accurate values in today's higher interest rate environment.

Lastly, we thank you for your support and the continuing confidence you place in us to oversee this very important part of your investment portfolio. We are looking forward to a prosperous 2024.

*Tim, Wes, Randy and
Pat*