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For the foreseeable future, Boston's multifamily market will stay healthy for quite some time

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The multifamily business in Boston and other parts of New England is booming. In fact, it's probably been 10-15 years since Greater Boston, Southern New Hampshire and Connecticut have seen a similar surge in multifamily construction and much of this multifamily product, particularly in Boston, is high end.

With so many white-collar jobs in the Boston area, particularly in the biotech and finance sector, it's no wonder that there are so many units under construction or in the pipeline. In 2014, around 6,000 multifamily units were delivered and a similar number is projected for 2015.

In downtown Boston, high-end properties - hotels, apartments and office buildings - seem to be popping out of the ground everywhere you look. In the Seaport district, to name one of the newest hot spots, construction cranes are everywhere. The huge Vertex property and convention center has been a magnet for other Seaport developers. In addition, North Station, South End, Cambridge, South Boston and even Allston are emerging as another strong close-in multifamily market.

Yet there is still plenty of multifamily development activity in the Route 128 corridor, in markets such as Burlington and other markets that intersects with the Massachusetts Turnpike and I-93. Near the I-495 outer beltway, multifamily activity tends to follow the Massachusetts Bay Transportation Authority (MBTA) commuter rail lines, which run west to Worcester, south to Providence and north to Newburyport. Clearly public transportation is a significant driver for new multifamily development.

Financing Factors

All capital sources - banks, life companies and the government-sponsored enterprises (GSEs) - have Greater Boston at the top of their ranking lists. Fannie Mae and Freddie Mac, in particular, are high on Boston. In the current market, the GSEs are offering their very best pricing, interest-only debt structures and level of execution.

The life companies are also big players in Boston because they like the predominance of newer, lower leverage assets in this market. Banks, meanwhile, tend to concentrate on the smaller properties in the \$15 million and under range.

Helping to set the fast financing pace in New England are cap rates that are among the most aggressive in the country, ranging from the high 3s to the low 5s depending on the property.

Finding Opportunities

Like other urban areas in the nation, most multifamily construction activity in Greater Boston is occurring closer to the city center as opposed to out in the suburbs. As you get further out, proximity to public transportation is essential.

An often overlooked opportunity for investors is affordable multifamily housing mandated by the

State of Massachusetts's Chapter 40B Housing program. Created in 1969, this program allows developers to override local zoning bylaws in order to increase the stock of affordable housing in municipalities where less than 10% of the housing stock is defined as affordable.

For this reason, Chapter 40B properties tend to be in localities that are desirable to renters. The attractiveness of the Chapter 40B program has not escaped the notice of some of the country's largest multifamily developers. AvalonBay Communities, for one, has been building many Chapter 40B properties in wealthy, towns around Greater Boston for the past 15 years.

Top Trends

No doubt, we expect the Greater Boston multifamily market to continue strong for at least the next year or two. But, because so much national institutional money wants to be in Boston, there is a risk of squeezing out smaller to medium-sized local owners. Since cap rates have gotten so low, lenders are having a hard time giving these investors the leverage they want when buying at such low cap rates.

Another trend that we expect to grow is placing permanent financing on non-stabilized assets. More and more multifamily developers are looking to convert construction loans to permanent debt. Even though interest rates are still cooperating, some investors are worried about future rate increases and this gives them a way to lock in a long-term interest rate.

Looking five years down the road, oversupply could become an issue. It's fair to ask: at what point will population growth in New England no longer be able to absorb the number of multifamily units being built?

For the foreseeable future, though, expect Greater Boston to be at the top of its game as a multifamily market. Just about every high-end multifamily owner - AvalonBay, J.P. Morgan, The Blackstone Group, just to name a few are here. So do all of the big real estate investment trusts (REITs). With all of this capital coming in, there is every reason to be confident that this market will stay healthy for quite some time.

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