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Harold Brown speaks at chapter's first event in 2010

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The CRE Chapter held its first lunch event of the year on January 21st at Posternak, Blankstein & Lund, Prudential Center, Boston. Over 35 CREs and guests attended a packed room to hear Harold Brown, Boston's leading residential landlord, chairman of Hamilton Co. and NERA, the American Stock Exchange investment entity. Brown's program was entitled "Back to the Future." He focused on the historical real estate cycles and what those past cycles means to 2010. Brown is an MIT grad and has invested in multi-family assets for over 50 years. The Wall Street Journal recently wrote an article on Brown during November, 2009 on his successes.

Brown stated that 2010 is his 56th year in business involved in acquisitions, new construction and gut rehab and he brings experience out of that work. He doesn't always have sophisticated analysis but uses his experience to forecast. To see the future, one must look at the past, then present and how each phase of time affects the next phase with relative certainty. First, one must understand in what medium real estate operates; it's cyclical. When Brown first experienced his first cycle, he didn't know it was a cycle, he thought the market was just plain collapsing. Harold researched 40 years of real estate cycles and recognized that at every downturn, the rents were higher than the last downturn which he attributed to inflation. Examples Brown offered included one bedroom apartments that he was charging \$350 per month in a down-market but the next down-market, the same unit was fetching \$625 per month. Rents continually rise. The secret is holding power to survive the down-cycles and recognize that the next up cycle will exceed the last up-cycle. He illustrated these cycles with a chart that he had developed going back to the 1970s. In Brookline, in a down-cycle his one bedroom was selling at \$50,000 but the next recession, he was selling the units at \$380,000. There is massive appreciation from the bottom of one cycle to the next bottom of the next cycle. These cycles will continue to happen and we keep surviving so holding power is critical to the success.

For the present times, Brown stated that the multi-family market in Boston is anemic and any sales occurring are at outrageous prices. Commercial tenants are seeking rent reductions by 30-40%, unemployment is on the increase; retail is a disaster and there is no new construction. However, this is not the worst recession since WWII as many believe. Brown compared 2010 to 1981 with core inflation, prime rate, 30 yr. mortgages and unemployment. In 1981, core inflation was 13.6%, now 1.5%; prime rate in 1981 was 20.5% and now 3.3%; unemployment in 1982 was 10.8% and now 10.5%; 30 yr. mortgages in 1981 were at 18.5% and now 5.5-6%. The longest recession was 28 months and this recession has lasted 29 months. But productivity is up, inventory is down, manufacturing is up and profitability is up. Brown sees the light at the end of the tunnel. In terms of commercial real estate however, he surrendered the fact that there would be another 2 years before the doldrums disappeared. But for multi-family in 2010, less than 1,000 new apartment permits in Boston were issued. He calculates that there is only 1 apt. per 15 people and historically we need 1

apt. per 2.5 people. In 2011, he stated that the demand for apartments would be tremendous as the shortage became more acute until new construction starts.

So the future is a mad scramble to buy multi-family. He is recognizing an acceleration of purchases in Jan. 2010 while vacancies are decreasing. Landlords are stronger financially unlike the 1990s and the inventory of unsold condos is decreasing. If inflation becomes severe in the next 2 years then apartments will become a tremendous value if purchased today.

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