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Why owners should keep an eye on current capital gains tax rates, set to expire at the end of 2010

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There is a pent-up demand by buyers seeking to purchase multi-family properties in the Greater Boston area. Limited inventory and all-time low interest rates has resulted in lower CAP rates and higher per unit prices than those seen over the last couple years with a premium being paid for brick garden style buildings built after 1960. Sales we recently closed or currently involved with have resulted in CAP rates similar to the market's peak as low as the 6% range in Medford and 7% in Quincy. We have closed deals with per unit pricing of \$124,000 in Randolph, \$70,000 in Lawrence and \$60,000 in Hartford, Conn. with all being comparable to those during the peak market. We recently sold three "all cash" deals and have several pending closing in less than 30 days.

Part of this is due to financing still available in the 5 to 6% range and on top of that a limited inventory of quality buildings on the market. There has been a noticeable decrease of multi-families coming to the market since 2007 and the trend has continued this year. For the first three quarters of 2010 there has been a 10% decline in transactions of buildings sold with nine plus units as compared to the same time in 2009 with 55 sales in 2010 and 62 sold in 2009.

Most owners are under the impression that this is not a good time to sell due to the continuing economic woes including the foreclosure and mortgage crisis. Many would like to know when the market will rebound to its prior peak. Back in 2006 we had a third party research company investigate what was happening in the market. The result was that in almost every real estate downturn the market on average took four years to hit rock bottom and another eight years to rebound back to previous peak prices. The question is when was the peak? Many say it was 2006 and if this was the case the bottom will be sometime in 2010 and the recovery to peak prices in 2018.

With all that said, we are still seeing investors paying top dollar for the better properties in the Greater Boston market. We are in constant contact with these buyers with our list of registered investors now exceeding 10,000. The limited inventory of desirable properties has driven average pricing up. The long term investor who sat on the sidelines for the last several years due to most deals being priced as a condo conversion are actively looking to acquire properties to hold that are less management intensive. Due to their current holdings and management experience they have the equity and banking relationships that allow them to close quickly with fewer contingencies than most investors.

In the outlying and secondary apartment markets investors are seeking deals with higher returns. Due to the limited inventory these investors are keeping busy acquiring residential foreclosures with the hopes they can buy, fix and eventually sell to an end user. Many of these owners began their investing careers back in the early '90s buying these same properties which they eventually sold and 1031 exchanged into their current holdings. Due to the better returns on these smaller deals

these investors are now looking for a greater return on apartment deals in their markets.

The problems in today's market is not due to a shortage of investors seeking to buy but the gap between what a buyer is willing to pay and a seller is willing to accept. If properties are priced right they will sell in today's market. Price is the number one reason properties do not sell whether we are in a boom or bust market.

Something that many owners should keep an eye on though is the current capital gains tax rates that are set to expire at the end of 2010. If congress does not extend them, the rates will return to the previous higher levels in 2011. Given the economy and the new political makeup it is not clear how lawmakers will deal with the current rates.

United Multi Family specializes in the sale of multi family properties throughout New England. Since we track every multi family sale we know the most active and aggressive buyers in the market today.

Rich Cawley is the president of United Multi Family, Hingham, Mass.

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