nerej
1963 CELEBRATING 55 YEARS

Rich Cawley - The problem in today's market is the gap between what a buyer will pay and what a seller will accept

May 25, 2011 - Spotlights

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 resulted in CAP rates similar to the market's peak as low as the 6% range in Cambridge and Medford and 7% in Quincy. Per unit pricing on recent closings as high as $124,000 in Randolph, $70,000 in Lawrence and $60,000 in Hartford all comparable to those during the peak market.

Some of the reasons for premium prices being paid include the low cost for financing still available in the 5-6% range and the limited inventory of quality buildings on the market. Due to the stability of the multi-family investment when compared to office and retail we are experiencing an increase of qualified investors. In fact in 2010 we brokered more "all cash" transactions than we had in the previous ten years altogether.

There had been a noticeable decrease of multi-families coming to the market since 2007 with double digit decreases in closed transactions each year up to now. This trend continued through the third quarter of 2010 however due to a flurry of activity year-end the decrease was only 4.7% in sales with 80 in 2010 and 84 sold in 2009. Most of the year end activity can be attributed to investors wanting to take advantage of the capital gains tax that was set to expire at year end however this was extended for another two years. For the first time in a long time average pricing increased 19.3% in 2010 compared to the previous year. This data being based on closed transactions of buildings statewide with nine plus units and a sale price in the $500,000 to $10 million range.

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 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 nineties 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.

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