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Limited inventory of quality buildings for sale and all time low interest rates create hot market

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Multi-family properties in the Eastern Mass. market have been the hottest commodity in the real estate market the last couple years. Due to the limited inventory on the market and all-time low interest rates there has been a pent-up demand by investors. In 2011 there were 110 multi-family sales (with 9 units or more) for an aggregate price of \$988 million. In 2010 there were 108 sales for a total sale price of \$581 million. This is the first positive increase in both the number of properties sold and dollar volume since the peak in 2007 when there were 206 sales for \$1.072 billion. Although almost half the transactions the dollar volume was very close to equal due to the multiple high end institutional sales. Still the limited transactions combined with interest rates as low as 4% have driven CAP rates down to those obtained during the markets peak from 2004 to 2007.

Although buyers are paying a lower CAP rate in certain markets, interest rates in the low 4 to 5% range have resulted in high cash on cash returns. Buyers of properties in the Cambridge-Boston markets are now paying in the 4.5% CAP range. In Quincy brick garden style apartments are selling in the 6 to 6.5% CAP rate range with buyer's earning close to 6% cash on cash return. In Worcester an investor paying a 9% CAP should earn 18%. These rates of return do not include the fact that the investor will be also benefit from principal reduction of the loan and be able to shelter part of the cash flow through depreciation allowed under IRS guidelines. Many of these buyers who already own other buildings borrow the down payment from the equity of their properties further increasing their return on investment.

Occupancy of multi-family properties in the Greater Boston markets have remained high and are actually stronger in some markets than those during the peak. The new tenant in the rental market is the recently foreclosed homeowner. During the residential markets peak multi-family owners were experiencing higher vacancy due to loss of tenants to home ownership through the use of the now defunct sub-prime mortgages. Since the crash these loan programs are no longer available resulting in tenants staying put. Due to this fact there has become a shortage of rental housing in the Boston area that has driven the average rent up. For the first time in several years there are several developments being proposed and on the table to be built for rental housing.

Most owners are under the impression that this is not a good time to sell due to the continuing economic woes due to 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? Based on recent studies of multi-family transactions the highest volume was during the year of 2007.

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. The problem in today's market is not due to a shortage of investors seeking to buy but the limited inventory of quality buildings for sale. 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, Braintree, Mass.

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