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Multi-family properties: Still a prime choice

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Multi-family continues to be at the top of many lists as we close the book on 2012. What has been a somewhat "charmed" asset category of late remains in great demand from both domestic and foreign investors. Trophy assets in top urban markets are selling at cap rates in the 4% - 5% range and national vacancy rates are below 5% in major markets. Several recent bidding wars confirm that investor demand remains strong.

Investors are not the only ones with multi-family housing on their mind. State government has stepped up with an ambitious agenda as well. Governor Patrick has come forth with a plan to produce 10,000 units per year through 2020. Through a program called Compact Neighborhoods, this initiative encourages housing near workplaces, public transportation and city/village centers. This program will work hand in hand with Chapter 40R and other transit-oriented development. This type of activity by government often has a spin off effect that radiates to the private sector, so there may even be a multiplier effect. The hope is that this style of development will also support job growth in adjacent areas.

Several factors seem at work here. The less attractive yields in the public markets coupled with economic uncertainty are clearly driving many investors to this asset category. Superior yields and steady cash flow are maintaining strong interest. The sustained demand for rental housing is driving development. This demand has its roots in a changing view of what housing should be by the younger cohorts, as well as the increasing trend by boomers to migrate from the suburbs to more urban environs. To meet this demand, developers have substantially increased production. Coupled with attractive financing options, this demand has supported a spike in production.

Are we headed to an oversupply condition? The experts are split on the answer to this question. It seems to depend on your view of the intermediate economic horizon. In my opinion, we will see continued construction that will meet a sustained demand from job growth. This coupled with a new ability to retain the thousands of graduates each year from our many colleges and universities by producing attractive, well located rental housing, will complete the needed fuel. The key to sustaining and nurturing this potential is maintaining affordability and adapting the units to the changing needs of future demand.

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