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Multi-family properties in the Greater Boston area continue to be the hottest commodity

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Multi-family properties in the Greater Boston area continue to be the hottest commodity in the real estate market today. Due to limited inventory and all-time low interest rates there continues to be a pent-up demand by investors seeking to purchase. In 2012 there were 167 multi-family sales (buildings with 9 units or more) compared to 100 in 2011. This is the first time since the last markets peak in 2007 that there has been an increase in transactions and total dollar volume for two consecutive years.

Interest rates continued to decrease in 2012 by a margin of a half to full percent resulting in CAP rates dropping close to the same margin. Properties that were selling in the Cambridge-Somerville markets at a 5.5 to 6% in 2011 were trading in the 4.5 to 5% range in 2012. The trend is continuing in 2013 with returns in the 3 to 3.5% range. With lesser returns found in the Greater Boston market we are now seeing an interest by investors in the Providence, Southern New Hampshire, Hartford and Western Massachusetts markets. These are markets where investors can earn double digit returns on their investment. 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 Greater Boston has increased dramatically with some areas experiencing little to no vacancy. New tenants entering the rental market include the recently foreclosed homeowner. During the last residential boom multi-family owners were experiencing higher vacancy due to the loss of tenants to homeownership through the use of the now defunct sub-prime mortgages. Since the market crashed these loan programs are no longer available to first time buyers resulting in tenants staying put. Recent college graduates now gainfully employed are moving or staying in the city or areas where public transportation is available due to the increased cost of fuel. Many empty nesters are downsizing by selling their large suburban homes and testing the waters by renting first before buying. All of this has lead to a shortage in rentals resulting in rents being driven up substantially. For the first time in several years there are developments being proposed and on the table to be built for rental housing.

For owners who would like to sell but not pay the tax there is the option of deferring the gains through the use of the 1031 tax deferred exchange. A 1031 exchange allows you to sell investment property and defer the capital gains and depreciation recapture taxes, assuming reinvestment of 100% of equity into "like kind" property of equal or greater value. Any property held for investment purposes or for productive use in a trade or business generally qualifies as "like kind" property for 1031 exchange purposes. Besides purchasing a multi-family there is other choices for the investor that wants little to no management at all one of which is the triple net lease.

A triple net lease is where the landlord receives a net rent, because the tenant pays the property taxes, utilities, insurance premiums, maintenance and repairs. Most net-leases are long term (10-25 years) with cost-of-living increases in the rent. Some examples of net-lease tenants are: Walgreens, CVS, Rite-Aid, and Barnes and Noble just to name a few.

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. We also have access to triple net leased properties currently on the market.

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