



nerej

Greater Boston area multi-family properties continue to be a hot commodity, even with rate increases

July 25, 2013 - Spotlights

Multi-family properties in the Greater Boston area continue to be a hot commodity even with the recent increases in interest rates. Since May rates have climbed almost a percentage point impacting some deals that were already in process however due to limited inventory of quality properties there hasn't been a negative effect on pricing yet. For the first half of this year there have been 41 transactions, down from the 60 that occurred during the same period in 2012. Most of the decrease can be attributed to the sellers that decided to take advantage of the capital gains tax that increased year end of 2012. The imminent tax increase lead to 167 multi-family sales in 2012 almost double to the 100 in 2011. This was the first time since the last markets peak in 2007 that there had been an increase in transactions and total dollar volume for two consecutive years.

Transactions recently closed by UMF have resulted in CAP rates of 3.4% for a 27 unit sale in Allston-Brighton, 3% and \$300K per unit in Cambridge, and 6.8% for an 87 unit in Manchester, N.H. where previous rates were closer to double digit. With lesser returns found in the Greater Boston market we are now seeing an interest by investors in the Providence, Southern New Hampshire, and Connecticut markets. For the most part 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.

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

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