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Multi family prices are dropping. Today, it is the savvy investor who will start buying again

March 26, 2008 - Spotlights

I am often asked if I can predict trends in the real estate market. My usual response is that if I could predict trends in the market, I would be retired by now. However, there are clear patterns that occur in commercial real estate. I recently read in the Commercial Investment Real Estate Magazine, the magazine of the CCIM Institute, five trends for 2008 relating to commercial real estate. Three of them caught my eye. One- chill on retail, two- buy or hold industrial, and three- buy multi family. The multi family trend is especially true for Maine. Specifically, per the RERC/CCIM Investment Trends Quarterly, they were telling investors to purchase B and C quality buildings in secondary and tertiary markets. Well, Maine is that market.

For over 10 years, I have been selling multi family properties and I truly like this investment product. Many active investors are looking for trophy investment property that is either a NNN investment or a multi tenanted stabilized investment property. These investors have been looking for the same product type and often bid against themselves, which drops the cap rate. If I could predict trends, I would predict that with the low cost of capital, even in today's uncertain economy, these investment properties are still going to be fiercely fought over. Though cap rates may rise 1-1.5%, that is still a capitalization rate below 9%.

I have specialized in multi family sales in Lewiston and Auburn since I started selling real estate 11 years ago. I have sold over 250 apartment buildings in this time frame in Lewiston and Auburn. In 2005, the multi family market in Lewiston-Auburn began to sky rocket. Values were over inflated and buyers were paying more for these buildings than their cash flow would support. I represented a lot of sellers in this market, but very few buyers. I relate this to the tech stock boom of the late 1990s. Back then investors were buying stocks of tech companies that weren't making money because wherever you went people were talking about the money they had made on these stocks and IPO's. Investors were making emotional purchases not backed by the economics. Over the last 3 years, the same thing happened to the multi family market in Maine. From Biddeford to Portland, and from Lewiston/Auburn to Waterville, everyone that could buy did. Real estate was the "golden child" of investments. (It still is in my book, as long as the deal makes sense). But for awhile investors with little cash to work with or sustain them were buying apartment buildings that didn't work financially.

As we all know now, that has stopped. Multi family prices are dropping. Today, it is the savvy investor who will start buying again. Americans typically will invest their money with the majority. Energy is up so let's buy energy stock. This is up, let's buy. When in reality, we should be looking at investments based upon sound advice and the economics of each deal. When the market is down, look to buy good solid assets with strong financials and especially with the potential for upward trends.

I firmly believe that there are many people out there much smarter than I am. However, I do take pleasure in that the national real estate economists are predicting the same that I have been sharing with my clients for the last 3-6 months. Now is the time to buy rental housing! I am predicting that in my market area good quality apartment buildings above 5 units will be trading around \$27,000 to \$28,000 a unit by the end of 2008 and will trend up to \$35,000 a unit by the end of 2009 and 2010. These are downtown, 3 to 4 story walk ups. Smaller apartment buildings, 2 to 3 unit buildings, that can now be bought around \$50,000 a unit will also trend back up as first time home buyers again look to 2 and 3 unit apartment buildings as a starter home and potential investment for their future. These properties 2 to 3 years ago were pushing to \$40,000 unit and \$70-\$80,000 unit respectively. Will we get that high again? I believe that will only happen if the cash flow supports these prices. However, good apartment buildings with stabilized income and expenses will still yield the savvy investor a strong return over the next several years.

My prediction for the next couple of years? Let the masses fight over the "sexy" investments and instead, I'm advising my clients to look for the B and C quality apartment buildings in secondary markets like Lewiston and Auburn.

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