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## Multi-family markets in New England: Housing in motion

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Multi-family housing in New England, in the Boston area, has always fascinated me. When I first came to Boston as a very young real estate acolyte, the city (include Cambridge, Brookline and a few others) was still under Rent Control - it was actually Vacancy Decontrol - and any apartment analysis had to take into account the effect of rent controlled units.

Condominiums had become fashionable and condominium conversion brought out all that 70's activism. During an appraisal, the first tenant, upon hearing me identify myself as an appraiser, ran out into the hallway shouting up the stairs, "shut your doors, the appraiser is coming, the appraiser is coming." I wanted to suggest to this person that she count the number of lanterns so that they would also know if by land or by sea.

All that is very past history now. We live in an age where thousands of luxury units are being created, rents are, well, extraordinary, across the board, and it's a time when it's great to be a landlord.

Affordable housing concepts are well-established. Developers have rules to play by. For many, affordable housing is still pretty unaffordable with no solution in sight. The market rules.

Multi-family housing has boomed since the end of the recession. First, it was rental housing. As the sales market roared back, condominiums became fashionable once again. The rental housing trend is firmly in place.

Renting is still a strong New England tradition. The traditional, historic housing stock of 2 -3 families created the opportunity for a middle class where one could own and with a rental unit or two to defray costs, live affordably. In communities close to Boston, the pressure to convert units is so strong that the traditional arrangement has not been affordable for quite sometime and certainly not in this cycle.

There is plenty written on the larger multi-family markets. Brokerages report strong demand for limited assets. Cap rates are reported to have stabilized in many markets but Boston tends to have so little available to buy at any given time, feeding frenzies erupt. National surveys suggest that cap rate "compression" has slowed.

Concerns have been raised as to how much higher rents will go. In some markets - downtown Boston comes to mind - some reporters note that a glut of high end units may come to pass.

I took a look at the small multi-family market (< 5 units), according to MLSPIN, since the larger market observers tend not to pay much attention to this level of the market. (However, it has to be mentioned that there a lot of investors, priced out of the larger asset market, who have been assembling tidy little portfolios of small multi-families and achieving some interesting management economies).

In Massachusetts, Boston multi-family sales volume according to MLSPIN data for 2011, 2012, 2013 rose from 5,179 to 5,508. The median price increased from \$220,000 to \$276,750, which is

substantial over three years with the biggest jump occurring during 2013.

For Boston as whole, volume increased from 639 to 733 from 2011 - 2013, with days on market dropping from 68 to 47. Median prices rose from \$336,500 to \$433,000. Interestingly enough, the average prices are much higher over this period, which shows the distorting effect of the high end in Boston and this is after removing sales over \$1 million from the data. The sales price/list price ratio increase was 99% in 2013.

Brockton was the next city to be considered. Sales volume went down from 2011. Median prices rose dramatically, at a rate higher than that found statewide or in Boston. Sales price/list price ratios also rose with days on market declining.

In Springfield, the trend was different. Sales volume dropped from 2011 to 2013. Median prices show a downward trend that seemed to stabilize in 2013. Days on market have increased. The trend in this city seems to buck the general trend.

Small multi-family markets are the bread and butter of real estate economies, certainly in New England. These markets have improved but not evenly. These local variations and market nuances are the key to understanding each market on its own terms. Rental trend will be considered in a future article.

William Pastuszek, MAI, SRA, MRA heads Shepherd Associates, Newton, Mass.

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