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# 2013 Marketplace turned to 4-8 unit properties towards Secondary Markets for increased rates of return

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The New England multi-family market experienced both an increase in building appreciation and Federal taxes in 2013. Values increased 8.4% in Massachusetts, 9.2% in New Hampshire, 23% in Rhode Island, and a staggering 27% in Connecticut. Yet, owners remained timid to sell due to a 5% increase in the Capital Gains tax and a new additional 3.8% increase from the Affordable Care Act. Fortunately for building owners the surge in value has trumped the rise in taxes and has created a strong seller's market.

The 2013 marketplace saw investors turn to smaller 4 to 8 unit multi-family properties and secondary markets. There was a 16% increase in the 4-8 unit transactions in Massachusetts as compared to a 20% decrease in 10 plus unit sales. On average, these 4-8 unit properties sold at prices higher than their value during the last peak (2004-2007). Also in 2013, investors turned towards secondary markets to capture increased rates of return. With lesser returns found in the Greater Boston and New York City markets, investors migrated to the Providence, Southern New Hampshire, and Connecticut markets. For the most part these secondary markets can earn investors double digit returns on their investment.

While the market shifted, one consistency was an increase in taxes resulting from property sales. This increase scared some owners away from selling in 2013. Fortunately the negative influence of property sale taxes can be mitigated through the use of a 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. Besides purchasing another multi-family property there are other choices for an investor such as a Delaware Statutory Trust (DST).

DSTs have been gaining in popularity as they are able to secure financing more easily and can attract more investors with lower minimum investment threshold amounts. A DST is a separate legal entity created as a trust under the laws of Delaware. A chief advantage of the DST structure is that the lender views the trust as only one borrower which makes it easier and less expensive to obtain financing. Fortunately for sellers, the IRS released a ruling in 2004 that allows the use of a DST that acquires real estate to be treated as direct interests in replacement property for purposes of a tax deferred exchange.

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