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Boston multi-family market is better than others nationally; good future for resourceful buyers

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In the wake of what has been happening in markets over the past several weeks, the article I thought I was writing seemed irrelevant. Here are some things which were considered about multi-family markets in the context of current events. Let's consider both rental housing and for sale housing.

Attractiveness of multi-family as an investment. Multi-family properties, particularly in the Greater Boston market area, have always represented a solid, "can't lose" type of investment due to "strong fundamentals". The "market" tends to stay in relative balance as compared to other property types and to other areas.

While for sale residential housing remains weak, Greater Boston's apartment market remains solid, according to major area brokerages. Despite additions to the rental stock, vacancy rose only slightly and average rental rates increased by about the inflation rate. Looking forward, it will be interesting to note how apartment rental markets "hold up".

Signs of weakness? The concern going forward is that with rising unemployment, severely diminished wealth, and true concern about the future, how will housing consumers view rental decisions?

Even strong locations are not immune from recent shocks. A number of purchases in the urban core made at the market's height with cap rates based on prices assuming immediate condominium conversion. With the demise of the end user market and the drop off in investor appetites for conversions, some properties have gone back on the market or are being carried at a significant loss.

Location matters, as it always does. Peripheral market areas with strong demand at the market crest or which had fragile economic characteristics have experienced distress. Many of these areas saw strong speculative price run-up over a short period with an equally strong downturn.

Many of those sales are back on the market or have gone into foreclosure. More of this type activity is likely.

Buyer-seller spreads. The relative solidity of the multi-family market has kept the bid-ask divide in place. The latest shocks may change that stubbornness. Major brokerages report listings are up and transaction activity is within "normal," pre-boom, levels with more attractive pricing.

Lack of financing availability creates another, quite severe, barrier. However, those sellers "needing" to sell are beginning to price assets at levels that close the gap. Those sellers tend to be motivated, and, from these transactions, a pricing level pattern is beginning to become evident. And that level is not close to the peak.

Financing. Financing has been an issue and will continue to be. Many traditional investment grade lenders are not in the market - those that are not shy about recasting deals to satisfy committees, loan review, and due diligence gatekeepers.

Commercial real estate financing has been below freezing since the 2007 credit "meltdown." While many traditional conduit lenders are on the sidelines, less traditional lenders are willing to make deals. So there's money out there, it's just harder to get - a lot harder - and it's more expensive - possibly a lot more - to get.

Development. The housing boom spawned many projects ranging from straight condominium projects, e.g., conversions, raw land new construction, urban in fill development, to more exotic concepts, e.g., over 55, 40B developments, transit-oriented developments. Many projects are experiencing or are likely to be experiencing distress or worse. Those projects not yet underway may just stay that way for a while.

The housing bust (and everything else) will keep development quiet for some time. Working out distressed/deceased projects will be at forefront and there isn't great interest in speculative projects. For buyers with resources and vision, this may be a good time to buy.

The Boston market will have its share of workouts, reconfigurations and repositionings, prior to new waves of development. Arguably, these markets are better off than others nationally: large scale speculative over building did not occur as it did in faster growth areas. And there are city core condo sub markets showing steady absorption of market appropriate product. Nonetheless, the cure is painful and will take some time.

Final Comments. We are in a historically painful time, an economic and financial "perfect storm". Many systems failed with a widespread loss of control, the consequence of a succession of stampedes of greed, studied ignorance, and refusing accountability. Many believe it's a failure of regulation. Ineffective or nonexistent regulation is only one of many dysfunctional systems with contributory roles to this complex failure.

The Greater Boston multi-family markets may see further shocks, depending on local and national economies' movements, and the efficacy of the various "fixes" underway. The resiliency to weather the storm is there.

Development markets are in a period of painful readjustment. For many involved with these markets, the return to stability is a ways off but the news is not all negative since even these markets are not as overbuilt as many other nationally.

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