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2009 Mass. multifamily market has increase in average price, but decrease in transactions

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For the first two quarters of 2009 the Massachusetts multifamily market has seen a 44% decrease in transactions, however a 14% increase in average pricing for buildings with nine plus units. The same applied to properties with four to eight units where average pricing increased 8% and sales transactions decreasing 32%.

These numbers are similar to those we found in 2008 where we saw a 44% decrease in transactions and 5% increase in average pricing as for buildings with nine plus units. The same applied to properties with four to eight units where the average price increased 12% but sales transactions decreased 31%.

These numbers do not come as a surprise since there has been a noticeable decrease of multifamilies coming to the market since 2007 and this trend has continued into this year. The decrease in properties on the market has lead to a significant decrease in transactions which partly has something to do with the increase in average pricing. The other is due to the fact that some of the more desirable buildings have a tendency to come to market once an owner realizes we have reached or surpassed peak pricing.

Most owners are under the impression that this is not a good time to sell due to the continuing economic woes including the foreclosure and mortgage crisis. Many would like to know when the market will rebound to its prior peak. Back in 2006 we had a third party research company investigate what was happening in the market. The result was that in almost every real estate downturn the market on average took four years to hit rock bottom and another eight years to rebound back to previous peak prices. The question is when was the peak? Many say it was 2006 and if this was the case the bottom will be sometime in 2010 and the recovery to peak prices in 2018.

With all said we are still seeing investors paying top dollar for the better properties in the Greater Boston market. The limited inventory of desirable properties has driven average pricing up. Investors who are disillusioned with the returns they are receiving or possibly losing in the stock market are looking to invest their remaining monies into these better properties. The long term investor who sat on the sidelines for the last several years due to most deals being priced as a condo conversion are actively looking to acquire properties to hold that are less management intensive. Due to their current holdings and management experience they have the equity and banking relationships that allow them to close quickly with fewer contingencies than most investors.

In the outlying and secondary apartment markets investors are seeking deals with higher returns. Due to the limited inventory these investors are keeping busy acquiring residential foreclosures with the hopes they can buy, fix and eventually sell to an end user. Many of these owners began their investing careers back in the early nineties buying these same properties which they eventually sold

and 1031 exchanged into their current holdings. Due to the better returns on these smaller deals these investors are now looking for a greater return on apartment deals in their markets.

The problems in today's market is not due to a shortage of investors seeking to buy but the gap between what a buyer is willing to pay and a seller is willing to accept. We recently placed several bank owned properties on the market and within 48 hours had received several full priced cash offers with no contingencies. This was due to the fact that these properties were priced accurately since the lender was willing to sell for a fair price if the closing was quick and there were no contingencies. If properties are priced right they will sell in today's market. Price is the number one reason properties do not sell whether we are in a boom or bust market.

Something that many owners should keep an eye on though is the current capital gains tax rates that are set to expire at the end of 2010. If Congress does not extend them, the rates will return to the previous higher levels in 2011. Given the economy and the new political makeup it is not clear how lawmakers will deal with the current rates.

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