

## BOSTON MARKET HIGHLIGHT: BOSTON MULTIFAMILY MARKET

One of the silver linings in today's stormy real estate market is multifamily investing. Despite the fallout in the credit market from the sub-prime debacle, and an oversupply of condo projects, multifamily assets are still high on investors' lists.

The inherent counter-recessionary nature of apartments in combination with tighter lending standards for single family home buyers, has boosted occupancy levels and consequently the appeal of this asset class. Couple that with Boston's high "barrier-to-entry" market, with its arduous entitlement process and hard-to-find developable sites, pricing on Class-A assets remains healthy as trades are still occurring in the 5 to 6 percent cap rate range.

Granted there has been some pressure on apartment investing, with financing options fewer as "CMBS land" is on its back, there are still reasonable options (Fannie Mae, Freddie Mac, portfolio lenders) available to borrowers, albeit at tighter underwriting standards and at generally lower leverage levels.

Development deals are active but at a slower pace than in 2007, with Avalon and Archstone-Smith leading the REIT charge along with local established private developers. Private developers will need to build these projects to a higher return in order to satisfy the

stress underwriting that joint venture equity investors and lenders will apply.

The majority of these developments are occurring in established suburban communities along Route 128 that have infrastructure, retail and amenities already in place. Development is also occurring in urban in-fill areas; generally with an affordable component in order to attract cheaper capital via tax credits and bond financing.

This segment however is not immune from the credit crisis, due to the huge losses at investment banks that have caused weak demand on the tax credit syndication side. Tax credit pricing has dropped from 90 to 95 cents on the dollar to 80 to 85 cents. Developers need to fill the gap with other soft debt or equity.

Market vacancies are relatively sticky in the 5 percent range and rent appreciation is expected to remain in the 3 percent range. The tenuous mess of the current credit markets, has caused a downward pressure on land values. Land owners who've held out and missed the peak sale opportunities of a year ago or more, will need to take their medicine and accept what the market will bear or re-up and sit on the side-lines until the capital markets show some stability.

Finally, unabsorbed condo projects will compete with rental stock, albeit, generally at the higher end of the market, making continued rent growth and absorption at the upper end of the market somewhat of a wild card.

Expect transaction volume and new development activity in 2008 to pale in comparison to the recent past. Deals will get done, but they will have to meet a stiffer litmus test, which probably is not a bad thing after all.

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