STATE OF THE MARKET

By Francyne Shapiro Lambert, Vice President, Lambert Investments, Inc.

We are now in the last quarter of 2017 and observing the market conditions for Multifamily to be consistent with the last three quarters as well as the last few years.

We are still experiencing a strong seller's market in the prime A and B locations and even in some of the secondary markets. The cost per unit are generally starting at $300,000 per door depending on the size of the unit and have even been as high as $800,000 per door in the prime A+ locations. The average cost per unit on well located Westside buildings is around $500,000 per door. Price Per Square foot on the low side is $250PSF ranging up to $700PSF and there have been some sales exceeding up to $800PSF and more.

Gross Rent Multipliers range from 15XG up to 25XG and sometimes more; the multipliers can fluctuate depending on the rent levels and potential for future upside in the rents. Buyers are motivated to pay a premium for vacant units and price will vary on the configuration of the vacant unit(s.) Cap Rates still remain very low anywhere from 1.5% to 4%. These barometers are just crazy when measuring rate of returns, analysis and underwriting to determine if an investment makes sense. The simple answer is that at these numbers, they don't make sense. These barometers which used to determine factors of a purchase are now strictly for comparable purposes. Many of us seasoned investors will simply not adjust to these numbers and for good reason; however, these prices can certainly be very motivating for a seller providing there is a reason to sell.

Interest rates (at the date of this writing) for loans of up to $1,000,000 or more are starting at 3.65% ranging up to 4.5% depending on the terms and if the loan is fixed or variable. At the moment, fixed rates are more attractive as the prepayments on VIR are very high and there remains to be further speculation on where rates are going.

With the proposed and yet to be passed Tax Reform, industry leaders fluctuate from support, to opposition, to limit or ban the deduction of interest on business debts. Our industry is still filtering through the rumors that some say would do away with favorable tax treatments.
Reports are still circulating which include the possibility of the elimination of the 1031 tax deferred exchange. They may reduce the amount of interest deduction on debt. There may be a change of the tax rate for pass-through business income. These critical issues and details are yet to be answered with a long road ahead before anything is passed. Stay tuned as this continues to unravel.

The theme at the moment is much uncertainty. The state of our administration, the economy, the vast amount of growing homelessness and unemployment directly effect our industry as housing providers. This theme of uncertainty is accompanied by many investors waiting in the sidelines. The frenzy to buy seems to have simmered a bit. The volume of multiple offers and quick closings has also slowed down. That being said, it would be prudent to evaluate where you are in this cycle in relation to your objectives. We have had the privilege to be of service to this industry for over 30 years now (although sometimes it feels like a 100 years) as brokers, managers, advocates for property ownership rights and owners of multifamily units. We have witnessed and experienced many different cycles with the focus still being on the personal relation to where you are in the current cycle.