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EDITOR'S NOTE: The Apartment Sales Market Slows Down

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By Keat Foong, Executive Editor

The apartment investment sales market since the financial market crisis occurred in mid-September has “frozen up” as apartment buyers and sellers face deep uncertainty over the future of the nation’s—indeed, the global—economic condition.

According to the results of one study, reported here in the previous issue, apartment sales volume has plunged a whopping 69 percent. Indeed, one broker, Kitty Wallace, senior vice president at Sperry Van Ness, says that in her experience in California, multi-housing transactions have dropped 70 to 80 percent.

The severe drop in apartment investment sales volume generally is attributed to a combination of negative sentiment and uncertainty; lack of bank financing; the death of conduit financing; tougher LTV and DSC requirements from Fannie Mae and Freddie Mac; and a continuing gap between buyer and seller expectations.

Anecdotally, many institutional and high-leverage players have dropped out of the sales market. Among the ones remaining are long-term holders and players who can put down a lot of cash. For these players, many of them no doubt family-owned concerns, this is the opportunity to get into previously difficult-to-enter markets.

One can only hope the investment sales market inactivity is temporary as the government works to unfreeze the credit markets with a bailout package and implement a yet-to-be-legislated fiscal policy to stimulate the economy. Hopefully, the fiscal stimulus, which President-elect Barack Obama says he is set on, will not be “too little too late.” So far, initial signs of the effects of the bailout package seem to be encouraging, and experts say a financial meltdown seems to have been averted—for now.

No one knows when the apartment sales market will come back but some players are optimistic it could be next year, when the economic picture becomes clearer—and assuming the financial markets do not unravel further.

Meanwhile, keep in mind that the multi-housing investment sales market is still the top-performing commercial property sector. Other commercial real estate sectors do not have Fannie Mae and Freddie Mac to keep their transactions volumes alive.

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