

After COVID-Driven Suburban Flight, Cornerstone Capital Bullish on Boston and Multifamily

LEXINGTON — It's a healthy business climate at Cornerstone Capital, the seasoned commercial mortgage lender located in Lexington, which specializes in structuring and sourcing financing for all property types, as well as offering 1031 exchange consulting services.

In an encouraging sign that the local commercial real estate market has returned to a sense of normalcy following 18 months of uncertainty due to the COVID-19 pandemic, the locally sourced finance company has completed a bevy of assignments of late, including recently arranging a \$7.5 million loan for the acquisition of a brand-new, 33-unit apartment complex in Reading.

"There was tremendous competition from lenders," says Cornerstone principal and founder, Paul Natalizio, regarding the mixed-use asset trade. The company secured the loan, a low, fixed-rate financing structure with six years of interest-only payments followed by a 30-year amortization schedule.

The Reading property is 100% leased and features luxury finishes including modern kitchens with quartz countertops, and GE stainless-steel appliances. There's also 24,000 square-feet of retail space on the first floor and the property is within walking distance to the commuter rail to Boston - an amenity that has become the new normal in development, having the option of commuting via transit or highway.

In May, the commercial mortgage broker arranged a \$53 million construction facility loan on behalf of Edgemere Crossing Residential LLC, a joint venture between The Dolben Company, Inc. and Belmont Capital. That blockbuster deal will bring 250 apartment units across nine residential buildings and 145,000 square feet of commercial space to the site of the former Edgemere Drive-In theater, on Route 20 in Shrewsbury.

Natalizio accedes investors have a much better sense of where the market is going now, compared to the beginning, or middle for that matter, of the COVID crisis. "Lenders are sitting on substantial deposits that were banked during the uncertainty of last year and there's a stronger desire to finance and to do deals. There's still a focus on quality on the part of lenders ... but when a good deal comes along the spreads are lower in order to be more competitive on loans," asserts Natalizio.

Cap rates, he confirms, have come down. While properties were being advertised with 4.5% cap rates, both pre-COVID and during COVID, Cornerstone is now seeing a stronger (overall) market with 3.5% cap rates.

According to Natalizio, multifamily properties performed much better last year in the suburbs than in Boston or other urban areas. Boston experienced a vacancy level it hadn't seen since the early 1990s, due to many colleges requiring its students to live on-campus, and due to young professionals letting their leases expire and relocating to work from home; meanwhile, apartment complexes in the suburbs were near full-occupancy as rents continued climbing. The "suburban flight" was underway.

This year, however, there's more leasing in Boston than last summer, confirms Natalizio, as many colleges are in planning mode with expectations to open up fully - and companies are expecting at least portions of its workforce to return to the office. The multifamily rental market in The Hub has recovered from its brief dip in occupancy and pricing. However, it remains to be seen if there will be a renewed influx of foreign students to Greater Boston, as the lack of visas and restrictions on travel continues.

These changes have led to a renewed urban optimism and to Cornerstone's involvement in two recent deals. In June, Cornerstone arranged the \$12.25 million refinancing of a 39-unit mixed-use property in Boston's Egleston Square neighborhood, and in February it arranged the \$6.5 million refinancing of a 26-unit multi-family property in Cambridge. It is its regional reach and diligence that Natalizio contributes to its consistency.

"Our clientele are some of the best owners in the marketplace. We have a large pool of lenders throughout New England," affirmed Natalizio. "We did deals with 42 different lenders last year, which means more options than in other markets, and more liquidity."

With Cornerstone, as with most lenders, what makes the deals work is a healthy market full of mixed-use and multifamily properties showing steady returns, coinciding with a robust amount of capital on the sideline, in a well-capitalized lending environment.

While not all product types are near pre-pandemic levels, the market for multifamily properties continues to prosper, as Massachusetts sustains a top ten ranking when it comes to lowest housing supply - according to Fannie Mae. Couple that estimate with the single-family home product experiencing one of the lowest sales inventories in decades, and the multifamily product appears to have all the ingredients to continue its bull run.

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