

YARDI® Matrix

Boston Surge

Multifamily Spring Report 2016

**Rents Outperform
Northeast Region**

**Job Influx Drives
Development**

**Institutional Interest
To Remain High**

Market Analysis

Spring 2016

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Tech, Healthcare Drive Market Surge

Although the Northeast is lagging behind the growth of other U.S. regions, Boston does not seem to have gotten the memo. Boosted by the city's robust science, research and healthcare sectors, the multifamily market is experiencing some of the strongest rent and price appreciation seen there to date, while inventory is expanding rapidly. Vacancies continue to dwindle, and the volume of multifamily investment grew an explosive 165% year-over-year.

Boston's economic profile is sustained by its roster of major universities that provide a young, highly skilled labor pool for its blossoming business segment. The city is one of the nation's biggest recipients of venture capital funding; however, it is challenged to accommodate those who wish to live in the metro, as home prices are shooting up because new supply cannot keep up with demand, particularly in the suburbs.

Significant investments in Boston's transit network such as the Big Dig and the expansion of the Green Line have stalled due to ballooning costs, restricting the number of submarkets where developers can focus, driving up the already high prices. This has prompted more serious discussions about affordability, leading the governor to announce a five-year plan that would provide \$1.1 billion for the production and preservation of housing for working families. Despite the economic momentum, the 50,000-unit development pipeline and current high prices will keep rent gains to a moderate 3% in 2016.

Recent Boston Transactions

Windsor at Cambridge Park



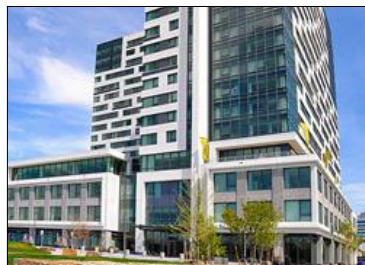
City: Cambridge, Mass.
Buyer: GID
Purchase Price: \$215 MM
Price per Unit: \$540,201

Jefferson Hills



City: Framingham, Mass.
Buyer: The Blackstone Group
Purchase Price: \$203 MM
Price per Unit: \$198,997

Twenty20



City: Cambridge, Mass.
Buyer: PGIM Real Estate
Purchase Price: \$197 MM
Price per Unit: \$554,930

West Square

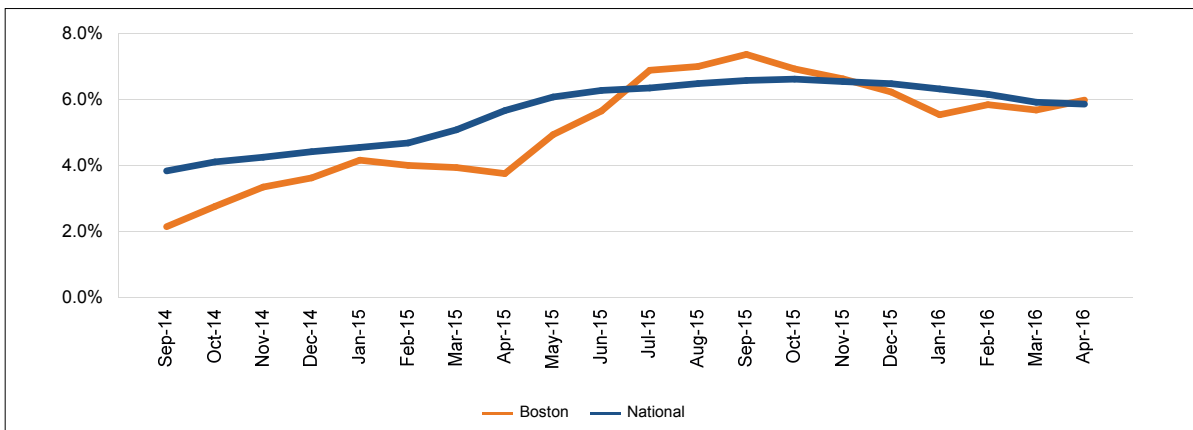


City: Boston
Buyer: Akelius Real Estate Management
Purchase Price: \$153 MM
Price per Unit: \$598,039

Rent Trends

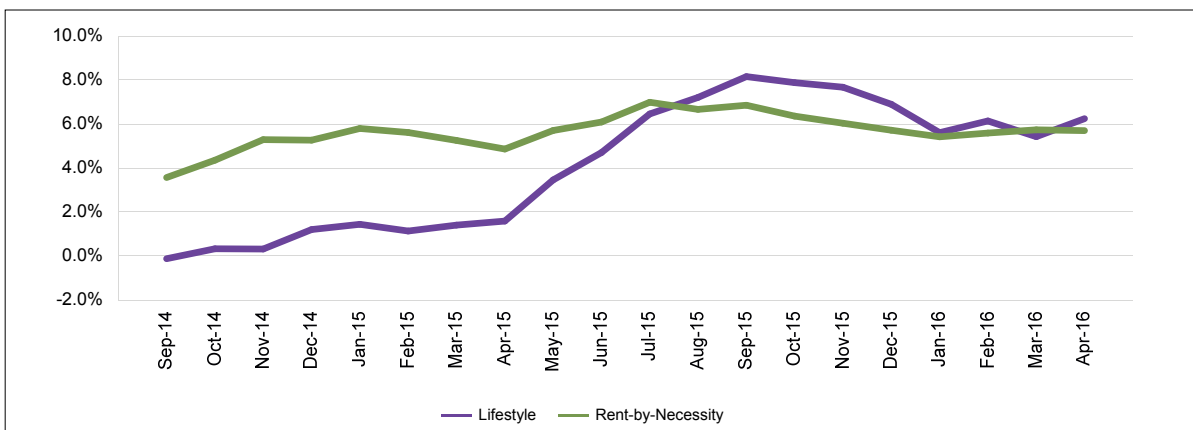
- Boston's average rent grew by 5.6% year-over-year through April, according to Yardi Matrix. Although slightly under the 6% national rate, that was higher than any other major metro in the Northeast. Average rents in the metro stood at \$1,686 at the end of April, well above the \$1,194 national average. Although supply is stepping up, the bulk of the pipeline is planned for high-priced areas and is thus unlikely to relieve the growing affordability problem.
- Submarkets experiencing the greatest growth include Brookline (6.5%), Marshfield - Pembroke (5.1%) and West Concord (5.1%). But 10 submarkets have average rents above the \$2,000 mark. Residents are gravitating toward renting as more of those earning the median income find themselves unable to afford a median-priced home, pushing the metro's average vacancy further down.
- The metro has outperformed expectations so far this year, as rents have risen an average of 1.1% on a trailing three-month basis. Strong demand and the seasonal bump have taken metro rents in to uncharted territory. Although it is believed that rent growth will moderate across the U.S. by the end of the year, our forecast for Boston is 3% rent growth in 2016.

Boston vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Boston Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

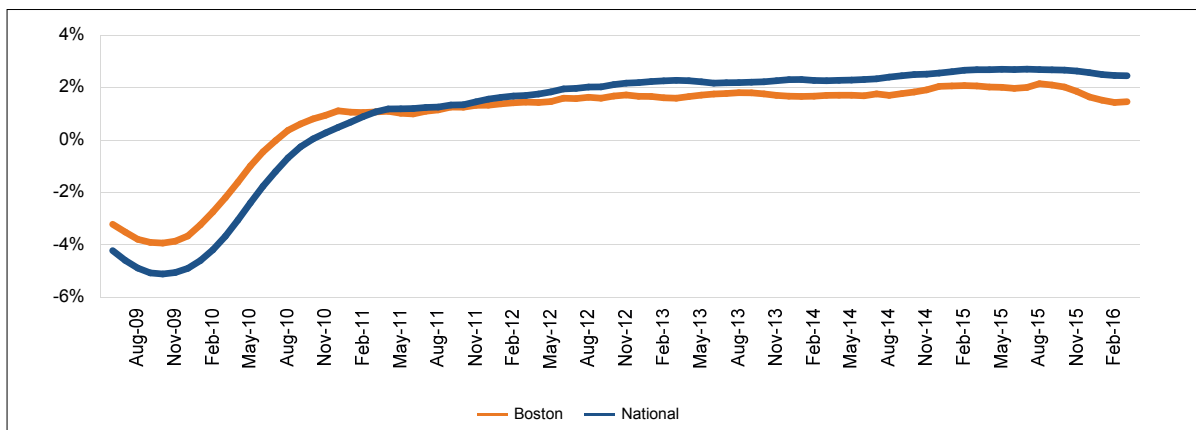


Source: YardiMatrix

Economic Snapshot

- Roughly 60,500 jobs were added in Boston during the 12 months ending in February, an increase of 1.9%, which is slightly under the national average. The metro continues to perform well in high-paying job sectors, mostly due to a constant influx of highly skilled workers sourced from nearby intellectual nodes such as Harvard University, the Massachusetts Institute of Technology, Boston College and Boston University.
- Given its proximity to these research centers, the metro's job market has traditionally relied on the education and health services employment sectors, which added 17,400 new positions during that interval.
- Arguably the best city in the U.S. to launch a startup, Boston is experiencing growth in the information, finance and professional and business services sectors. The usurper to major tech-driven markets on the West Coast, such as Silicon Valley, it has added 21,200 jobs across those sectors.
- The growth in high-paying jobs has led to increased demand for upscale residential space, driving home prices to all-time highs and encouraging development of high-rise housing. With cranes dotting the downtown and waterfront areas, the construction sector added 11,800 jobs, a 10.9% growth rate year-over-year.

Boston vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Boston Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	692	21.4%	17,400	2.6%
15	Mining, Logging and Construction	140	4.4%	14,100	11.2%
60	Professional and Business Services	525	16.3%	12,400	2.4%
55	Financial Activities	227	7%	6,900	3.1%
70	Leisure and Hospitality	299	9.3%	4,700	1.6%
80	Other Services	126	3.9%	3,300	2.7%
40	Trade, Transportation and Utilities	503	15.6%	2,900	0.6%
50	Information	89	2.8%	1,900	2.2%
90	Government	388	12%	-300	-0.1%
30	Manufacturing	237	7.3%	-500	-0.2%

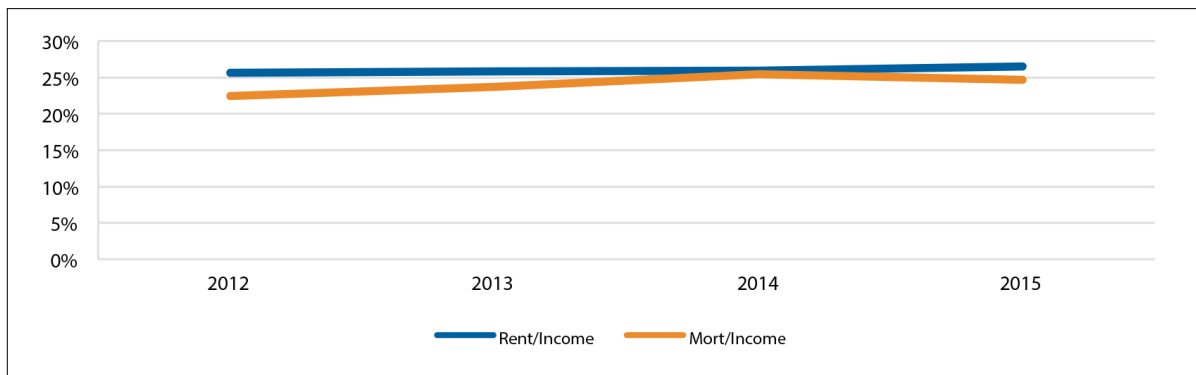
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

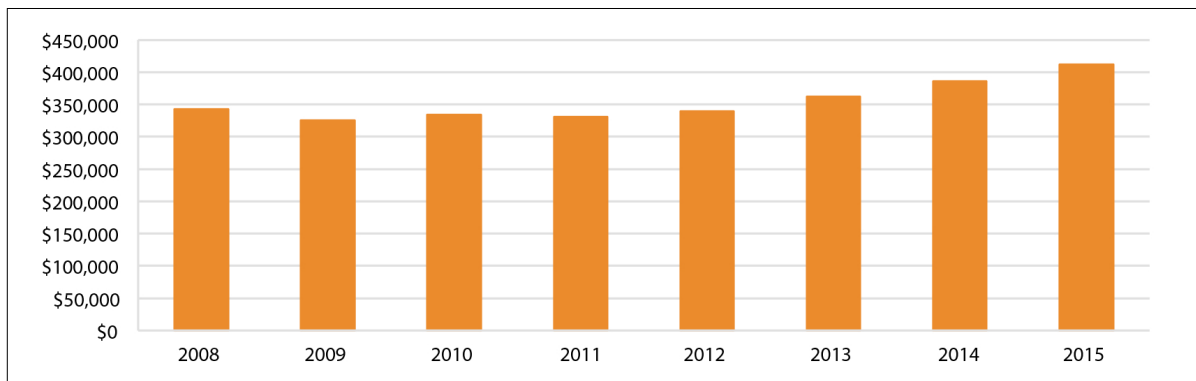
- Both owning and renting claim roughly a quarter of median incomes in Boston, as sustained income growth is keeping up with surging rents. But the median home price grew from \$324,796 in 2009 to \$412,158 in 2015, a 26.9% increase. This means that those earning a median income in the mid-\$70,000 range still have a difficult time qualifying for mortgages in many neighborhoods.
- This has led to the need for comprehensive policy changes, including Boston Mayor Thomas Walsh's "Boston 2030" plan to incentivize developers to build "middle-income housing," and Gov. Charlie Baker's announcement that \$1.1 billion will be devoted to affordable housing in the state.

Boston Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Boston Median Home Price



Source: Moody's Analytics

Population

- From 2010 to 2014, the metro's population grew by 3.8%, a higher rate than the nation (3.1%).
- Boston's population is set to exceed the two million resident mark by 2020, continuing to put pressure on the metro's housing market.

Boston vs. National Population

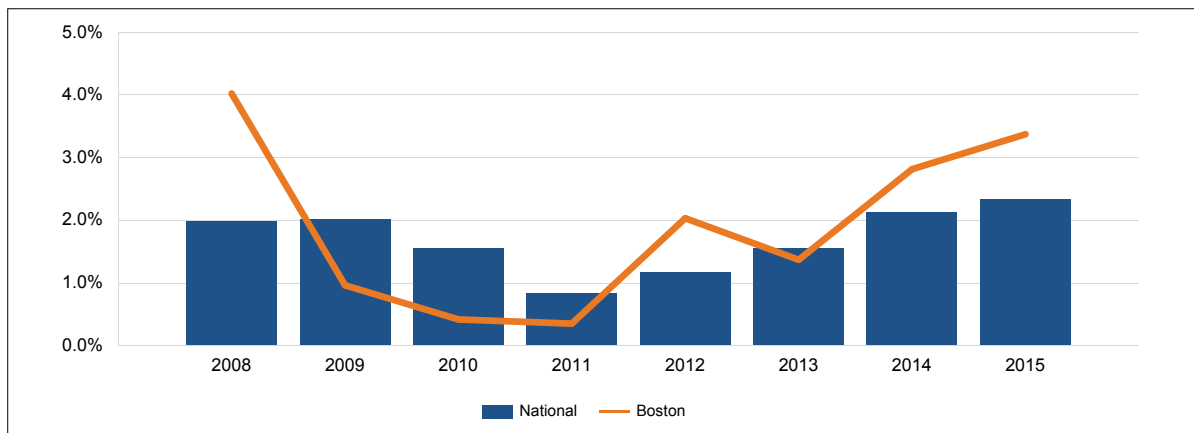
	2010	2011	2012	2013	2014
National	309,347,057	311,721,632	314,112,078	316,497,531	318,857,056
Boston	1,893,820	1,913,683	1,931,329	1,952,438	1,966,530

Source: U.S. Census

Supply

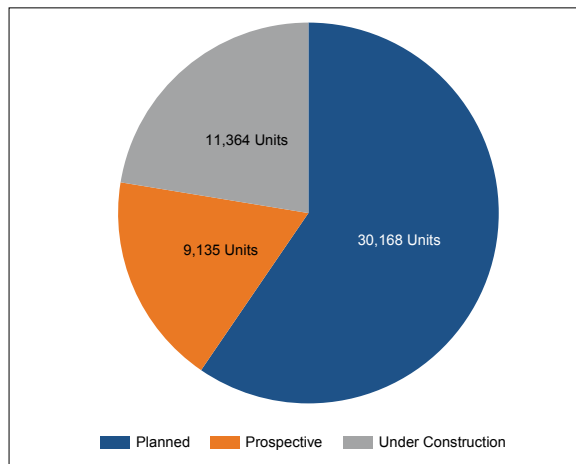
- The metro's inventory grew by 3.4% in 2015, the second-largest rate in the current cycle and well above the national rate of 2.3%. Completions have climbed as a result of high occupancy numbers, as well as strong demand due to a constantly increasing workforce.
- Roughly 50,000 units are in the pipeline, as developers react to the metro's strengthening fundamentals. About 31,500 of those units are in the planning stage, which suggests that housing stock will continue to expand during coming years.
- Developers are heavily targeting areas around Boston's waterfront and urban core. East Boston - Chelsea, Quincy, Charlestown and Summerville claim the largest share of the pipeline, with roughly 5,500 units being built. The largest residential project slated for completion before the end of the year is the 503-unit Avalon North Station in Charlestown.
- Although some progress has been made in developing low-income housing, local authorities are facing a substantial disconnect between the projects being added by developers and the metro's current housing needs.

Boston vs. National Completions as a Percentage of Total Stock (as of April 2016)



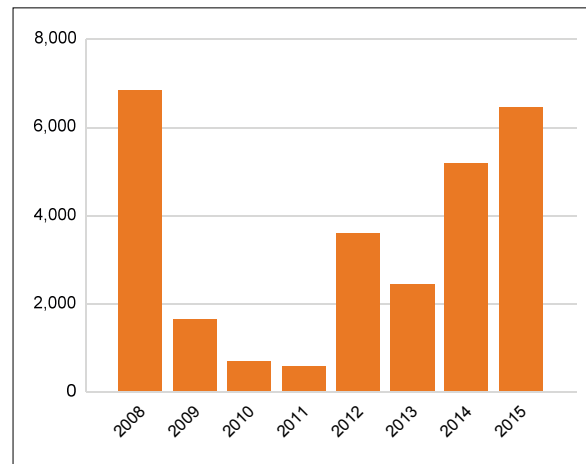
Source: YardiMatrix

Development Pipeline (as of April 2016)



Source: YardiMatrix

Boston Completions (as of April 2016)

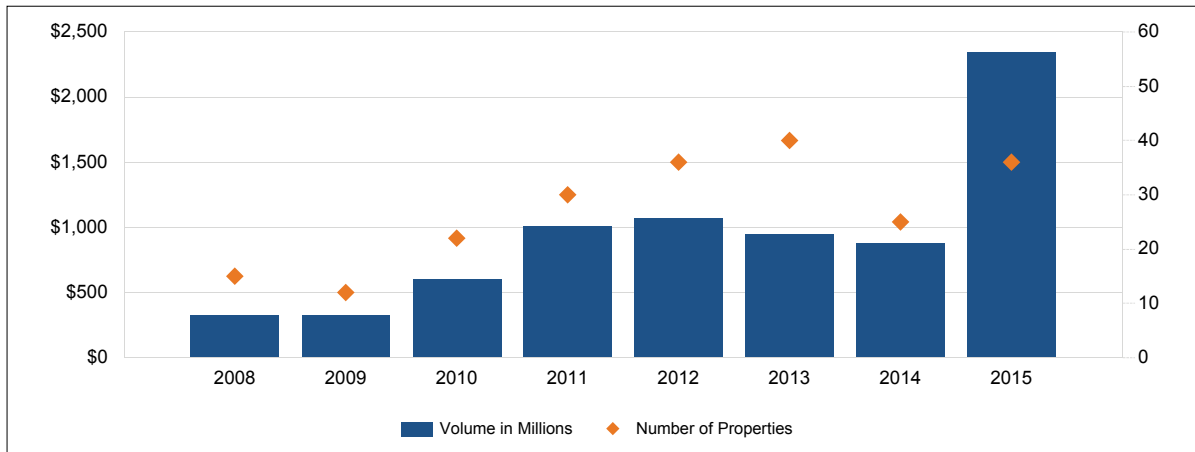


Source: YardiMatrix

Transactions

- Transaction volume ballooned to more than \$2.3 billion in 2015, a 165% increase over 2014. Boston is among the U.S. core markets that attract a wide range of investors, led by large institutions and foreign capital sources. Combined with the metro's strong fundamentals and future prospects, deal flow should remain high.
- Average per-unit prices reached roughly \$270,000 in 2015, up 65% since 2012 and more than double the national average of \$117,250. The average initial yield for stable properties has contracted to about 5% on average, and high-end properties trade in the 4% range.
- Malden, Framingham and Charlestown were most heavily targeted by investors, with roughly \$650 million worth of assets trading hands in the 12 months ending in April. The largest sale was GID's \$215 million purchase of the 398-unit Windsor at Cambridge Park in Cambridge.

Boston Sales Volume and Number of Properties Sold (as of April 2016)



Source: YardiMatrix

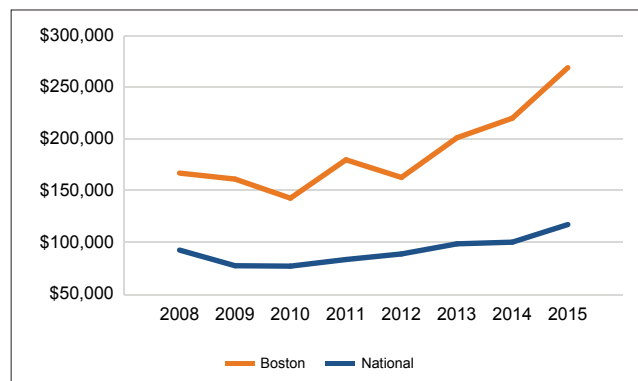
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Malden	245
Framingham	203
North End - Charlestown	197
South Boston	153
Peabody	138
East Boston - Chelsea	103
Marlborough	97
Brookline	74

Source: YardiMatrix

¹ From May 2015 to April 2016

Boston vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



More Than 1,100 New Boston Apartment Units Approved



Colliers Arranges \$133M Refi for Historic Office Building



Hines Finds New Partner for Boston Project

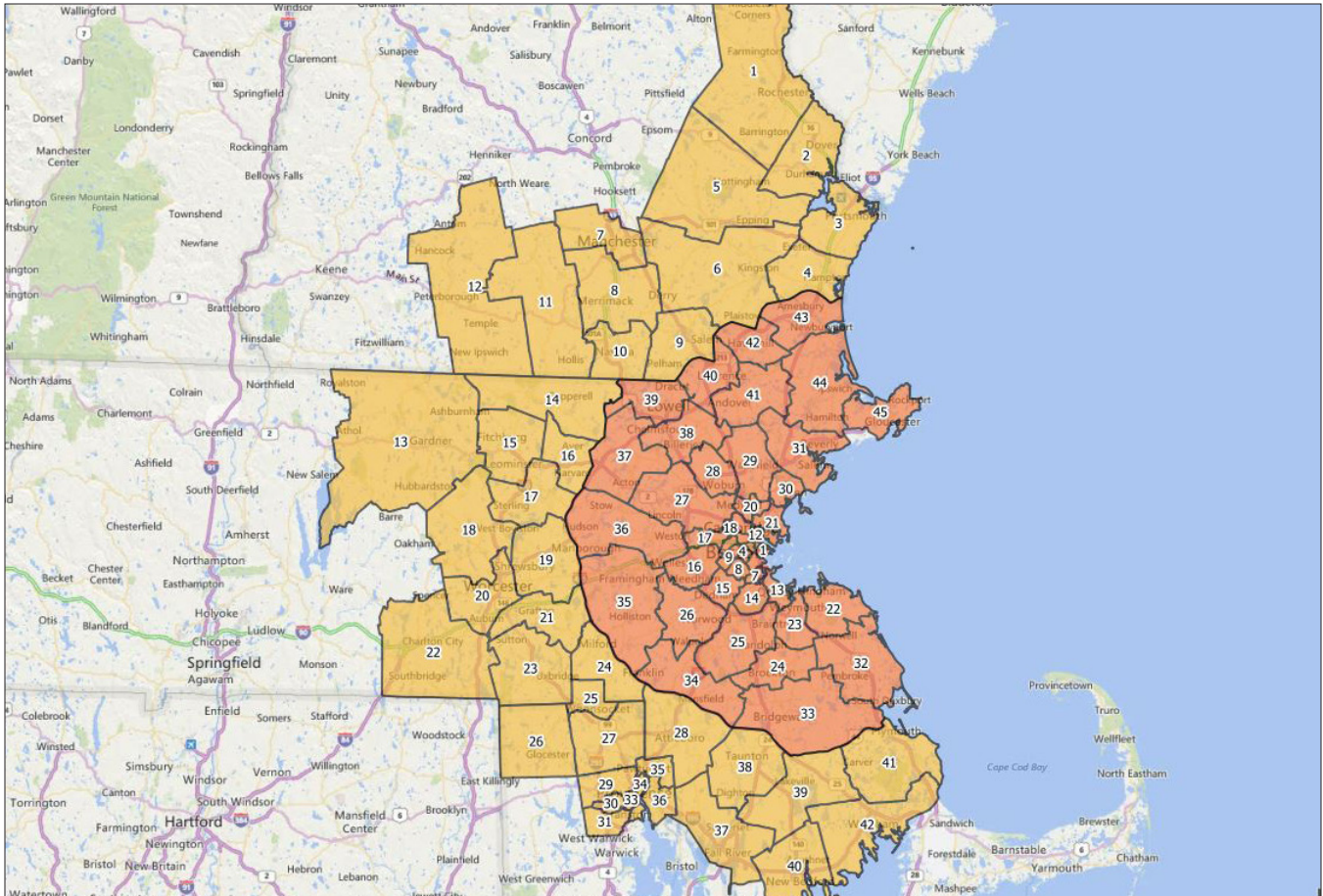


\$55M Financing for Mixed-Use Community Close to Downtown

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Boston Submarket Map



Area #	Submarket
1	Rochester
2	Dover
3	Portsmouth
4	Hampton
5	Raymond - Newmarket
6	Derry
7	Manchester - North
8	Manchester - South
9	Salem
10	Nashua
11	Amherst
12	West Hillsborough
13	Westminster
14	Townsend
15	Fitchburg - Leominster
16	Ayer
17	Clinton
18	Worcester - North
19	Strewsbury - Westborough
20	Worcester - South
21	Grafton

Area #	Submarket
22	Southbridge - Webster
23	Northbridge
24	Milford
25	Woonsocket
26	Northwest Rhode Island
27	Cumberland
28	Attleboro
29	Providence - Northwest
30	Providence - West
31	Cranston
32	Providence - South
33	Providence - Central
34	Providence - Northeast
35	Pawtucket
36	Providence - East
37	Fall River
38	Taunton
39	Middleborough
40	New Bedford
41	Plymouth
42	Wareham

Area #	Submarket
1	South Boston
2	Mid Dorchester
3	Roxbury
4	Fenway Kenmore
5	South End
6	Downtown Boston
7	Dorchester
8	Roslindale
9	Brookline
10	Brighton
11	Cambridge - South
12	North End - Charlestown
13	Quincy
14	Milton
15	Dedham
16	Newton
17	Waltham
18	Cambridge - North
19	Somerville
20	Malden
21	East Boston - Chelsea
22	Cohasset
23	Weymouth

Area #	Submarket
24	Brockton
25	Stoughton
26	Westwood
27	Lakeview
28	Woburn
29	Reading
30	Lynn
31	Peabody
32	Marshfield - Pembroke
33	Bridgewater
34	Mansfield - Foxborough
35	Framingham
36	Marlborough
37	West Concord
38	Tewksbury
39	Lowell
40	Lawrence
41	Andover
42	Haverhill
43	Amesbury
44	Ipswich
45	Gloucester

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter by Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income (“gray collar”) households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property’s ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property’s status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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