

Yardi® Matrix

MULTIFAMILY REPORT

Boston Puts Safety First

Spring 2020

Employment Market Braces for Impact

Q1 Per-Unit Price Marks New High

Construction Now at Standstill

BOSTON MULTIFAMILY

Yardi® Matrix

Volatility Projected Across the Metro

What was on track to be a strong year for Boston's multifamily market has shifted since the onset of the COVID-19 pandemic. Still, first quarter data paints a picture of steady performance, with upcoming employment numbers expected to illustrate the impact of the health crisis in more concrete terms. The metro's average rent was up by 0.1% on a trailing three-month basis through March, 10 basis points below the U.S. rate, with the \$2,309 average well above the \$1,474 national rate.

Boston gained 50,400 jobs in 2019, accounting for a 1.5% year-over-year uptick as of December. Its largest sectors—education and health services and professional and business services—accounted for nearly two-thirds of gains. The coronavirus health crisis is anticipated to substantially affect the local economy; in the five weeks since the outbreak, more than 689,000 unemployment claims were filed, with blue-collar jobs hit the hardest. About one-quarter of the metro's employment was at risk as of April.

After 2019's \$2.7 billion cycle peak in multifamily transactions, sales in 2020's first quarter totaled \$314 million, with a per-unit price that rose by 35.7% to \$399,228. Meanwhile, developers delivered 1,174 units and had another 21,387 underway. Both metrics will likely soften in the short term and sales will be delayed, as all construction, except emergency projects, has been suspended.

Market Analysis | Spring 2020

Contacts

Jeff Adler

Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Anca Gagiuc

Associate Editor

On the cover: Photo by Sanghwan Kim/iStockphoto.com

Recent Boston Transactions

The Royal Belmont



City: Belmont, Mass.
Buyer: Harbor Group International
Purchase Price: \$121 MM
Price per Unit: \$404,362

Jack Flats by Windsor



City: Melrose, Mass.
Buyer: GID
Purchase Price: \$102 MM
Price per Unit: \$479,717

The Tremont



City: Boston
Buyer: Wingate Cos.
Purchase Price: \$37 MM
Price per Unit: \$565,657

Simrah Gardens

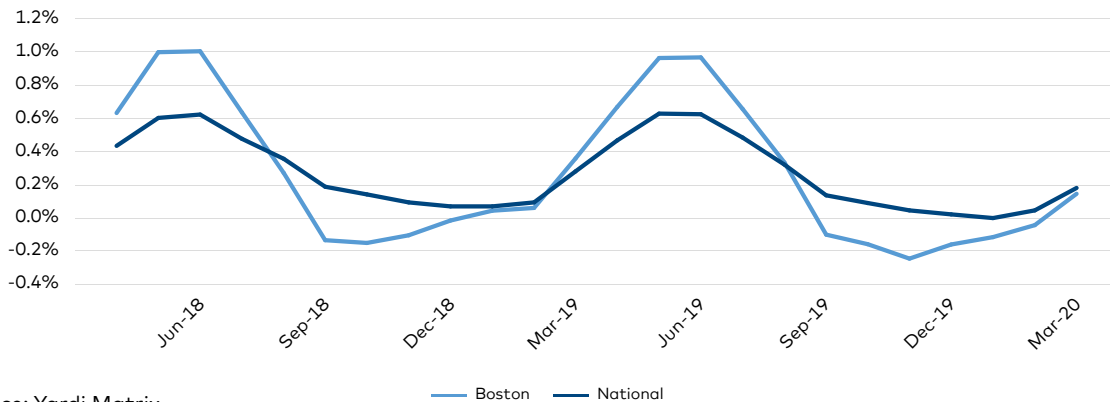


City: Hudson, Mass.
Buyer: Jefferson Apartment Group
Purchase Price: \$34 MM
Price per Unit: \$212,025

RENT TRENDS

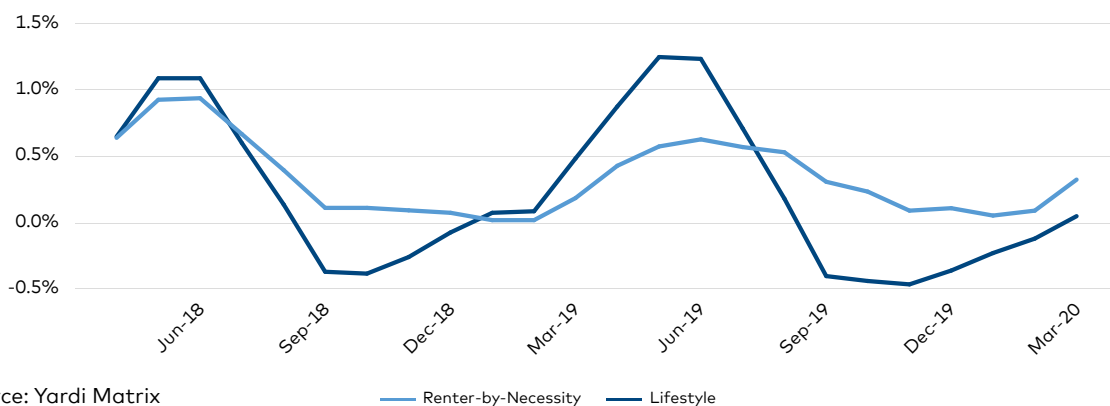
- ▶ Boston rents rose by 0.1% to \$2,309—10 basis points below the national rate—on a trailing three-month basis through March. The Renter-by-Necessity segment led growth, with rates up by 0.3% to \$1,872, while Lifestyle rents stayed flat at \$2,768 during the same timeframe.
- ▶ In recent years, Boston's rent growth has oscillated, outpacing the U.S. average during the summer months and falling behind during the winter season. However, the trend will likely flatten in 2020, as the health crisis will have broad effects on several market coordinates.
- ▶ To offset some of the impact that the COVID-19 pandemic has had on the local economy, officials dedicated \$3 million to a program that provides up to \$4,000 in financial assistance for rental payments to eligible tenants. Another measure adopted to protect renters has put evictions, late fees and foreclosures on pause until summer.
- ▶ The highest-performing submarkets in the 12 months ending in March were Salem (up by 8.7% year-over-year to \$1,337), Quincy (up by 7.7% to \$2,122) and Brighton (up by 6.5% to \$2,490). Brighton, having more than 1,000 units in the pipeline, is also one of the top five submarkets targeted by developers. The metro's most expensive rental units were in the South End (up by 1.0% to \$3,905), South Boston (up by 3.3% to \$3,655) and Boston-Downtown (up by 0.4% to \$3,530).

Boston vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Boston Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ After recording the decade's lowest rate of growth in May 2019, when employment rose by just 0.6% year-over-year, job gains picked up again—the metro ended the year with a 1.5% uptick, 30 basis points behind the national average. In 2019, Boston gained 50,400 positions, two-thirds of which were in the education and health services and professional and business services sectors, the metro's largest employment sectors and main sources of economic expansion.
- ▶ The unemployment rate rose to 3.0% in January, but a sharp spike is expected in the short term. Faced with the possibility of becoming a hotspot for the coronavirus, Massachusetts was among the first states to implement stringent legislation to contain the spread. This led to massive furloughs and layoffs across many industries. Moreover, unemployment claims filed in the first five weeks after the pandemic started crossed 689,000, with blue-collar jobs hit the hardest. Overall, more than a quarter of Boston's employment force was at risk in April.
- ▶ The commonwealth will boost the federal funding from the coronavirus stimulus package through the Pandemic Unemployment Assistance program, which offers unemployment benefits to self-employed workers and independent contractors.

Boston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	742	21.5%
60	Professional and Business Services	603	17.5%
70	Leisure and Hospitality	339	9.8%
15	Mining, Logging, and Construction	143	4.1%
50	Information	95	2.8%
55	Financial Activities	230	6.7%
90	Government	398	11.5%
40	Trade, Transportation, and Utilities	539	15.6%
80	Other Services	131	3.8%
30	Manufacturing	235	6.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Boston gained 43,877 new residents between 2015 and 2018 for a 2.2% uptick, 20 basis points above the U.S. figure. Growth was mostly boosted by immigration.
- ▶ In 2018, the metro gained 13,031 new residents—a 0.6% increase, on par with the national rate.

Boston vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Boston Metro	1,986,895	2,002,540	2,017,741	2,030,772

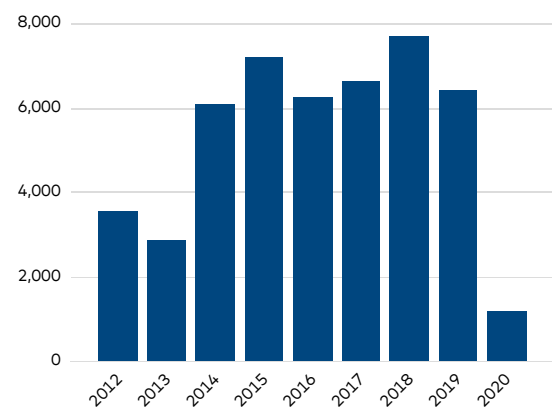
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Boston had some 21,387 units under construction as of March, with the market hot off a strong interval for rental deliveries. Since 2014, more than 41,400 units have come online.
- ▶ Developers added 1,174 units to the metro's stock in the first quarter of 2020, 0.5% of total stock and 10 basis points above the national rate. While Boston showcased robust construction activity at the beginning of 2020, with nearly 7,000 units slated for completion by the end of the year, the COVID-19 pandemic has seriously impacted the industry and will likely curb new inventory. Local officials deemed construction a nonessential service, a decision which halted work on all nonemergency projects in the metro.
- ▶ The bulk of both deliveries and under-construction multifamily projects has been geared to the Lifestyle segment, however, coronavirus' impact on the service industries, which have suffered layoffs and furloughs, will likely increase demand for RBN apartments.
- ▶ As of March, one-third of the construction pipeline was centered in five submarkets—all located in the city core—led by East Boston-

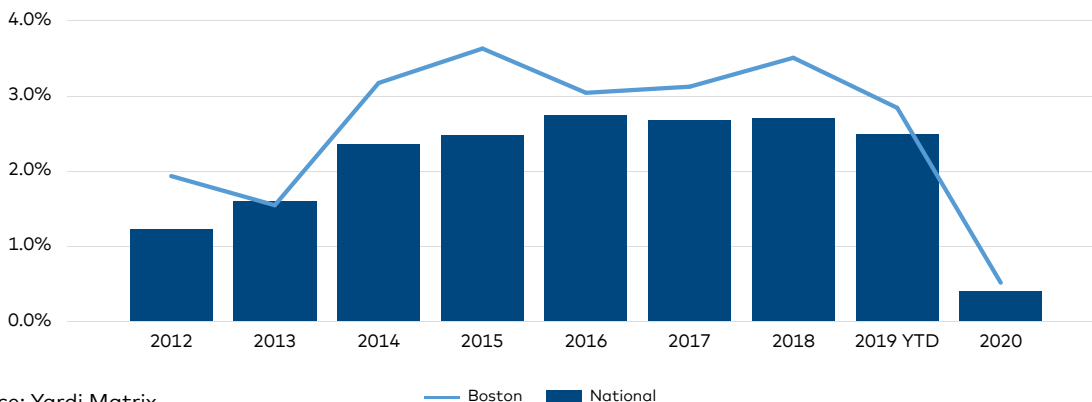
Chelsea (2,130 units underway), South Boston (1,470 units) and the North End-Charlestown (1,374 units). The largest delivery of the first quarter was The Edison on the Charles, a 264-unit, partially affordable Lifestyle asset owned by Lincoln Property Co.

Boston Completions (as of April 2020)



Source: Yardi Matrix

Boston vs. National Completions as a Percentage of Total Stock (as of March 2020)



Source: Yardi Matrix

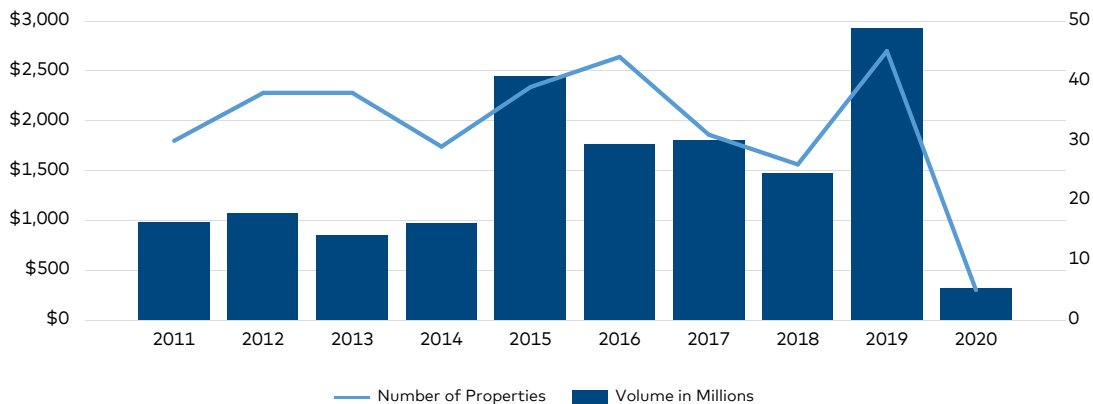
TRANSACTIONS

- ▶ After last year's cycle peak, when \$2.7 billion in multifamily assets traded in the metro, the first quarter of 2020 totaled some \$314 million in multifamily sales. With four of these five properties in the Lifestyle segment, the price per unit rose by a hefty 35.7% to \$399,228, more than doubling the \$161,301 national average.
- ▶ GID's acquisition of the 236-unit Waterside Place in South Boston last August for \$154 million, or \$651,992 per unit, marked the highest

per-unit price in the metro in 2019. In January, the company added another asset to its portfolio—the 212-unit Jack Flats by Windsor in the Malden submarket, which it acquired for \$102 million or \$479,717 per unit.

- ▶ The ongoing health crisis has limited transaction activity; most of the second quarter's deal volume will likely consist of the closing of previously arranged sales. Newfound market uncertainty is expected to dent volumes moving forward.

Boston Sales Volume and Number of Properties Sold (as of March 2020)



Source: Yardi Matrix

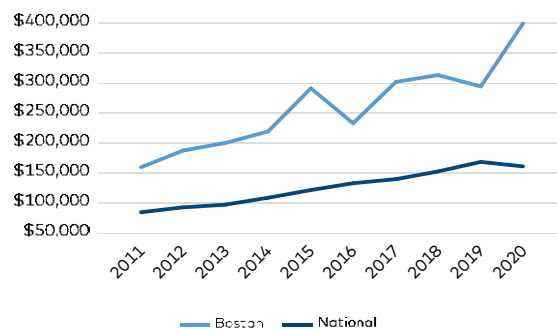
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Westwood	325
East Boston - Chelsea	260
Malden	254
Foxborough	243
Framingham	227
Fenway Kenmore	203
Waltham	161

Source: Yardi Matrix

¹ From April 2019 to March 2020

Boston vs. National Sales Price per Unit



Source: Yardi Matrix



Co-Living Development: What to Know About This Emerging Sector

By Adina Marcut

The co-living sector is getting more attention from developers and investors. This type of housing is targeting young adults delaying milestones like marriage and homeownership. National Development Managing Partner Ted Tye talks about the company's co-living development 7INK, located in Boston. Tye explains how co-living provides an alternative for renters in a tight market like Boston.

What attracted you to Boston?

Boston has been National Development's home for over 30 years. We have always liked Boston's foundation of educational and medical institutions that has provided the city with a strong employment base. Boston is a compact, walkable city with historic character and a strong sense of neighborhood.

What makes 7INK unique?

7INK is the seventh and final building at our award-winning Ink Block development, built on a full city block in the South End that was previously the home of the Boston Herald newspaper. Ink Block has become one of Boston's hottest neighborhoods and includes apartments, condos, a hotel, dining and shopping and a Whole Foods Market. 7INK will be a 14-story, 180-unit co-living building—the first major co-living project in Boston. We researched co-living around the country and think that it is a great addition to our residential mix at Ink Block. We have leaned on Ollie, a New York-based innova-



tor in co-living, for assistance in developing the concept and programming for 7INK.

How will the project impact Boston's multifamily market?

7INK will not be a major disruptor in the multifamily market. What it will do is provide another alternative for renters in a tight market that has experienced increased rents. Boston's mayor has set a goal of adding 69,000 new housing units to the city's supply. Additional housing supply of all types, including co-living, dormitories for Boston's many college students, apartments, etc., will help meet demand and stabilize prices.

What is the most challenging aspect of developing new co-living projects?

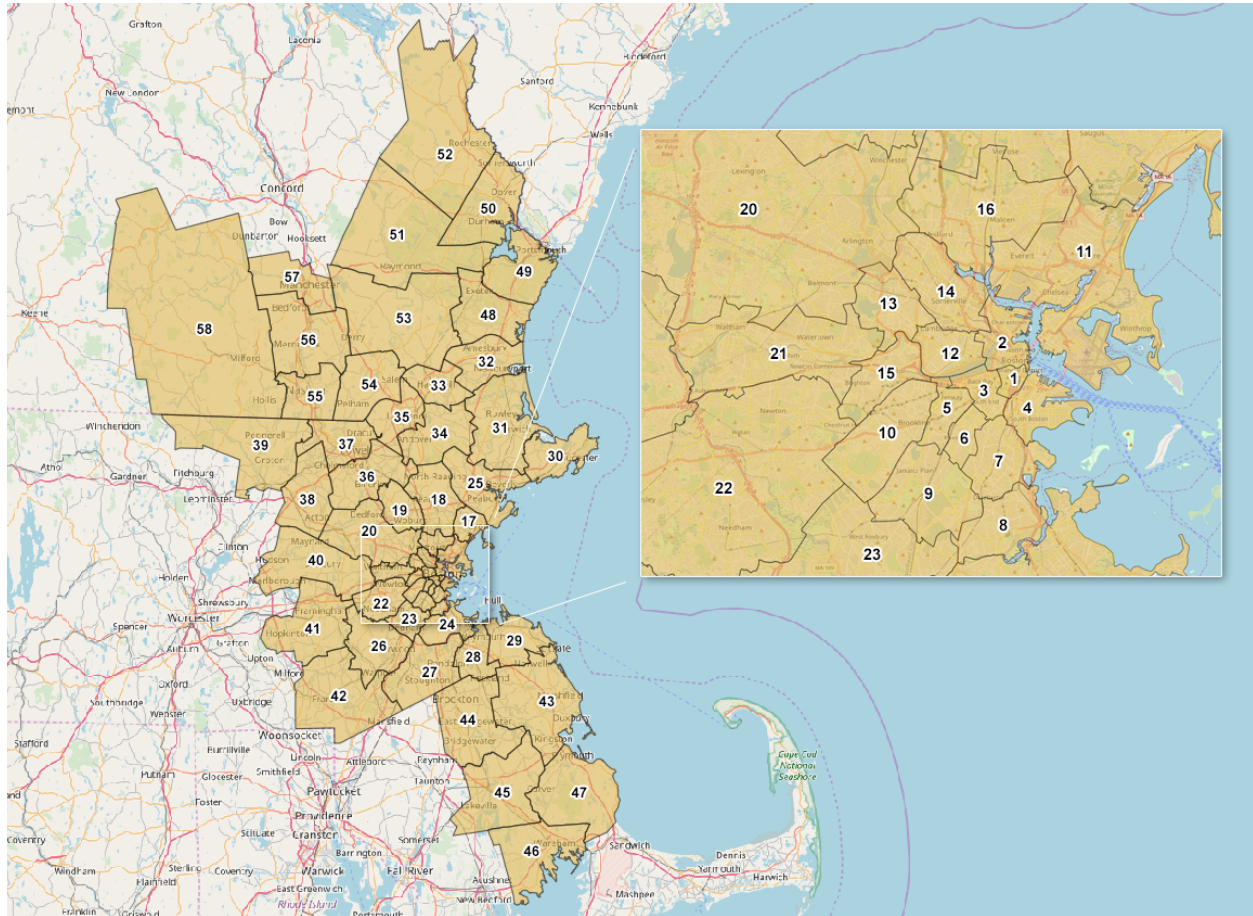
Being the first mover in this area, developing co-living requires providing education to neighbors, regulatory authorities, lenders and potential tenants. From a cost perspective, these projects require a dense building plan with a high percentage of kitchen/bathroom and amenity space compared to overall area, so managing costs is a challenge.

How do you expect the co-living sector to evolve going forward?

I expect to see more variation of concepts. This will include projects of various sizes providing different levels of service to a wider range of demographics. With more experience in this sector, the market will speak in terms of what residents are seeking.

(Read the complete interview on multihousingnews.com.)

BOSTON SUBMARKETS



Area No.	Submarket
1	Boston-Downtown
2	North End-Charlestown
3	South End
4	South Boston
5	Fenway Kenmore
6	Roxbury
7	Mid Dorchester
8	Dorchester
9	Roslindale
10	Brookline
11	East Boston-Chelsea
12	Cambridge-South
13	Cambridge-North
14	Somerville
15	Brighton
16	Malden
17	Lynn
18	Reading
19	Woburn
20	Lakeview

Area No.	Submarket
21	Waltham
22	Newton
23	Dedham
24	Quincy
25	Peabody
26	Westwood
27	Sloughton
28	Weymouth
29	Cohasset
30	Gloucester
31	Ipswich
32	Amesbury
33	Haverhill
34	Andover
35	Lawrence
36	Tewksbury
37	Lowell
38	West Concord
39	Townsend
40	Marlborough

Area No.	Submarket
41	Framingham
42	Foxborough
43	Marshfield-Pembroke
44	Brockton
45	Middleborough
46	Wareham
47	Plymouth
48	Hampton
49	Portsmouth
50	Dover
51	Raymond-Newmarket
52	Rochester
53	Derry
54	Salem
55	Nashua
56	Merrimack
57	Manchester
58	Milford

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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

🔍 How do you | find properties to buy or develop?

Invest confidently using the industry's most comprehensive market intelligence service. Only Yardi Matrix continuously updates and verifies critical data for 17 million+ units within more than 90,000 multifamily properties in 133 U.S. metros that encompass 90% of the population.



(800) 866-1144
YardiMatrix.com

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2020 Yardi Systems, Inc. All Rights Reserved.