



MULTIFAMILY REPORT

Boston's Rental Market Slips

Summer 2020

Job Performance Below Nation

Construction Powers Through

Transactions Trickle in Q2

BOSTON MULTIFAMILY



Uncertainty & Optimism Across the Metro

Just weeks after reopening its economy, Boston's hitting the pause button. The multifamily market is struggling to adjust to the conditions of the pandemic. Rents had been on a cold streak of 11 consecutive months of contraction, culminating in a 0.4% decline on a trailing three-month basis through July. That's worse than the U.S. average that saw a 0.1% decrease during the same period. The metro's \$2,257 average remained well above the \$1,460 national figure.

Unemployment numbers showcased the magnitude of the damage inflicted by the COVID-19 pandemic. The metro's rate—which in March stood at 2.7%—ballooned to 16.2% in May, while preliminary June data pointed to a new 70-basis-point rise. Leisure and hospitality shrunk by 58.7% in the 12 months ending in May, but Boston's main economic drivers—education and health services and professional and business services—held on and marked contractions of 10.7% and 7.7%, respectively. Overall job gains declined 5.3%, underperforming the 3.3% U.S. rate.

Sales crashed in the second quarter, amounting to just \$482 million in the first half of 2020, for a per-unit price that still rose 28.9% to \$379,284. Meanwhile, developers delivered 3,605 units and had 20,584 underway, despite the early measures taken by local officials that halted construction at the onset of the outbreak. We expect rents to slide 1.2% in 2020.

Market Analysis | Summer 2020

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Recent Boston Transactions

Avana Marlborough



City: Marlborough, Mass.
Buyer: Greystar
Purchase Price: \$53 MM
Price per Unit: \$320,122

Oak Row



City: West Roxbury, Mass.
Buyer: National Development
Purchase Price: \$42 MM
Price per Unit: \$522,023

J Highlands at Hudson



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

1943 DOT Ave.

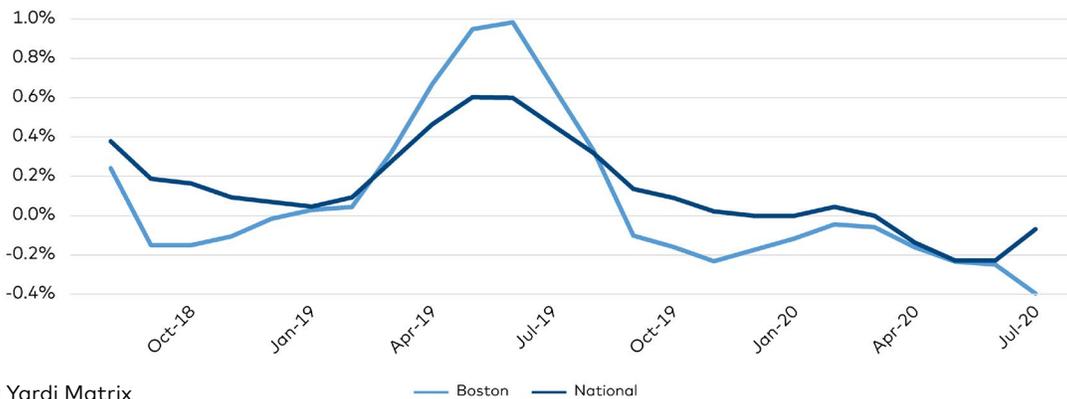


City: Dorchester Center, Mass.
Buyer: Corcoran Cos.
Purchase Price: \$21 MM
Price per Unit: \$334,199

RENT TRENDS

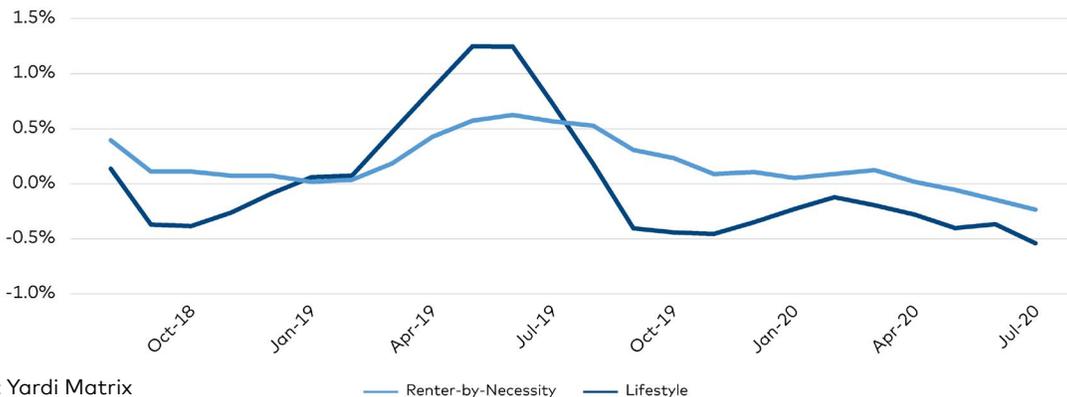
- ▶ Rents in Boston were down 0.4% on a trailing three-month basis through July, to an overall average of \$2,257. Meanwhile, the national average slid 0.1% to \$1,460 during the same period. Rents had been on a descending path for 11 consecutive months as of July, when the average price marked the steepest contraction yet.
- ▶ Rates in the Lifestyle segment led the descent, dropping 0.5% to an average of \$2,689, while the average figure in the working-class Renter-by-Necessity segment inched down 0.2%. Despite robust additions to the metro's multifamily stock, the average occupancy rate in stabilized properties marked a 90-basis-point drop year-over-year, to 95.6% as of June.
- ▶ The highest-performing submarket in the 12 months ending in July remained Salem (up 8.7% year-over-year to \$1,476), followed by Derry (7.5% to \$1,351) and Townsend (5.6% to \$1,546).
- ▶ The metro counted seven submarkets with rents above the \$3,000 mark, and all posted rent declines in the year ending in July. The sharpest price reductions were in the South End (down 6.2% to \$3,759), South Boston (down 6.6% to \$3,533) and Boston-Downtown (down 7.3% to \$3,375). The latter is one of the lowest-performing submarkets in the metro, boasting a high inventory pipeline. In North End-Charlestown, also favored by developers, rents slid 10.1% to \$3,239.

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

- ▶ Massachusetts' economy has been struggling due to the COVID-19 pandemic. The statewide unemployment rate—17.4%—was the highest in the U.S. in June, while preliminary July data announced a slight drop to 16.1%. Boston's rate, which in March stood at 2.7%—the lowest value in 2020—wasn't that far away, clocking in at 16.2% in May, while preliminary June data pointed to a 70-basis-point rise.
- ▶ The leisure and hospitality sector was decimated, and slid by 58.7% in the 12 months ending in May. Next in line were mining, logging and construction (a 19.5% decline) and trade, transportation and utilities (down 17.8%). Boston's main economic drivers—education and health services and professional and business services—contracted by 10.7% and 7.7%, respectively. Overall job growth declined 5.3% in the 12 months ending in May, lower than the 3.3% drop in the U.S. rate.
- ▶ Boston had reached the final stage of reopening the economy, when Gov. Charlie Baker paused the state's reopening plan due to an increase in coronavirus cases. At the same time, Massachusetts was approved for the Federal Emergency Management Agency grant under the Lost Wages Assistance program, which will boost the state's weekly unemployment benefit by \$300.00.

Boston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
50	Information	92	3.1%
55	Financial Activities	231	7.7%
30	Manufacturing	220	7.4%
90	Government	391	13.1%
15	Mining, Logging and Construction	126	4.2%
80	Other Services	89	3.0%
60	Professional and Business Services	565	19.0%
65	Education and Health Services	665	22.3%
40	Trade, Transportation and Utilities	445	14.9%
70	Leisure and Hospitality	157	5.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Boston's population, previously boosted mainly by immigration, remained almost unchanged in 2019, inching up just 0.05%, or by 1,112 residents, following the 0.6% increase registered in 2018.
- ▶ Between 2016 and 2019, Boston's population expanded by 1.5%.

Boston vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Boston Metro	2,002,540	2,017,741	2,030,772	2,031,884

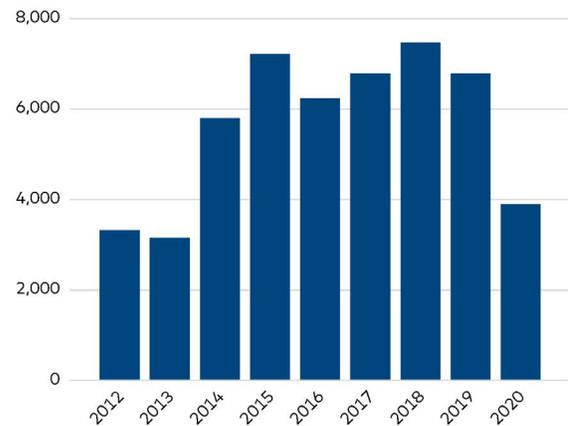
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Boston had 20,584 units under construction as of July. We expect multifamily deliveries to reach 8,398 units by the end of the year.
- ▶ Developers had added 3,605 units to the metro's inventory in the first seven months of 2020, equal to 1.7% of total stock and 40 basis points above the national rate. Boston has shown robust construction activity so far in 2020, especially considering local officials had deemed construction a nonessential service at the start of the health crisis—a decision that halted work on all nonemergency projects in the metro until the second part of May.
- ▶ The bulk of delivered and underway multifamily projects is geared to the Lifestyle segment, but the health crisis' impact has increased demand for Renter-by-Necessity apartments. This was visible in the rate performance—Lifestyle units marked a 0.5% drop on a trailing three-month basis through July, while RBN apartments slid just 0.2% during the same period. Investors, however, displayed greater interest in upscale assets.
- ▶ As of July, half of the construction pipeline was centered in seven submarkets, led by East

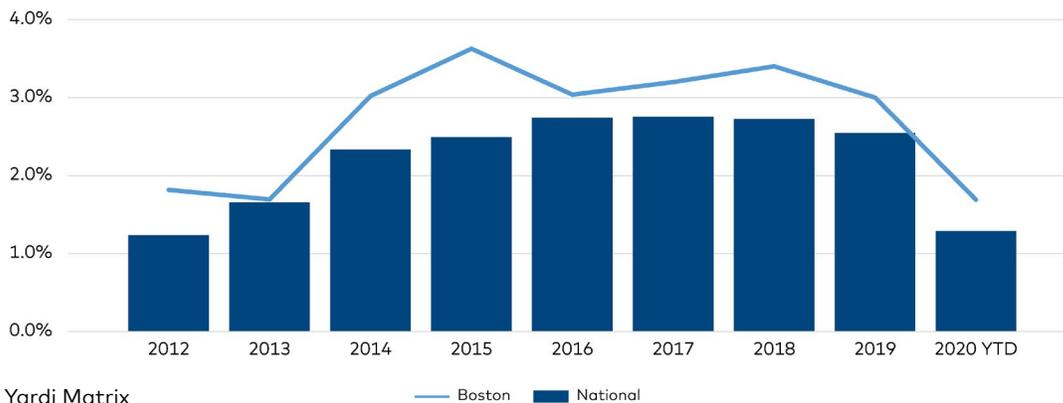
Boston-Chelsea (1,728 units underway), South Boston (1,605 units) and North End-Charlestown (1,374 units). The largest delivery of the first half of the year was J Malden Center, a 320-unit mixed-use property with 21,500 square feet of retail space. The property is owned by Jefferson Apartment Group and was built using a \$92 million construction loan issued by The Northwestern Mutual Life Insurance Co.

Boston Completions (as of July 2020)



Source: Yardi Matrix

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

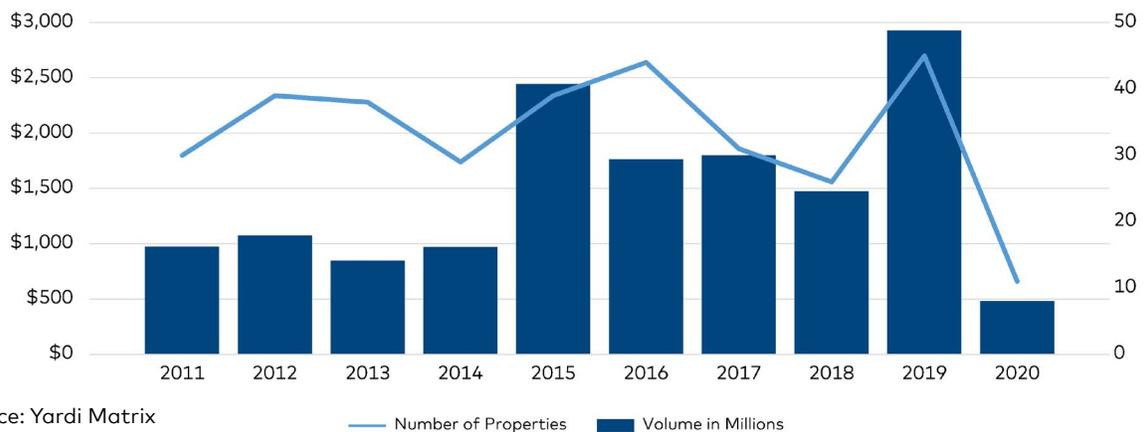


Source: Yardi Matrix

TRANSACTIONS

- ▶ In Boston, transaction activity plummeted in 2020, as some \$482 million in multifamily assets traded through July. Of the 11 deals, nine were for assets in the upscale Lifestyle segment. The bulk of these transactions occurred in the first quarter, when more than \$300 million in properties changed hands. In the second quarter only three multifamily deals were completed, for a combined \$168 million.
- ▶ During the same time frame last year, investors had poured some \$1.3 billion into Boston's rental sector. Since 2010, investment activity in Boston multifamily assets has totaled more than \$15 billion.
- ▶ Investors' preference for Lifestyle assets pushed up the average price per unit by 28.9% to \$379,284. Meanwhile, the national average marked a 1.9% decline to \$164,991.

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



Source: Yardi Matrix

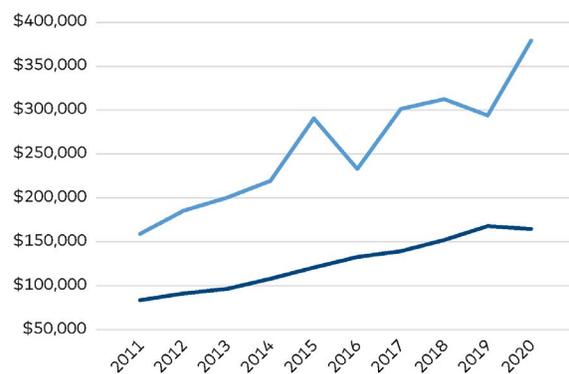
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Westwood	325
East Boston-Chelsea	260
Foxborough	243
Malden	222
Lakeview	194
South Boston	154
Cambridge-North	150

Source: Yardi Matrix

¹ From August 2019 to July 2020

Boston vs. National Sales Price per Unit



Source: Yardi Matrix

Top 10 Multifamily Projects Under Construction in Boston

By Lucia Morosanu

Even though multifamily development was impacted by Boston's construction restrictions put into place in mid-March, the metro has already delivered 21 projects since the start of the year. Demand for rental housing has been mostly driven by Millennials in the tech, financial and life sciences sectors, looking for apartments in walkable areas.

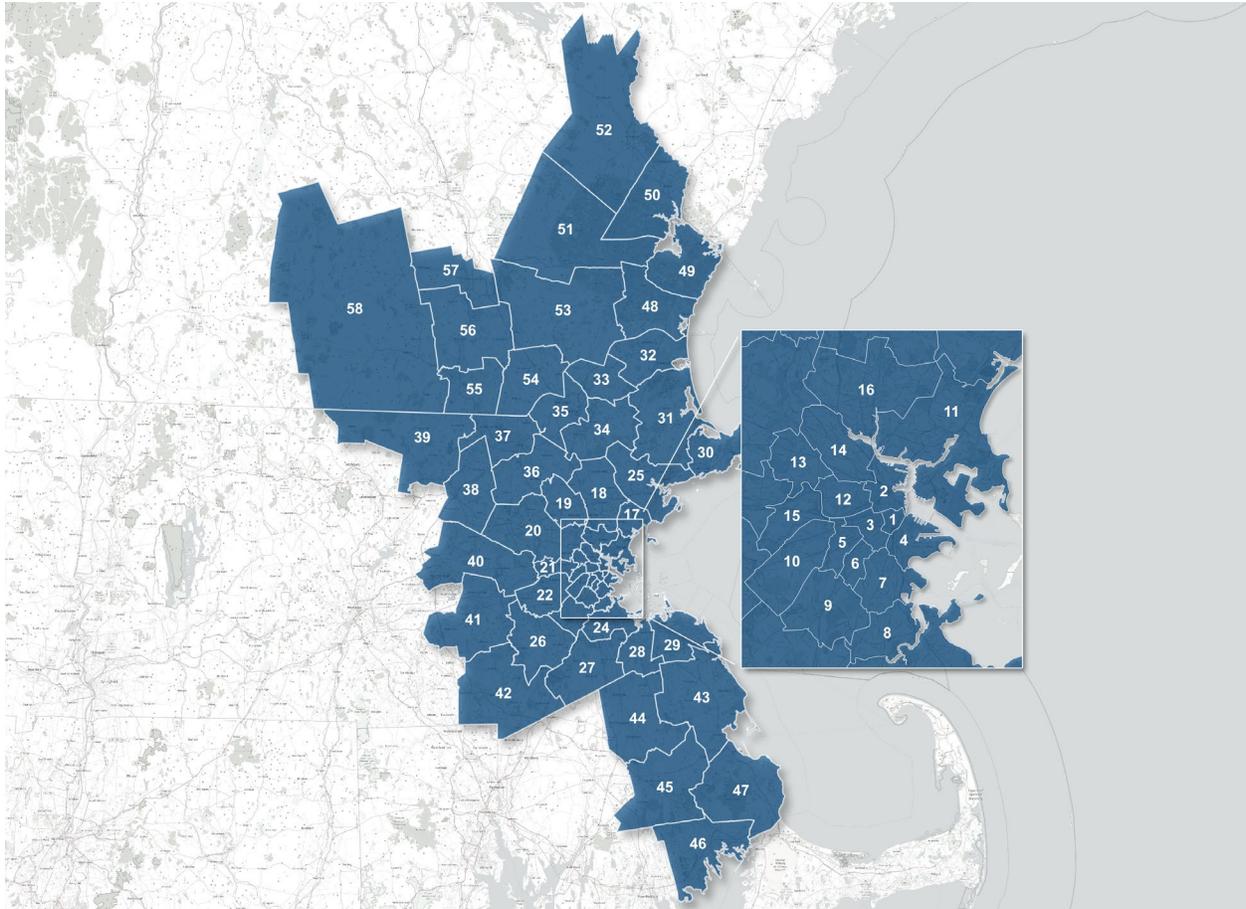
Rank	Property Name	Owner	Submarket	Units
1	VERO	Fairfield Residential	East Boston-Chelsea	694
2	The Smith South End	Leggat McCall Properties	South End	650
3	The Abby	Bozzuto Group	Quincy	610
4	FLAT 9 at Whittier	Boston Housing Authority	Roxbury	576
5	Garden Garage	Equity Residential	North End-Charlestown	469
6	Hub50House	Boston Properties	North End-Charlestown	440
7	NEMA Boston	Crescent Heights	South Boston	414
8	The Sudbury	National Real Estate Advisors	North End-Charlestown	368
9	Hanover Mystic River	The Hanover Company	Malden	350
10	Breakwater	MINCO Corp.	Lynn	331

THE SMITH SOUTH END

The Smith South End is set for completion at the end of the month and will consist of 650 units divided into studio, one-, two- and three-bedroom options, with 140 of the units reserved as affordable. Leggat McCall Properties, together with partner Bentall Kennedy and development adviser The Bozzuto Group, purchased the site from Boston Medical Center in 2014 and broke ground for the first of two phases in 2018.



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 July 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 July 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, July 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.

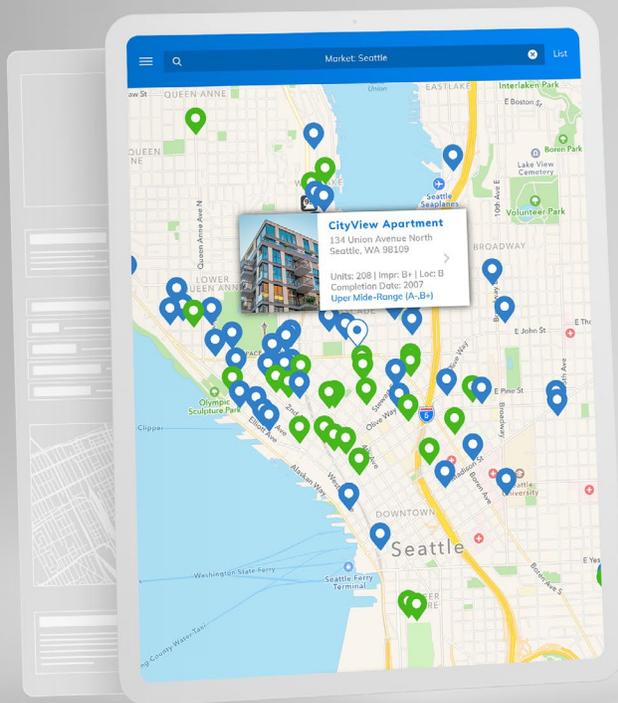
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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