



MULTIFAMILY REPORT

Boston's Flight To Suburbia

Winter 2021

Investment Volume Wanes

Job Losses Begin to Slow

Lifestyle Rents Decrease

BOSTON MULTIFAMILY



Urban Core Faces Test

Boston's multifamily market continues to face its share of challenges. While the metro's rent gains have been negative since the start of 2020, rates fell 0.5% on a trailing three-month basis to \$2,217 in December. Lifestyle rents dropped the fastest and are likely to continue trending downward, owing to myriad upscale deliveries slated for the first half of 2021. With renter preferences trending toward more affordable units in suburban areas, working-class Renter-by-Necessity rates are likely to recover faster.

Unemployment fell to 5.9% in November, a major improvement from June's 17.0% peak. Though job losses began to moderate in September, some sectors—particularly leisure and hospitality—will be slow to recover. Compounding employment losses are significant barriers resulting from state and local government deficits. The state expects a \$3.5 billion shortfall in revenues for the 2021 fiscal year and plans to curtail some services, including a reduction in Massachusetts Bay Transportation Authority transit services.

Multifamily investment volume in 2020 totaled \$1 billion, one-third of the volume from the previous year. Sales averaged \$310,992, a small increase from 2019 but more than 80% above the national average. Although new construction slowed later in the year, 18,167 units were under construction at the end of December, following the completion of 7,128 units throughout 2020.

Market Analysis | Winter 2021

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Recent Boston Transactions

Rosemont Square



City: Randolph, Mass.
Buyer: Waterton
Purchase Price: \$130 MM
Price per Unit: \$258,433

Kimball Towers at Burlington



City: Burlington, Mass.
Buyer: DSF Group
Purchase Price: \$91 MM
Price per Unit: \$353,517

The Point at Wrentham



City: Wrentham, Mass.
Buyer: Pantzer Properties
Purchase Price: \$85 MM
Price per Unit: \$352,083

Bell Stoughton

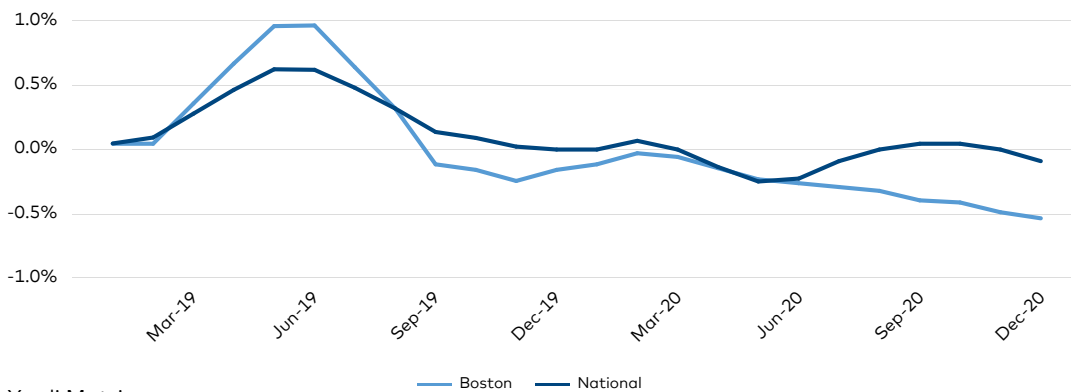


City: Stoughton, Mass.
Buyer: Eaton Vance Investment
Managers
Purchase Price: \$72 MM
Price per Unit: \$298,542

RENT TRENDS

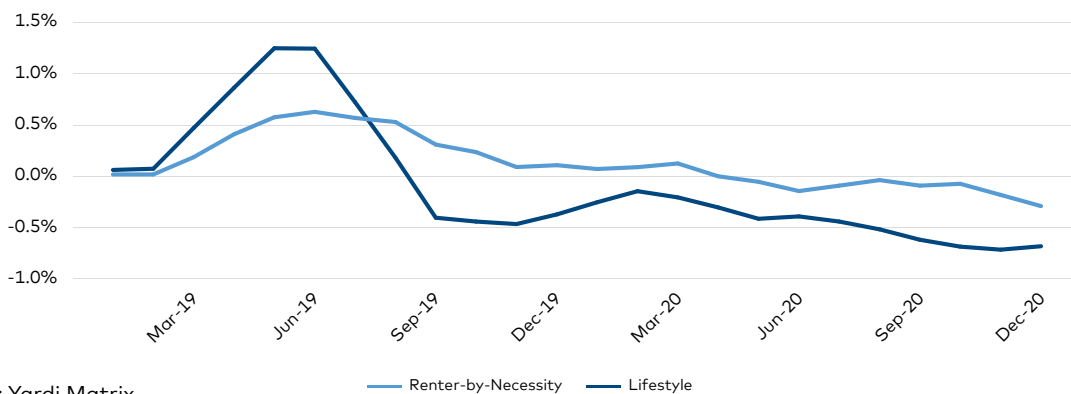
- ▶ Boston rents dropped 0.5% on a trailing three-month (T3) basis through December, 40 basis points less than the national decline of 0.1% during the same period. Rents averaged \$2,217, 51.6% higher than the national \$1,462 figure.
- ▶ Lifestyle rents fell the fastest, down 0.7% on a T3 basis to \$2,612. This decline is likely to continue, particularly as upscale projects deliver in 2021. Renter-by-Necessity rents also decreased during the same period, but by a more measured 0.3% to \$1,831. Expect RBN rates to recover faster, due to growing demand for lower-cost units.
- ▶ The North End–Charlestown had one of the sharpest rent declines, falling to \$3,493 in December, a 10.6% year-over-year decrease. More than 70% of the submarket's inventory targets Lifestyle renters, and upcoming deliveries are expected to further compress rates.
- ▶ All submarkets with positive rent growth were in Boston's suburbs, highlighting a boost in demand for units away from the urban core. The Lowell submarket was among the suburban areas that experienced the highest rent increases, climbing by 3.7% year-over-year through December to \$1,701. Other suburban submarkets with notable growth included Lawrence (up 3.6% to \$1,758) and Marlborough (up 3.4% to \$1,977).
- ▶ As Boston's employment sectors begin to recover, renter demand will pick up. We expect 2021 rents to increase 1.2% for the year.

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

- ▶ Boston's economy remained turbulent through 2020, even as job losses began to slow in September. Although the unemployment rate stood at 5.9% in November—80 basis points less than the national rate and a marked improvement from the 17% June rate—Boston's overall employment fell 10.3% during the six months ending in November, well below the 7.3% decline nationwide.
- ▶ Similar to other gateway metros, Boston's leisure and hospitality sector was one of the hardest hit, shedding 127,400 jobs in the 12 months ending in November for a 35.3% year-over-year decline. Other major employment losses occurred in education and health services (54,400 jobs), trade, transportation and utilities (40,400) and other services (27,200).
- ▶ Both Boston and the state of Massachusetts face future challenges, particularly related to tax revenues. In December, the state budgeted for a \$3.5 billion shortfall for the 2021 fiscal year, with a range of deep cuts, including a sharp reduction in Massachusetts Bay Transportation Authority services among others. The federal aid bill passed in December will offer many a lifeline, providing extended unemployment benefits and earmarking \$1.3 billion for state education funding.

Boston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
55	Financial Activities	235	7.2%
50	Information	91	2.8%
30	Manufacturing	229	7.0%
15	Mining, Logging and Construction	146	4.5%
90	Government	401	12.3%
60	Professional and Business Services	597	18.3%
80	Other Services	107	3.3%
40	Trade, Transportation and Utilities	513	15.7%
65	Education and Health Services	704	21.6%
70	Leisure and Hospitality	234	7.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ After outperforming national growth in 2017 and 2018, Boston added only 1,112 residents in 2019, growing less than 0.1%.
- ▶ International immigration and STEM job growth drove previous gains, but high costs of living and remote work may reverse this.

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

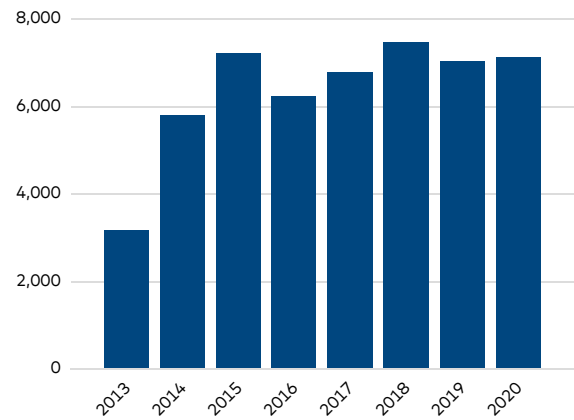
SUPPLY

- ▶ Boston had 18,167 units under construction at the end of December, accounting for 7.8% of existing inventory. Development activity slowed in the second half of 2020, with developers breaking ground on only 988 units—a sharp contrast from the 17 projects totaling 2,624 units that commenced in the first half of the year. Projects aimed at Lifestyle renters comprised 87.6% of the pipeline, which may further weaken rent growth in upscale properties due to renter preference shifts toward more affordable RBN units.
- ▶ Developers added 7,127 units or 3% of total stock in 2020. This marked a slight uptick from the previous year and is only 4.7% less than the 2018 cycle high of 7,480 units. Expect deliveries to peak in 2021, as some 8,300 units are slated for completion in the first quarter alone.
- ▶ At the end of 2020, the Malden submarket led the metro in deliveries, with 646 units completed. The market's largest delivery was Mack-Cali Realty's October completion of The Emery at Overlook Ridge, a 326-unit Class A community in Malden. The project broke

ground in May 2019, financed with \$62 million in construction debt from Fifth Third Bank.

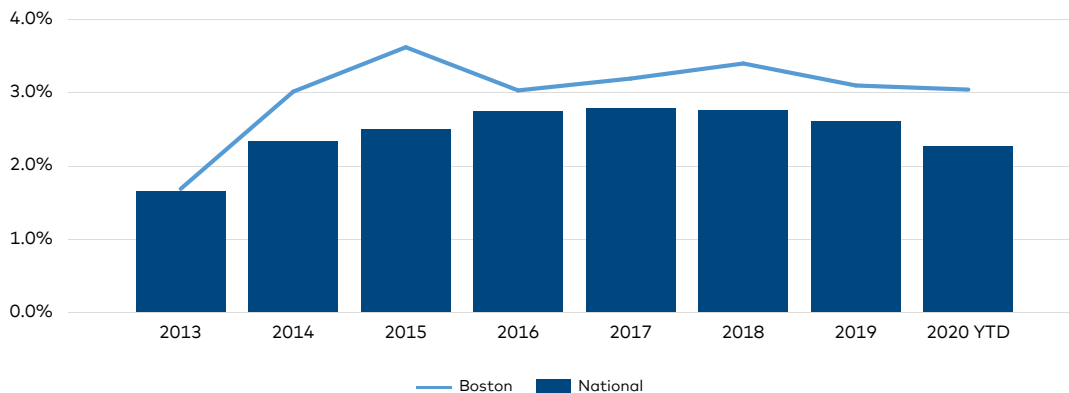
- ▶ The North End–Charlestown had the greatest number of units underway at year-end, totaling 1,842 units or 20.4% of existing stock. The submarket benefited from its key location between downtown Boston and Cambridge.

Boston Completions (as of December 2020)



Source: Yardi Matrix

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

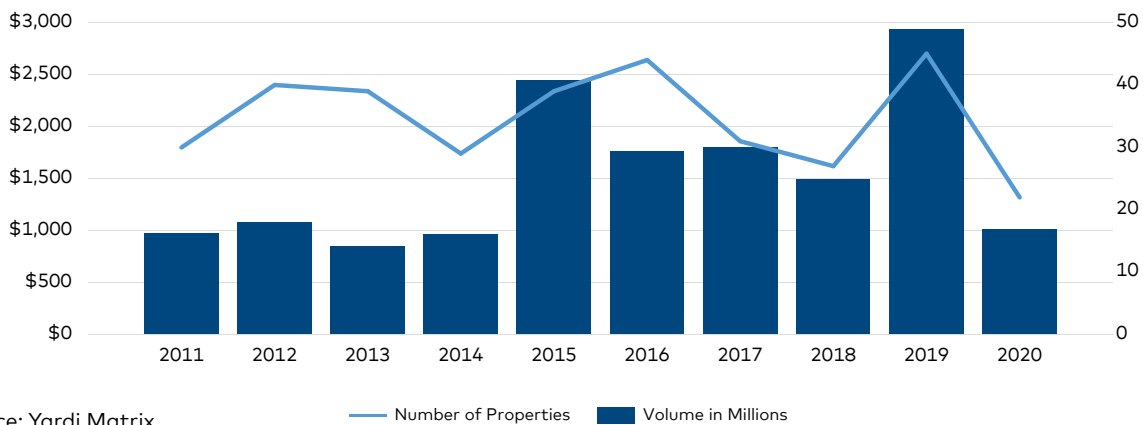


Source: Yardi Matrix

TRANSACTIONS

- ▶ Boston's multifamily transaction volume through 2020 was \$1 billion, a sharp, 65.4% decline from the \$2.9 billion in transactions closed in 2019. The market's per-unit pricing in 2020 was \$310,992, a 5.6% uptick from the previous year and 83% higher than the national average.
- ▶ Lifestyle investments totaled \$634 million, or 62.5% of overall transaction volume, averaging \$387,971 per unit. Boston's \$380 million in RBN transactions averaged \$266,977 per unit. Investor interest in RBN assets is expected to grow, given shifts in renter preferences to more affordable units amid economic uncertainty.
- ▶ The Sloughton submarket had the greatest amount of investment activity in 2020, with \$202 million closed. LivCor's \$130 million sale of the 504-unit Rosemont Square was the largest deal of the year. Waterton acquired the suburban, Class B asset with \$98 million in Fannie Mae financing.

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



Source: Yardi Matrix

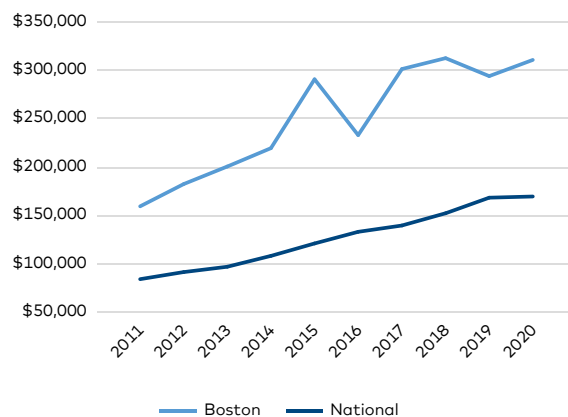
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Sloughton	202
Lakeview	194
Malden	102
Woburn	91
Marlborough	86
Foxborough	85
Peabody	73

Source: Yardi Matrix

¹ From January 2020 to December 2020

Boston vs. National Sales Price per Unit



Source: Yardi Matrix

Top 5 Boston Submarkets for Construction Activity

By Jeff Hamann

Multifamily development may be slowing nationwide, but construction activity is alive and well in Boston. More than 7,100 units were delivered last year, only slightly less than the cycle high of 7,480 apartments added in 2018. As of mid-January, the market had some 18,000 units under development, with most—nearly 80 percent—set to deliver by the close of 2021.

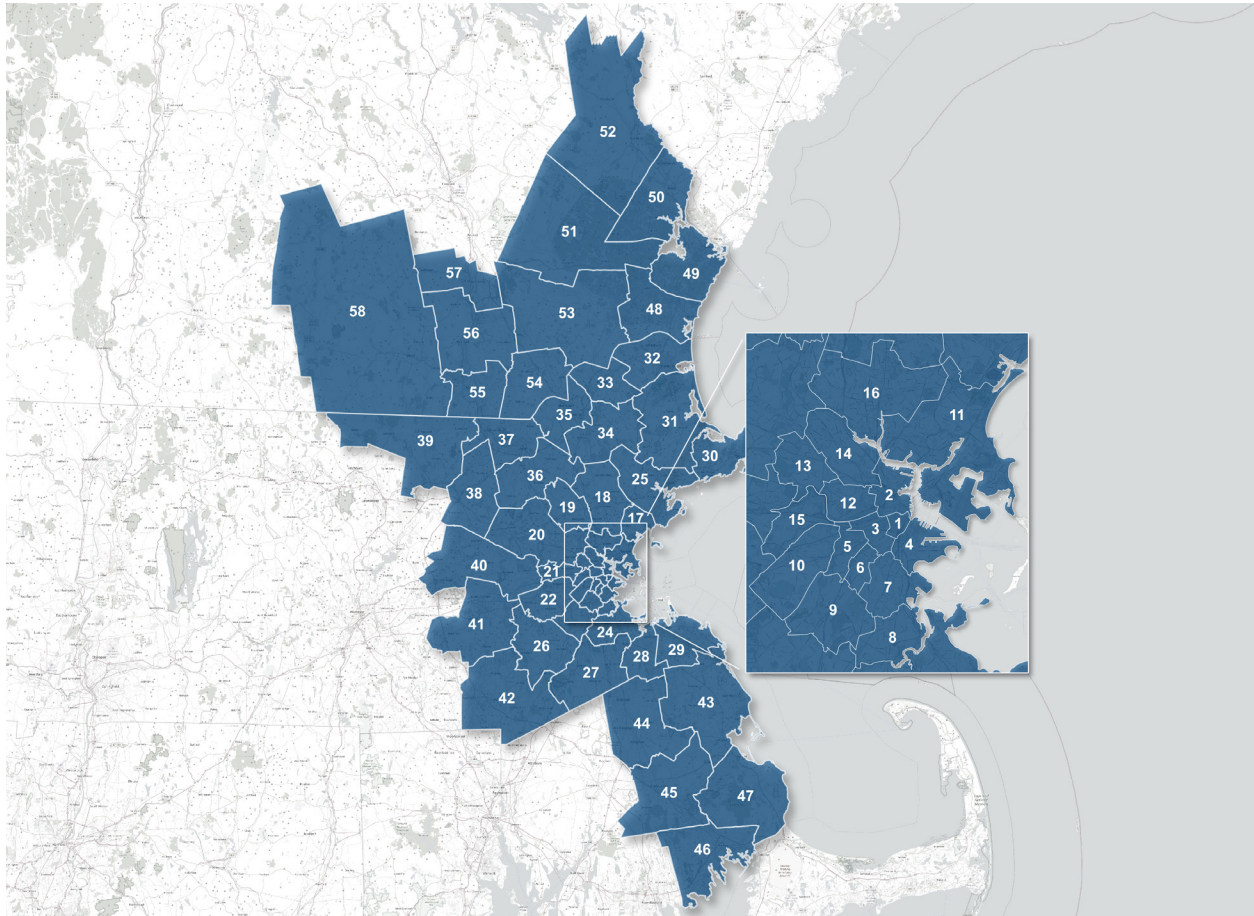
Rank	Submarket	Units Underway	Projects Underway	Percentage of Stock
1	East Boston–Chelsea	1,498	6	15.2%
2	North End–Charlestown	1,402	4	15.5%
3	Boston–Downtown	1,358	5	26.8%
4	South Boston	1,301	5	26.6%
5	Brighton	1,289	6	22.1%

NORTH END–CHARLESTOWN

The North End–Charlestown submarket faces many of the same challenges as downtown, with high—but falling—rents amid a spate of development activity. Rents dropped by 10.6 percent in the year ending in December, one of the highest declines in the market. At the same time, more than 1,400 units were underway in January, with one-third slated to deliver in the first half of 2021, likely to deflate rent growth even more.



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 December 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 December 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, December 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.

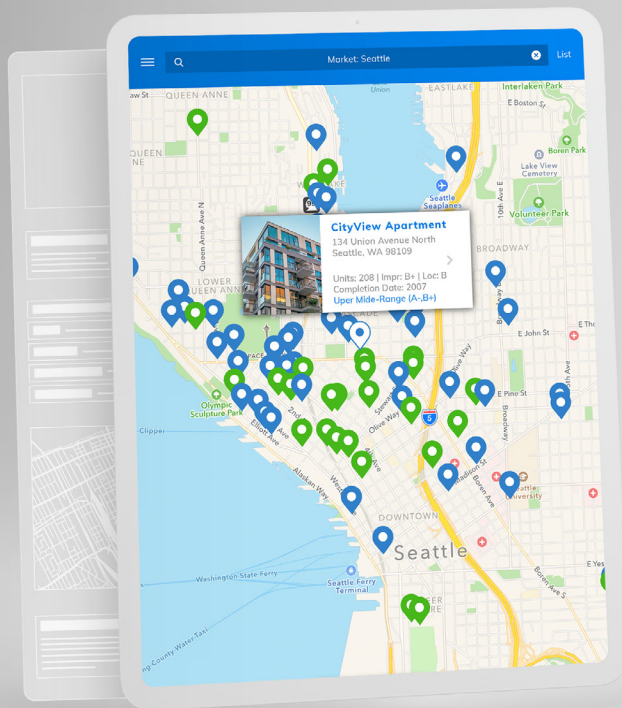
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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