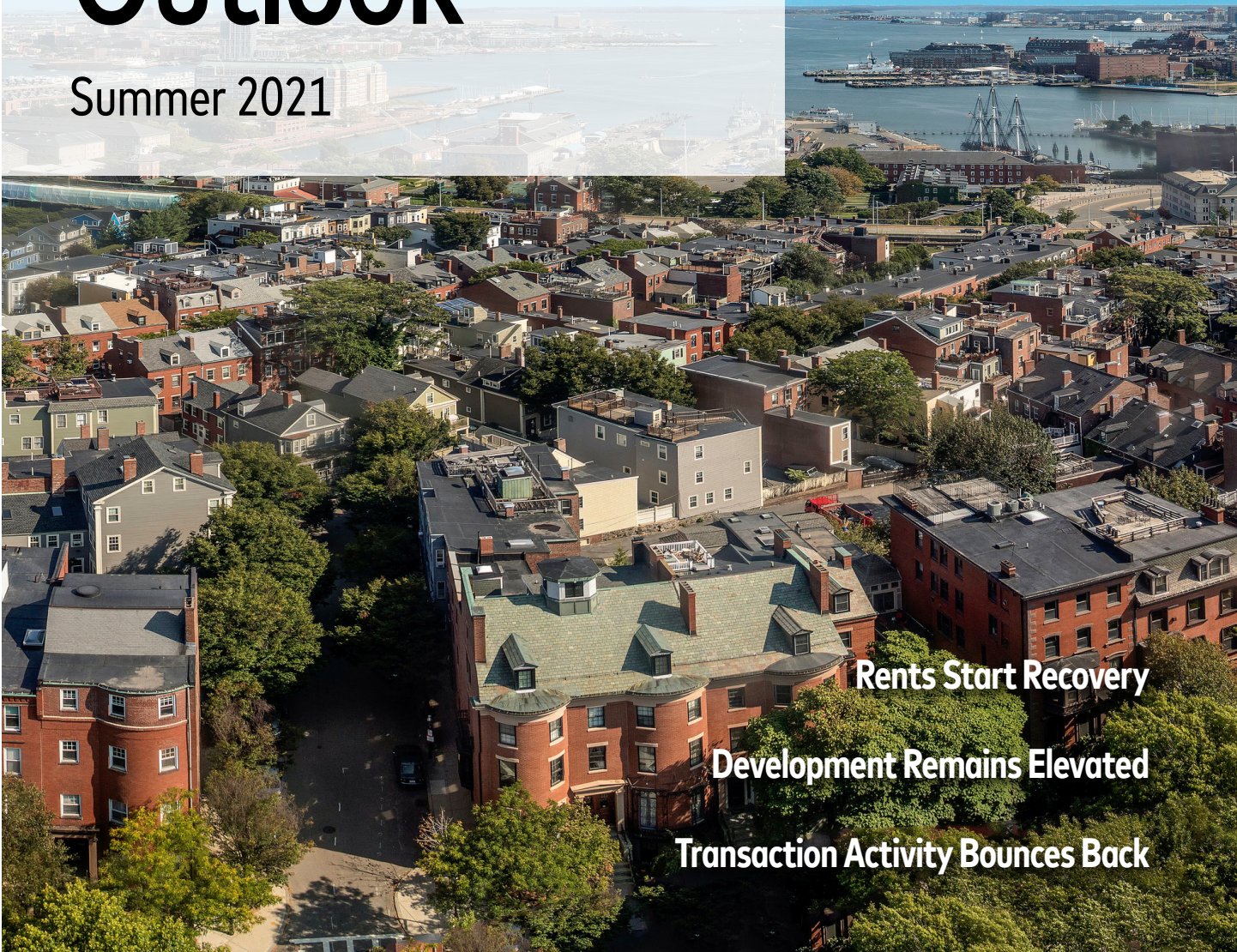




MULTIFAMILY REPORT

Boston: An Encouraging Outlook

Summer 2021



Rents Start Recovery

Development Remains Elevated

Transaction Activity Bounces Back

BOSTON MULTIFAMILY



Robust Supply Pressures Occupancy

While not out of the woods yet, Boston showed promising signs at the start of the second quarter. Following 18 months of negative performance, the average rent rose 0.4% on a trailing three-month basis through April, to \$2,258. The substantial supply expansion pushed down the occupancy rate in stabilized properties by 120 basis points in the 12 months ending in March, to 94.5%.

Boston's strict safety measures during the health crisis helped it manage the outbreak relatively well, but took a toll on the economy, which mirrored the situation in other large coastal markets. Even though unemployment dropped to 5.9% in February, the employment market posted a 9.3% decline over 12 months, trailing the -7.2% national rate. All sectors lost jobs during the period, but several high-profile projects show promising signs: IQHQ's \$1 billion Fenway Center life sciences campus is set to bolster an already burgeoning Boston staple, while Amazon announced an expansion of its tech operations in the Seaport District, expected to add 3,000 jobs over the next few years.

Developers delivered 1,053 units this year through April and had another 18,708 units underway, following the busiest year of the decade. Meanwhile, transaction activity picked up, totaling \$567 million for the first four months of the year, but the per-unit price marked a 10.9% dip.

Market Analysis | Summer 2021

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Recent Boston Transactions

Sofi at Salem Station



City: Salem, Mass.
Buyer: Pacific Urban Residential
Purchase Price: \$115 MM
Price per Unit: \$432,331

Strata



City: Malden, Mass.
Buyer: The Green Cities Co.
Purchase Price: \$96 MM
Price per Unit: \$323,729

The Preserve at Cohasset



City: Cohasset, Mass.
Buyer: TruAmerica Multifamily
Purchase Price: \$90 MM
Price per Unit: \$399,336

Union Place

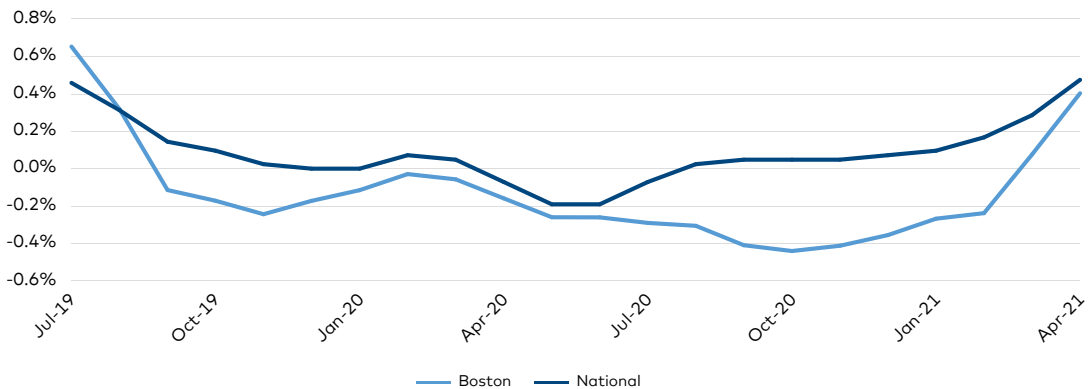


City: Franklin, Mass.
Buyer: UDR
Purchase Price: \$77 MM
Price per Unit: \$257,667

RENT TRENDS

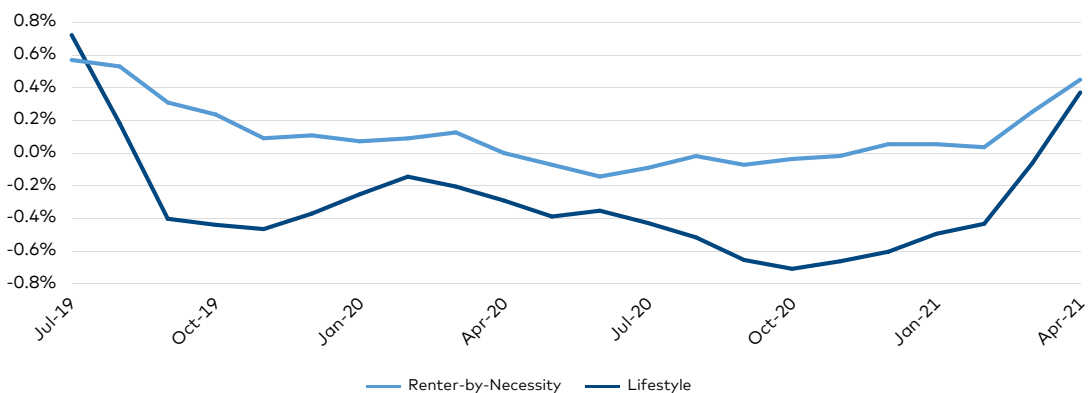
- ▶ Boston rents rose by 0.4% on a trailing three-month (T3) basis through April to \$2,258, well above the \$1,417 national average, which increased by 0.5% during the period. On a year-over-year basis, the average rate contracted 1.8%, while the U.S. figure was up 1.6%.
- ▶ Following 18 months of negative performance, Boston rents regained positive momentum in March. Performance was even across the quality spectrum, with both working-class Renter-by-Necessity and Lifestyle rates appreciating by 0.4% on a T3 basis through April, to \$1,875 and \$2,638, respectively. However, last year's robust inventory expansion—which marked the strongest year of the decade—pushed down the occupancy rate in stabilized properties by 120 basis points for the 12 months ending in March, to 94.5%.
- ▶ As expected, suburban areas with housing stock consisting of mainly working-class properties were among the best performers for rent growth, including Milford (average rent up 9.0% year-over-year to \$1,377) and Manchester (5.3% to \$1,495). On the opposite end of the quality spectrum, core submarkets posted some of the steepest drops: North End-Charlestown (-9.7% to \$3,098), South Boston (-8.4% to \$3,390), Downtown (-8.0% to \$3,191) and the South End (-7.3% to \$3,622).
- ▶ As the economy is recovering and demand is slowly shifting back, we expect the average Boston rent to rise 2.8% in 2021.

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

- ▶ The unemployment rate dropped to 5.9% in February, according to preliminary Bureau of Labor Statistics data, faring slightly better than the 6.0% U.S. rate.
- ▶ Boston's tight restrictions, meant to curb the spread of coronavirus, were effective on the health crisis front, but employment and economic security took a hit from a reduction in consumer demand and mobility. All sectors lost jobs in the 12 months ending in February, with employment posting a 9.3% drop, trailing the -7.2% U.S. rate. While the jobless rate has started recovering from its 13.3% peak and the vaccine rollout has been successful, the local economy has a long way to go.
- ▶ While among the country's top-ranking cities for conventions and large-scale meetings, which in 2019 had an economic impact of \$870 million, Boston recorded a 33.7% contraction in leisure and hospitality jobs in the 12 months ending in February.
- ▶ Multiple large-scale projects are underway, including IQHQ's \$1 billion Fenway Center life science campus. The project is set to boost the education and health services sector, which lost 9.3% of its workforce. In the Seaport District, Amazon announced the expansion of its tech operations by 630,000 square feet, as well as 3,000 jobs over several years.

Boston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	141	4.4%
50	Information	89	2.8%
30	Manufacturing	228	7.1%
60	Professional and Business Services	591	18.5%
80	Other Services	106	3.3%
40	Trade, Transportation and Utilities	508	15.9%
90	Government	387	12.1%
65	Education and Health Services	692	21.6%
70	Leisure and Hospitality	232	7.2%
30	Manufacturing	235	6.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Population growth nearly came to a halt in 2019, with the metro gaining just 1,112 residents, or less than 0.1%.
- ▶ Like most gateway cities, immigration remained the main driver for demographic expansion during the past decade, making up for losses in domestic migration.

Boston vs. National Population

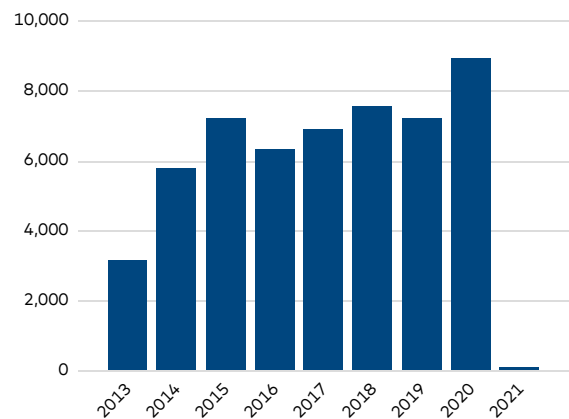
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Boston Metro	2,002,540	2,017,741	2,030,772	2,031,884

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

SUPPLY

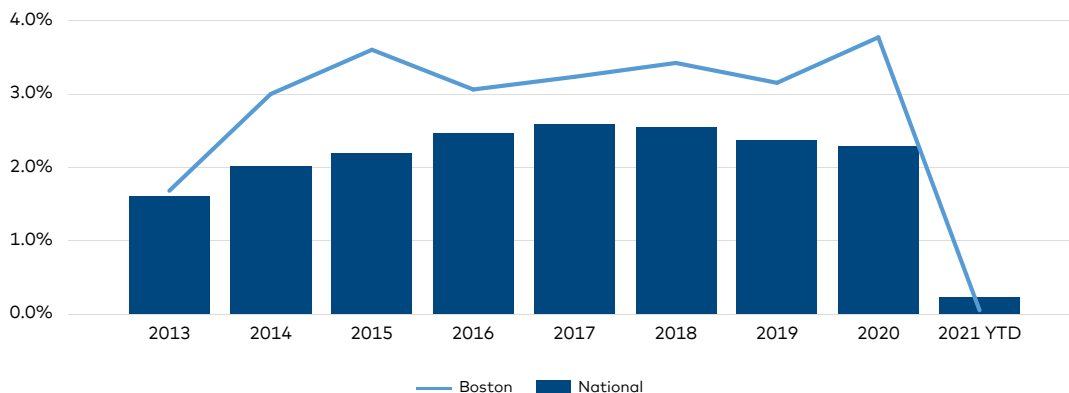
- ▶ Despite tight restrictions, last year marked the best year in a decade for deliveries, with 8,961 units added to Boston's multifamily housing stock. This is the equivalent of 3.8% of total stock, well above the 2.3% U.S. rate in 2020.
- ▶ This year through April, developers brought online 1,053 units, or 0.4% of total stock, 20 basis points below the U.S. rate. The new inventory consists of five Lifestyle communities located in distant Merrimack (520 units), Cambridge South (421 units) and Lakeview (112 units). Overall, we expect 7,875 units to come online across metro Boston in 2021.
- ▶ Despite the recent softening in deliveries, the development pipeline is robust, with 18,708 units under construction and another 65,039 in the planning and permitting stages. Of the units underway, nearly 16,000 target high-income renters. The remaining Renter-by-Necessity projects include more than 1,500 units in fully affordable communities. With developer interest heavily favoring the upscale segment, the pressure on RBN apartments will likely intensify going forward.
- ▶ Development was spotty across the map, with the top four submarkets accounting for a third of the pipeline. Leading construction activity were East Boston-Chelsea (1,768 units underway), Brighton (1,417 units) and North End-Charleston (1,402 units). The largest project underway was the 694-unit VERO, a Fairfield Residential asset located in an Opportunity Zone in suburban East Boston-Chelsea, slated for completion in the first quarter of 2022.

Boston Completions (as of April 2021)



Source: Yardi Matrix

Boston vs. National Completions as a Percentage of Total Stock (as of April 2021)

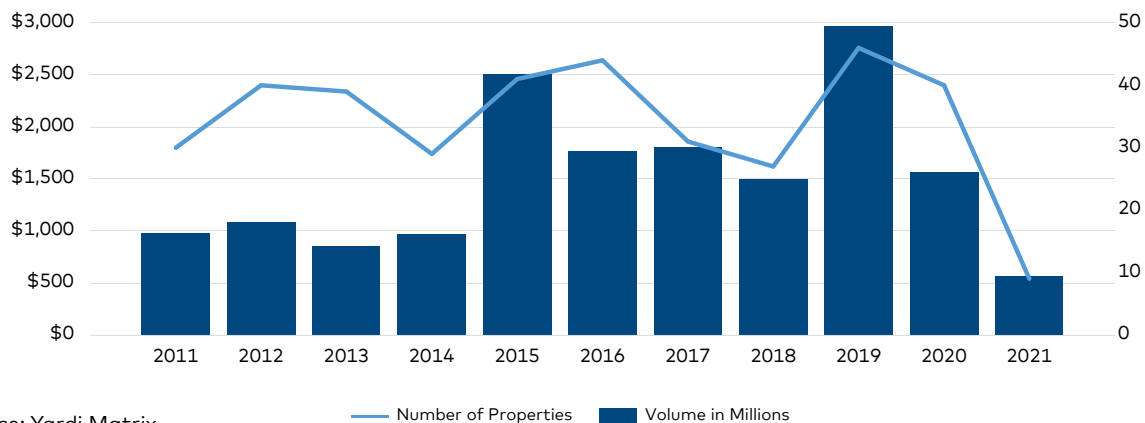


Source: Yardi Matrix

TRANSACTIONS

- ▶ This year through April, \$567 million in rental assets traded in Boston, surpassing the \$444 million registered during the same period in 2020.
- ▶ The pandemic impacted the metro's investment front, with last year's volume dropping to \$1.5 billion, half the total of 2019. The second and third quarters were especially slow, totaling just \$162 million combined. Yet, during the final quarter, investment activity marked a sharp comeback, with \$974 million invested.
- ▶ Although all sales recorded this year through April were for upscale properties, the price per unit dropped by 10.9% to \$321,009, still well above the \$170,513 U.S. average.
- ▶ The largest transaction of the first four months of 2021 was the sale of Strata, a 295-unit property in Malden. The Green Cities Co. bought the property from Taurus Investment Holdings for \$95.5 million, or \$323,729 per unit.

Boston Sales Volume and Number of Properties Sold (as of April 2021)



Source: Yardi Matrix

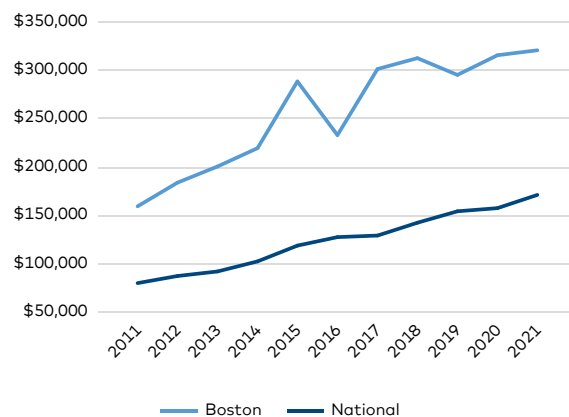
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Sloughton	202
Peabody	188
Foxborough	162
Woburn	141
Waltham	139
Lawrence	136
Malden	96

Source: Yardi Matrix

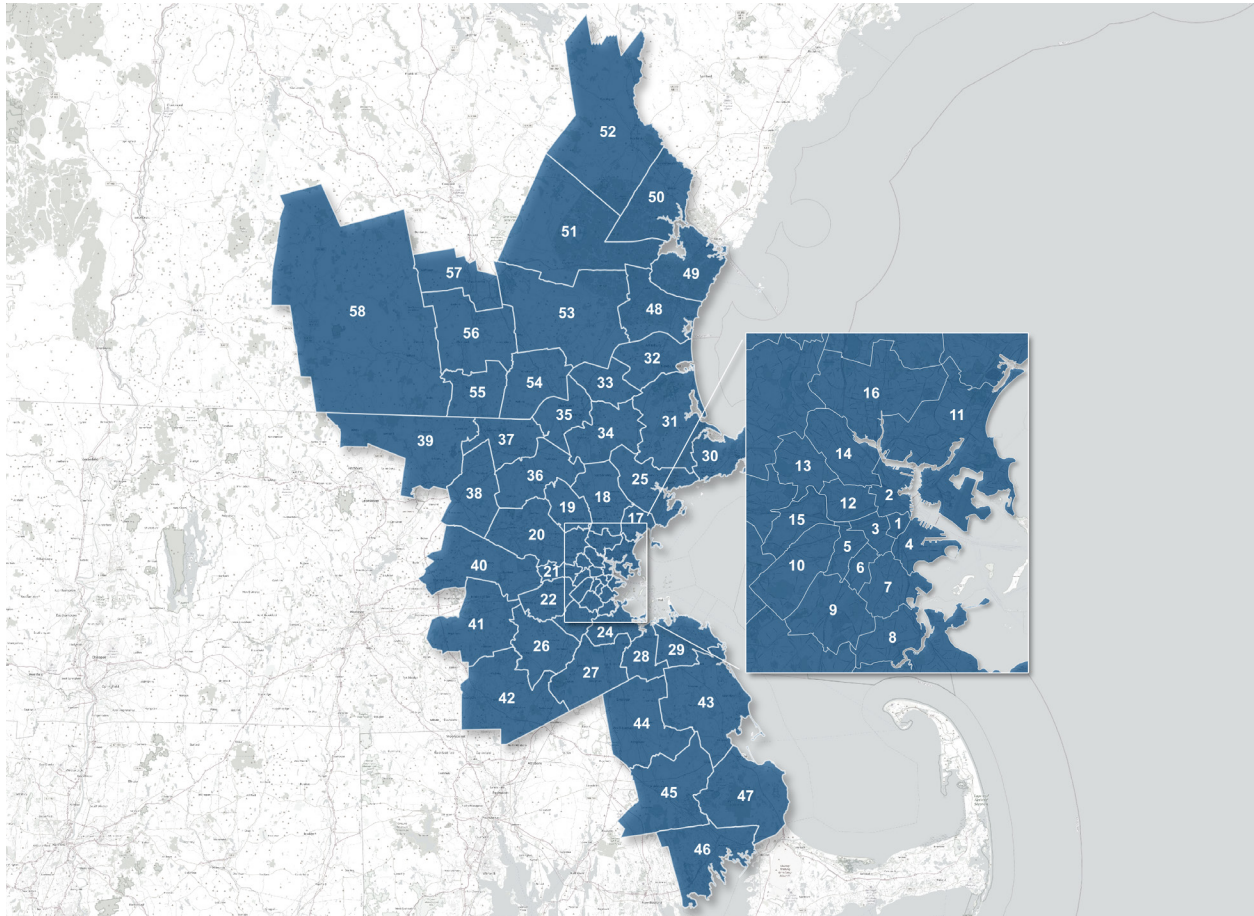
¹ From May 2020 to April 2021

Boston vs. National Sales Price per Unit



Source: Yardi Matrix

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.

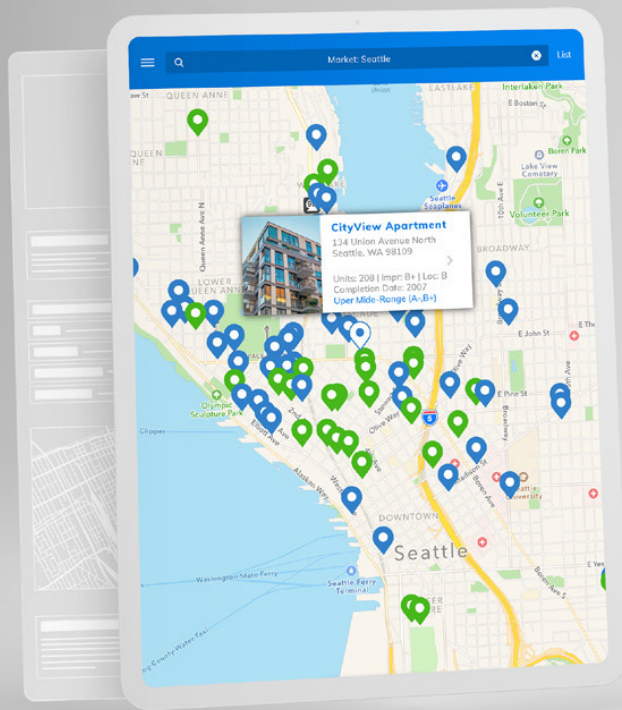
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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