

An aerial photograph of the Boston skyline, showing a dense cluster of skyscrapers and buildings. In the foreground, there is a large green park area with many trees. The city extends to the water's edge, with a large body of water visible in the background under a blue sky with light clouds. A white banner is positioned at the top right of the image.

YARDI[®] Matrix

Boston's Power

Multifamily Spring Report 2017

Rent Growth Cools Off

Affordability Issues Deepen

Investor Interest Remains Strong

Market Analysis

Spring 2017

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Weak Rent Growth Despite Healthy Demand

Investor and tenant demand remain healthy in Boston's multifamily market, even as rent growth decelerates after peaking in mid-2016. Rents rose 1.8% year-over-year as of February, in part because the average rent of \$2,054 is among the highest in the nation. And with developers focusing almost exclusively on delivering upscale properties, Boston faces affordability issues.

With a 2.5% unemployment rate as of December, Boston continues to be a regional powerhouse and an important global innovation hub fueled by a deep talent pool and anchored by a stable economic climate. The metro is adding jobs across most sectors and several large projects are changing the city's skyline, including the 700-foot-tall One Dalton going up in the Back Bay. Other high-rise projects, such as the \$1 billion Winthrop Square tower and Hines' 51-story South Station development, are getting closer to breaking ground. Recently, Massachusetts Institute of Technology (MIT) signed an agreement for the redevelopment of the Volpe Center, which is expected to deliver roughly 1.7 million square feet of office space and 1,400 residential units in Cambridge.

With investors concentrating more on value-add projects, \$1.7 billion worth of assets traded in Boston last year, a 30% drop from 2015. As many core submarkets are already recording rent contractions and the metro has about 62,000 units in the pipeline, Yardi Matrix forecasts a 1.8% rent growth for Boston in 2017.

Recent Boston Transactions

Windsor at Cambridge Park



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

The Fairways



City: Derry, N.H.
Buyer: Chartwell Holdings
Purchase Price: \$100 MM
Price per Unit: \$117,197

Neponset Landing



City: Quincy, Mass.
Buyer: Gerding Edlen Development
Purchase Price: \$90 MM
Price per Unit: \$319,643

Jack Flats



City: Melrose, Mass.
Buyer: Mesirov Financial
Purchase Price: \$80 MM
Price per Unit: \$377,358

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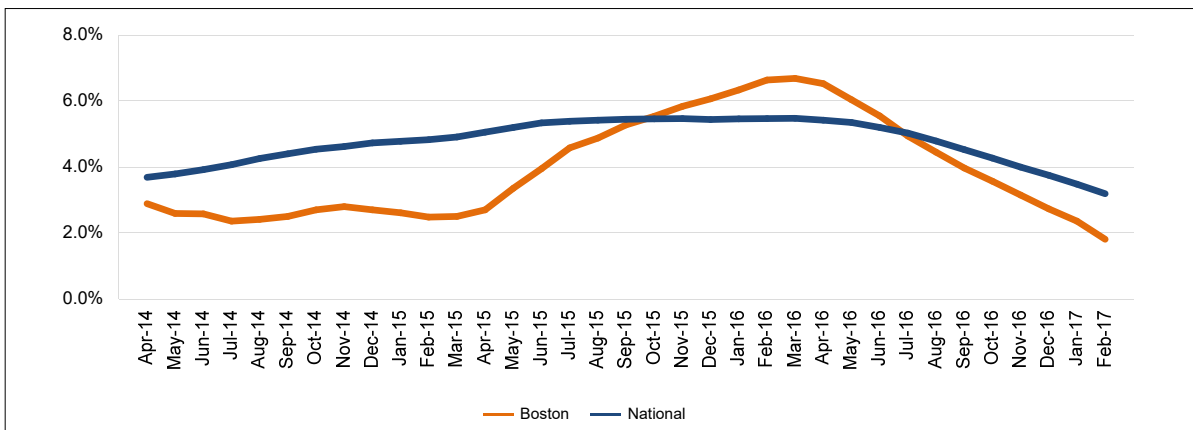
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Rent Trends

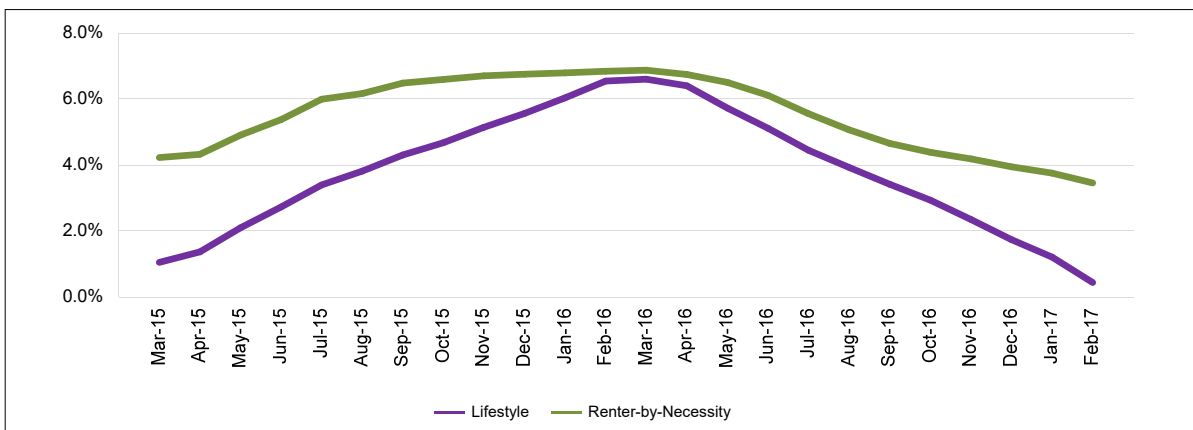
- Rents were up 1.8% in the year ending in February, trailing the national average by 100 basis points. At \$2,054, the average Boston rent is one of the highest nationwide, surpassed only by New York, San Jose and San Francisco. Following national trends, the metro's rent growth peaked in mid-2016, steadily decelerating since.
- The working-class Renter-by-Necessity segment led growth, rising by 3.5% year-over-year to \$1,656 and continuing to emphasize the city's affordability problems. With developers heavily focusing on upscale projects, demand for working-class units continues to outpace supply. By comparison, rents in the Lifestyle segment grew by 0.5% year-over-year, a sudden deceleration partially due to a spate of Class A completions.
- Growth is spotty across the map, with Milford (9.2%), West Concord (7.4%) and Lynn (6.6%) topping the list. However, many core submarkets are recording rent drops, including Boston - Downtown (-3.9%), North End - Charleston (-2.7%), North End - Charlestown (-1.6%) and South End (-1.5%). These areas have average rents above the \$3,000 mark and a combined pipeline of roughly 14,000 units, hinting oversaturation.
- Supply and demand are poised to even out across the metro as the market continues to absorb new stock, leading to our forecast of rent growth.

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)

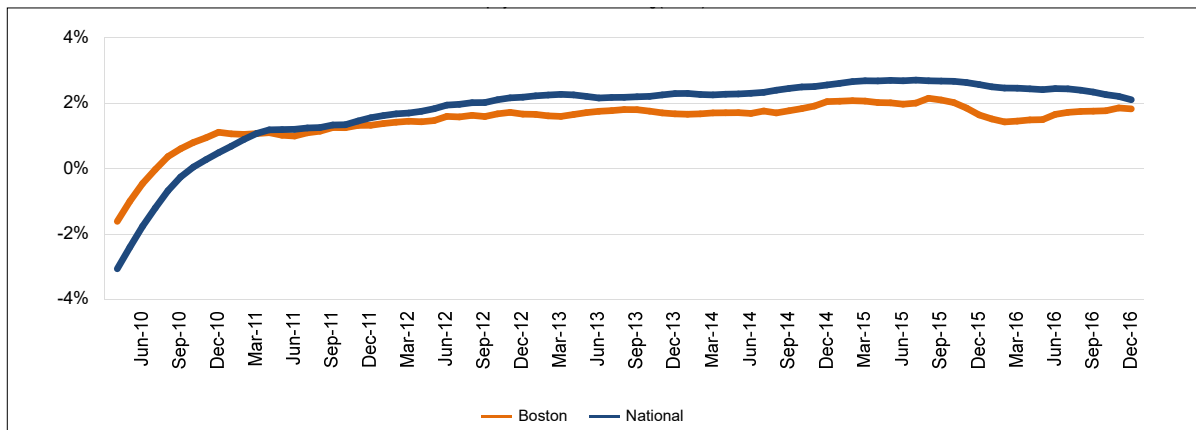


Source: YardiMatrix

Economic Snapshot

- The metro added 56,000 jobs in 2016, accounting for a 1.8% rise, just 30 basis points below the national average. Continuing to be an innovation hub due to its strong universities and benefiting from a deep talent pool, Boston is adding solid numbers of both blue- and white-collar jobs across most employment sectors.
- Education and health services, a Boston staple, led job growth with the addition of 18,500 positions. The arrival of General Electric and Reebok outlines a wider trend in higher-paid job formation: Professional and business services and financial activities have added 15,000 positions, pushing demand for upscale accommodations.
- The Boston office market remains strong, recording positive absorption and record high rents. With vacancy rates below 5% and slim deliveries, the Cambridge office/lab market continues to be a hot spot.
- Several mixed-use projects are changing the skyline and generating jobs on the way. The list includes the 700-foot-tall One Dalton in the Back Bay, the 1.9 million-square-foot Hub on Causeway and the 2.9 million-square-foot Bulfinch Crossing. Developers are lined up for another wave: The \$1 billion Winthrop Square project is moving forward, Hines is due to break ground on the 51-story South Station tower and MIT unveiled plans for at least 1.7 million square feet of office and 1,400 residential units. Boston's construction sector added 5,300 jobs last year, and with a multifamily pipeline of nearly 62,000 units, it is poised for further growth.

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	708	21.2%	18,500	2.7%
70	Leisure and Hospitality	328	9.8%	12,900	4.1%
60	Professional and Business Services	547	16.4%	9,300	1.7%
55	Financial Activities	234	7.0%	5,600	2.5%
15	Mining, Logging and Construction	136	4.1%	5,300	4.1%
40	Trade, Transportation and Utilities	532	16%	5,300	1.0%
90	Government	391	11.7%	1,800	0.5%
50	Information	90	2.7%	1,000	1.1%
80	Other Services	129	3.9%	-1,600	-1.2%
30	Manufacturing	238	7.1%	-1,900	-0.8%

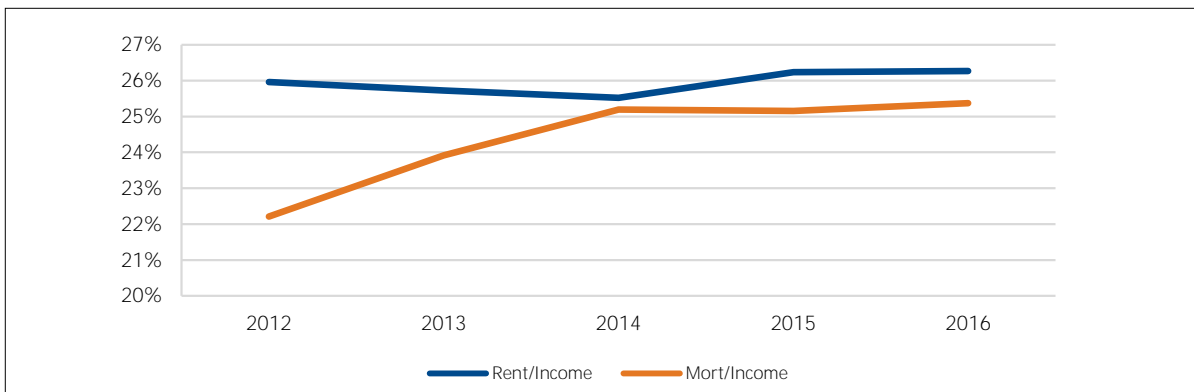
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

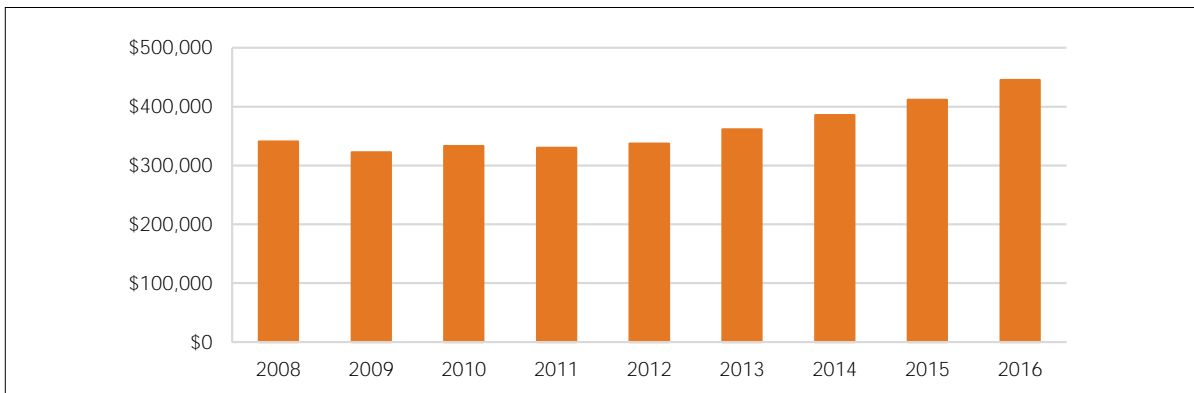
- The median home price hit another record in 2016, reaching \$445,000. Even if Boston payrolls are steadily rising and the local legislature is trying to put corrective measures in place, affordability remains a problem as developers are almost exclusively adding upscale stock.
- When discussing affordability, there is little difference between renting and owning. The average mortgage payment comprises 25% of the metro's median income, while the average rent of \$2,054 accounts for roughly 26%. The two percentages have remained virtually unchanged for the past three years, as income gains have matched the surge in home prices and multifamily supply has mostly kept up with demand.

Boston Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Boston Median Home Price



Source: Moody's Analytics

Population

- Metro Boston added roughly 71,500 residents between 2011 and 2015. This marks a 3.7% increase, 60 basis points above the national average.
- Boston's population growth matched the national average at 0.8% in 2015.

Boston vs. National Population

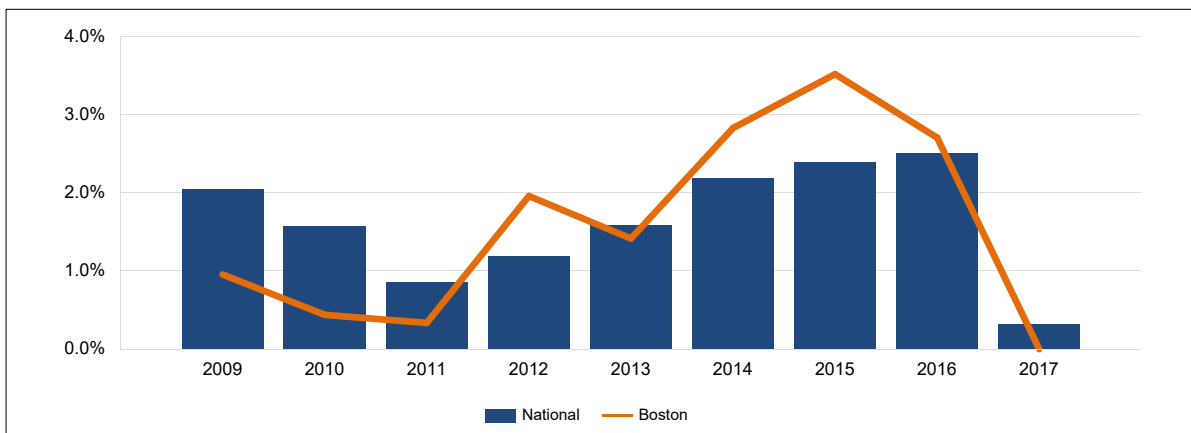
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Boston Metropolitan Division	1,912,979	1,932,117	1,952,426	1,969,547	1,984,537

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

Supply

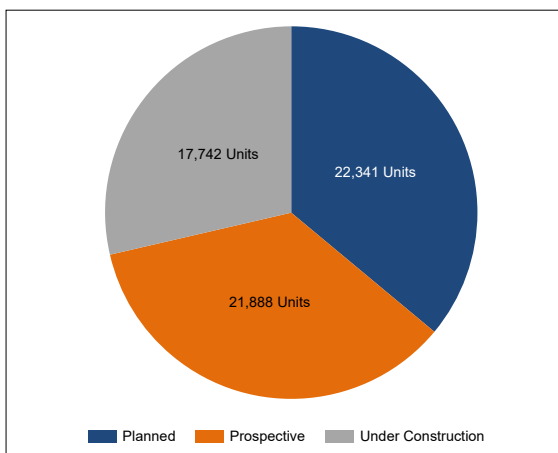
- Roughly 5,500 units came online in Boston last year, a gain of 2.7%, which is 20 basis points above the national average.
- With developers focusing on the higher end of the quality spectrum, nearly all recent completions have been in the Lifestyle segment. This trend has been apparent during the current cycle: More than 80% of units built since 2011 are Class A and less than 10% of the total new stock is fully affordable. This tendency further deepens Boston's affordability problem, as there is little stock to accommodate tenants working in blue-collar industries.
- More than 60,000 units are in some stage of development, 17,742 of which are already under construction. Five submarkets each have more than 1,000 units going up: North End - Charleston (1,852 units), Quincy (1,293 units), Malden (1,257 units), East Boston - Chelsea (1,080 units) and South Boston (1,000 units).
- Several large properties are slated to come online in 2017, including Berkshire's VIA and The Benjamin, which are adding 832 units to the Seaport District. Moreover, the 447-unit Montaje at Assembly Row is nearing completion and Hines' Meriel Marina Bay is bringing 352 luxury apartments to Quincy.

Boston vs. National Completions as a Percentage of Total Stock (as of February 2017)



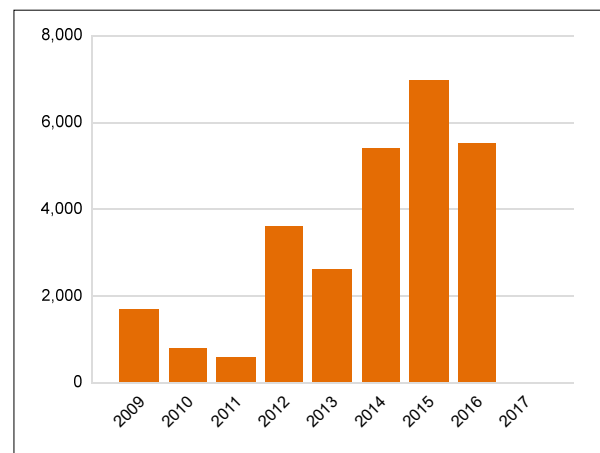
Source: YardiMatrix

Development Pipeline (as of February 2017)



Source: YardiMatrix

Boston Completions (as of February 2017)

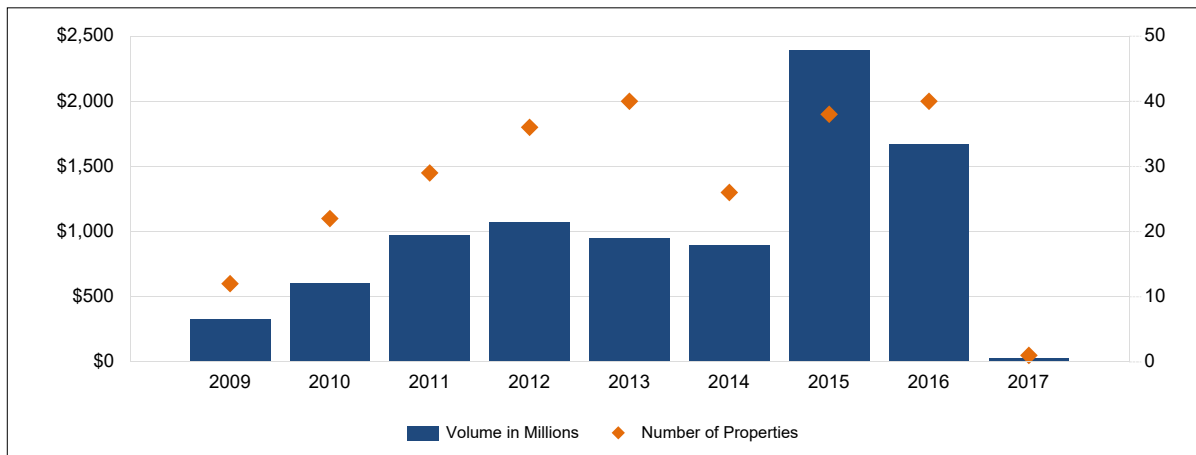


Source: YardiMatrix

Transactions

- Nearly \$1.7 billion worth of assets traded in Boston in 2016, which demonstrates strong investor demand but is 30% less than the previous year.
- The metro continues to appeal to foreign and institutional investors, who perceive Boston as safer than most other East Coast markets, while also offering slightly higher acquisition yields than Manhattan.
- Investor preferences saw a slight shift in 2016, as buyers focused more on value-add transactions in order to boost yields. Because the profile of properties sold in 2016 was less upscale (more than half of the properties that traded in 2016 were in the Renter-by-Necessity segment), the average price per unit fell 19% year-over-year in 2016, to \$230,000. Even so, the city's average unit still costs almost double the national average of \$133,902.

Boston Sales Volume and Number of Properties Sold (as of February 2017)



Source: YardiMatrix

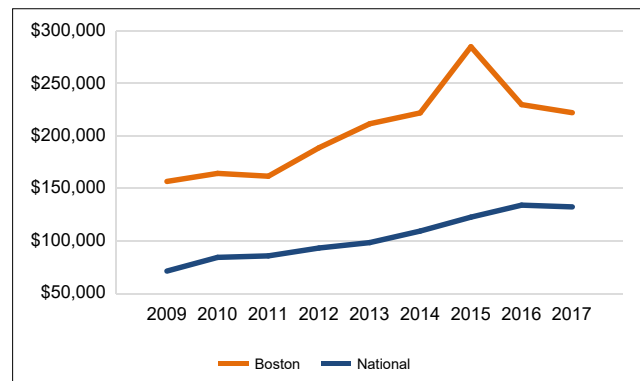
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Malden	221
Cambridge - North	215
Quincy	140
Peabody	139
Foxborough	135
Westwood	109
Sloughton	107
Derry	100

Source: YardiMatrix

¹ From March 2016 to February 2017

Boston vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



**Boston Capital Closes Fund
For Foreign Investors**



**Clarks Americas HQ Building
Lands \$40M in Financing**



**Eight Projects Valued at \$1B
To Break Ground in Boston**

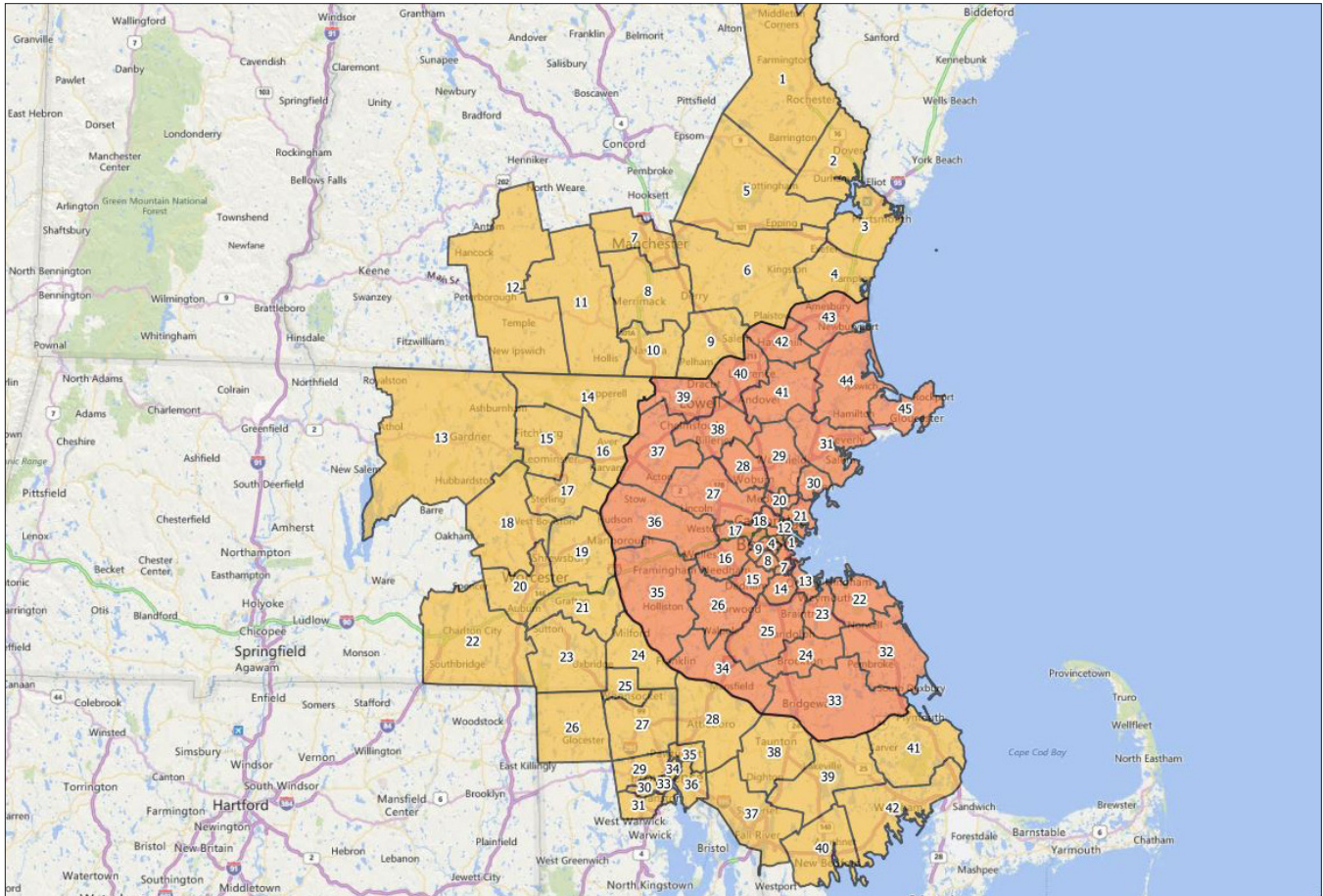


**Downtown Boston
Mixed-Use Asset Trades
For \$22M**

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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	Shrewsbury - 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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