Yardi® Matrix

Steadying the Ship In Boston

Multifamily Report Summer 2017

Construction Activity Poised for Cyclical Peak

Economic Expansion Fuels Demand

Investors Target Value-Add Opportunities

Market Analysis

Summer 2017

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Rent Growth Moderates; Demand Persists

Above-trend population gains and increasing job growth continue to make Boston one of the most stable multifamily markets in the U.S. Although rent gains have fallen to 2.3% year-over-year through June, demand remains healthy, supported by highly skilled workers, who are increasingly drawn to the metro's reputation as a regional powerhouse and global innovation hub.

Anchored by education and health services and professional and business services, Boston's diversified economy is adding both blue- and white-collar jobs. While developers bet on the city's stable, long-term fundamentals, a handful of large, mixed-use projects move closer to breaking ground. Massachusetts Institute of Technology (MIT) is pushing for the rezoning of Kendall Square, which would deliver 1.7 million square feet of office space and 1,400 residential units in Cambridge. The 775-foot-tall Winthrop Square, the 1.2 million-square-foot, multi-building Tremont Crossing and the 677-foot-tall South Station Tower are also set to change the metro's skyline.

Some $350 million in multifamily assets traded in the first half of 2017, marking a slowdown after two years of intense market activity, as more investors focus on value-add plans. With 9,400 units expected to come online by year-end and rents contracting in some of the priciest submarkets, Yardi Matrix forecasts 1.1% rent growth for Boston in 2017.

Recent Boston Transactions

The Commons at Windsor Gardens

City: Norwood, Mass.
Buyer: AllianceBernstein
Purchase Price: $199 MM
Price per Unit: $217,724

The Fairways

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

Neponset Landing

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

Highland Glen I

City: Westwood, Mass.
Buyer: Beacon Communities
Purchase Price: $75 MM
Price per Unit: $416,667

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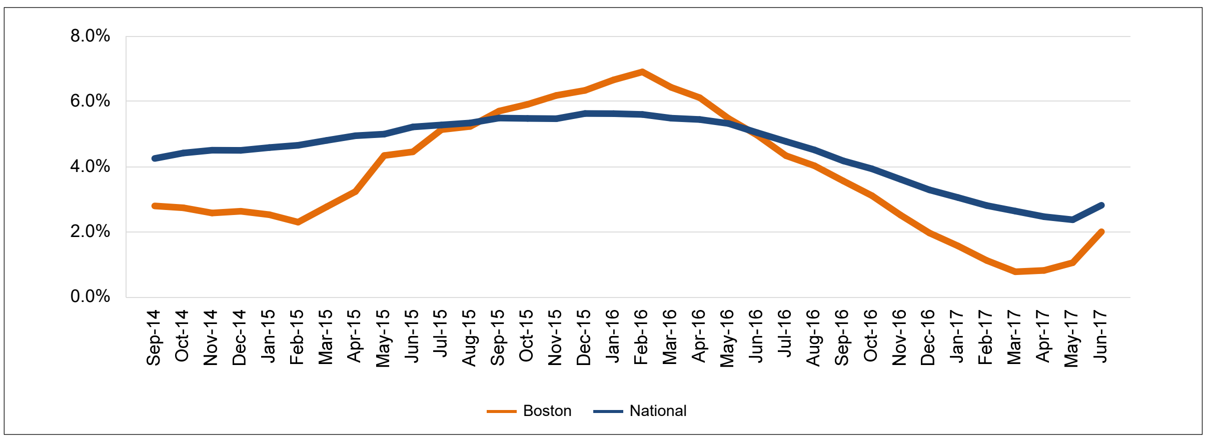
Rent Trends

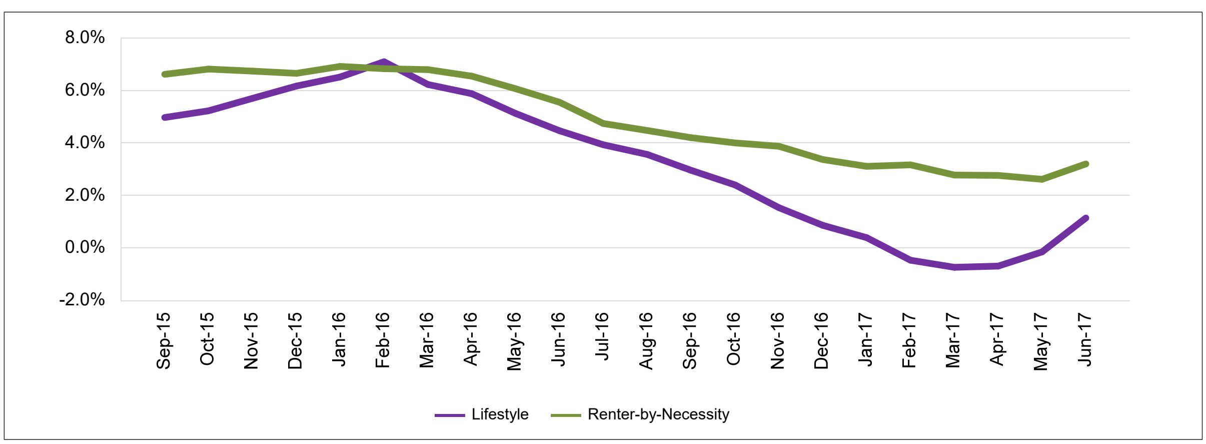
- Rents in Boston were up 2.3% year-over-year through June, 40 basis points below the national growth rate. At $2,133, they continue to be some of the highest nationwide, more than $750 above the U.S. average.
- The working-class Renter-by-Necessity sector led gains, up 3.2% year-over-year to $1,707. Rents in the upscale Lifestyle sector grew by only 1.1%, to an average of $2,652. The disparity is mainly due to a demand-supply imbalance: While the city is adding blue- and white-collar jobs, developers remain focused on delivering high-end properties. This continues to widen the metro's affordability gap, putting pressure on working-class renters.
- Rapid rent growth has been prevalent in working-class submarkets, among them Lynn (9.1%), Middleborough (8.5%), Rochester (6.0%) and Lawrence (5.1%). At the same time, rents in some of the most expensive core submarkets are either contracting or staying flat: North End–Charleston (-2.6%; $3,306), Boston–Downtown (-2.6%; $3,551) and Brookline (0.5%; $2,784).
- At 96.7% as of June, Boston's occupancy rate in stabilized properties dropped 20 basis points year-over-year, mostly due to the high number of upscale properties coming online. Because the city is slated to add more than 9,000 units by year-end, we expect rents to grow by 1.1% in 2017.

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)

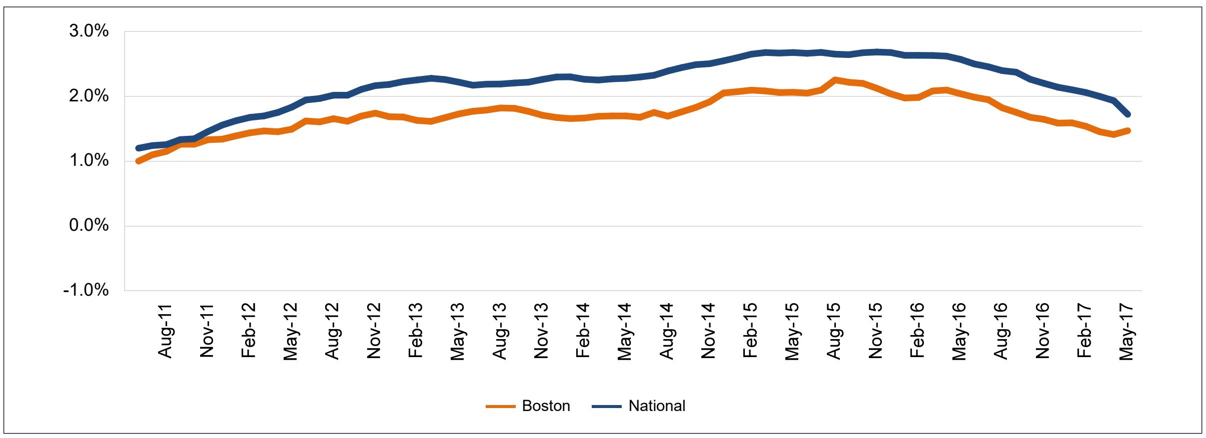


Source: YardiMatrix

Economic Snapshot

- The metro added 53,500 jobs in the 12 months ending in May, up 1.5% year-over-year and 40 basis points below the nationwide trend. Boston's economic expansion is generating jobs across the board, pushing down the metro's unemployment rate as of April to 3.4%, or 100 basis points behind the U.S. average.
- Education and health services—a traditional Boston economic driver due to the city's academic profile and established institutions—added 15,900 positions, continuing to lead growth.
- White-collar sectors are expanding at a fast pace, with professional and business services, financial activities and information adding more than 21,000 jobs. The city's strong office market continues to reflect this expansion: According to Jones Lang LaSalle, vacancy rates are hovering near historic lows, with the Central Business District (9.3%) and East Cambridge (3.8%) being the tightest submarkets.
- With the construction sector adding 3,400 jobs, Boston's flourishing economy is mirroring its changing skyline. At 700 feet, One Dalton is set to become one of New England's tallest residences. MIT is planning the Volpe parcel redvelopment, a project that could bring a 500-foot tower comprising 1.7 million square feet of office and 1,400 residential units to Kendall Square. Several other large, mixed-use projects—including the Winthrop Square high-rise (775 feet) and Hines' South Station Tower (677 feet)—are getting closer to breaking ground.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	714	21.3%	15,900	2.3%
60	Professional and Business Services	559	16.7%	12,100	2.2%
55	Financial Activities	235	7.0%	5,800	2.5%
90	Government	397	11.8%	4,400	1.1%
40	Trade, Transportation and Utilities	521	15.5%	3,500	0.7%
50	Information	90	2.7%	3,400	3.9%
15	Mining, Logging and Construction	137	4.1%	3,400	2.5%
80	Other Services	131	3.9%	2,700	2.1%
70	Leisure and Hospitality	334	10.0%	2,100	0.6%
30	Manufacturing	235	7.0%	200	0.1%

Sources: YardiMatrix, Bureau of Labor Statistics

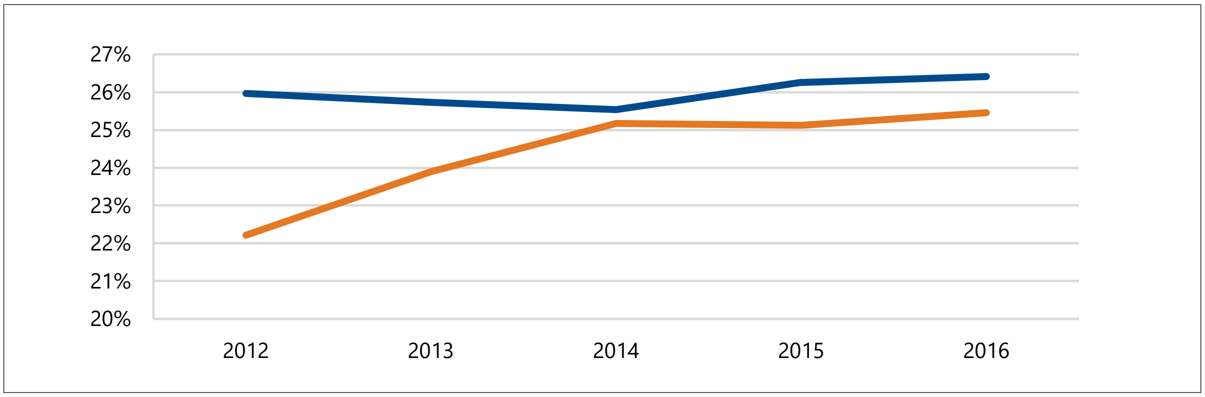
Demographics

Affordability

- Rising 35% in five years, Boston's median home price reached $445,000 in 2016, suggesting that there is a high barrier for first-time buyers. This trend continues to boost demand for rental units, further deepening affordability issues. According to a National Multifamily Housing Council (NMHC) report, Boston needs 66,000 new rental units by 2030 in order to keep up with demand, emphasizing the city's housing shortage.

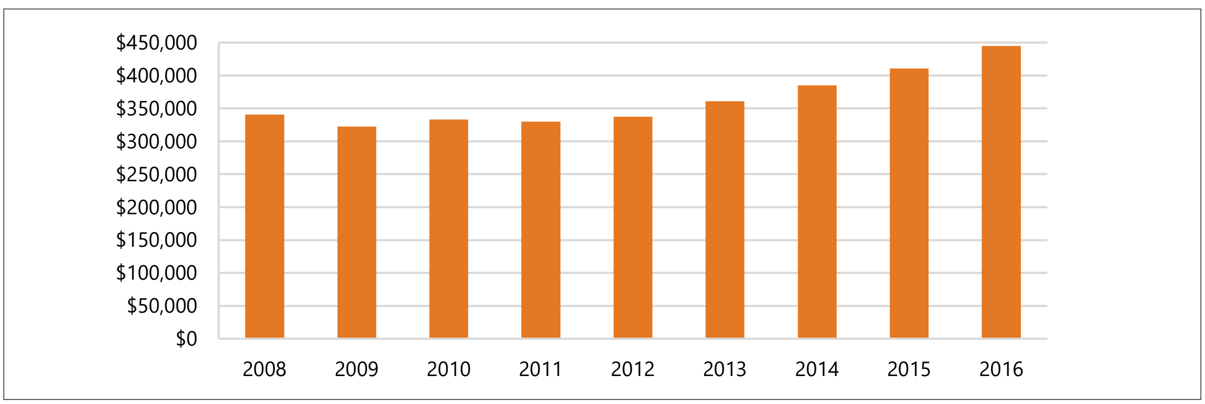
- There is little difference between the cost of renting and owning. The average mortgage payment accounts for 26% of the city's median income, while the average rent of $2,133 comprises 25%. With income gains matching increasing living expenses, the two rates have remained virtually flat for the past three years.

Boston Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Boston Median Home Price



Source: Moody's Analytics

Population

- Boston's population grew by 100,000 between 2010 and 2016. This accounts for a 5.3% increase, 80 basis points above the national average.

- The metro added 13,500 new residents in 2016, on par with the 0.7% U.S. growth rate.

Boston vs. National Population

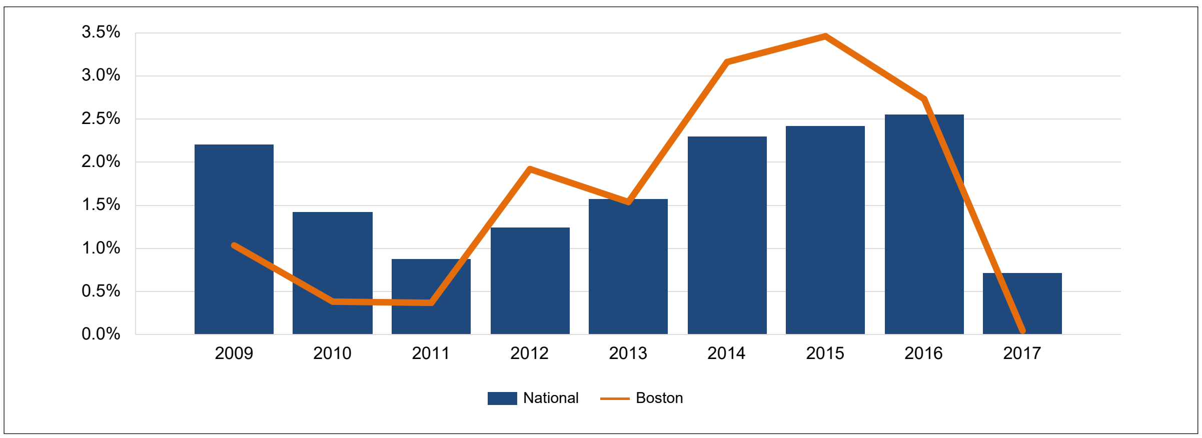
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Boston Metro	1,932,212	1,951,700	1,967,617	1,981,463	1,994,976

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

Supply

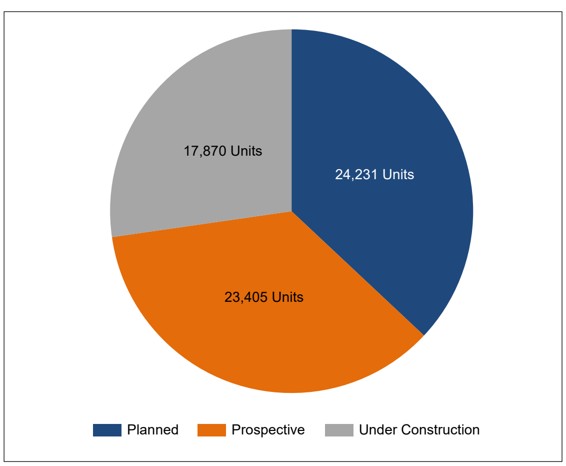
- With strong population gains fueling demand in Boston, about 5,700 units have been delivered during the past 18 months. Developers are building on the momentum of the previous two years: 13,000 units were completed in 2014 and 2015, 90% of which were in the Lifestyle segment.
- Of the 18,000 units under construction in the metro as of June, roughly 9,400 are expected to come online this year. This would mark another cycle high for Boston, surpassing the 6,900 units delivered in 2015. Including planned and prospective developments, the pipeline adds more than 65,000 units.
- While new deliveries are spread across the map, the majority of them are located in core areas. The five submarkets with more than 1,000 units underway are all relatively close to downtown: South Boston (1,733 units), North End–Charleston (1,542), Quincy (1,411), Malden (1,257) and East Boston–Chelsea (1,080).
- Relying on solid fundamentals, developers have been feeding the city's pipeline with long-term projects. Of the five largest communities underway, VIA in the Seaport District is the only one scheduled for completion in 2017. Bulfinch Crossing in Downtown Boston is slated to deliver its 800-unit residential component by September 2018, followed by Echelon Seaport (733 units) and 345 Harrison (585 units) in the South End.

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



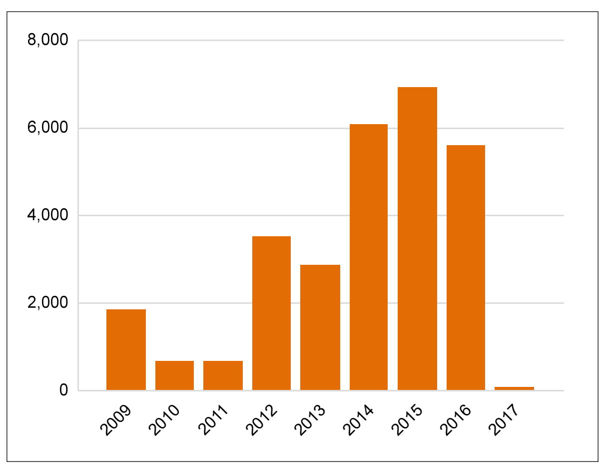
Source: YardiMatrix

Development Pipeline (as of June 2017)



Source: YardiMatrix

Boston Completions (as of June 2017)



Source: YardiMatrix

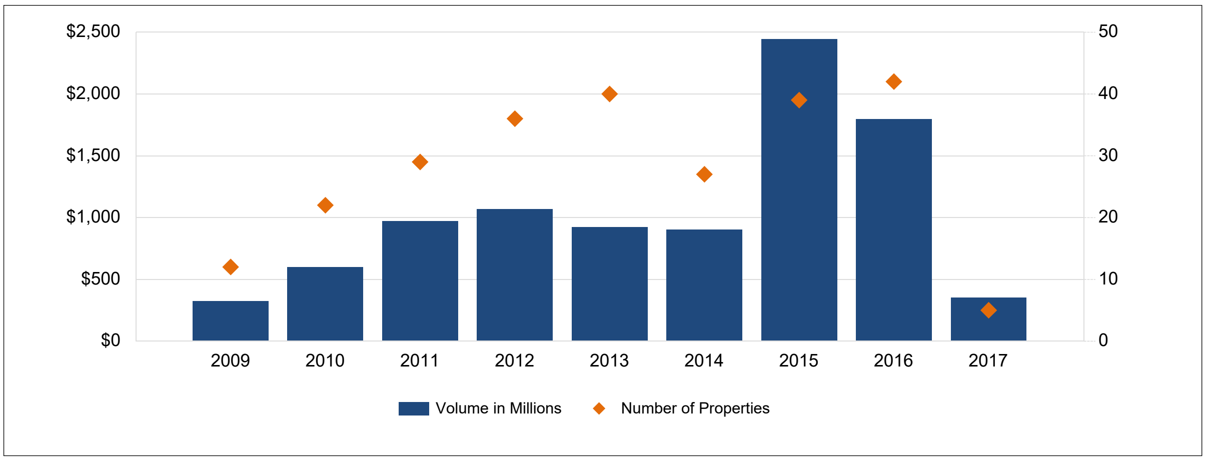
Transactions

- Only $350 million in properties traded in the first half of 2017, well below the pace of the $4.2 billion traded in 2015 and 2016 combined. Demand has softened a bit, as some investors worry about paying top dollar in core markets at what might be the peak of the cycle. At the same time, the number of sellers has declined.

- Boston continues to be a strong and stable market, with acquisition yields ranging from 4.5% for urban, Class A assets to 7.5% for suburban, value-add opportunities.

- The average per-unit price was nearly $200,000 in the first half of 2017, down 15% from the prior year, due in part to a change in investor focus, with a shift from Class A assets to value-add opportunities in transit-accessible locations. The number of Lifestyle trasactions has continually dropped in the past few years, from 28 upscale assets trading in 2015 to 13 in 2016 and just one in the first half of 2017.

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



Source: YardiMatrix

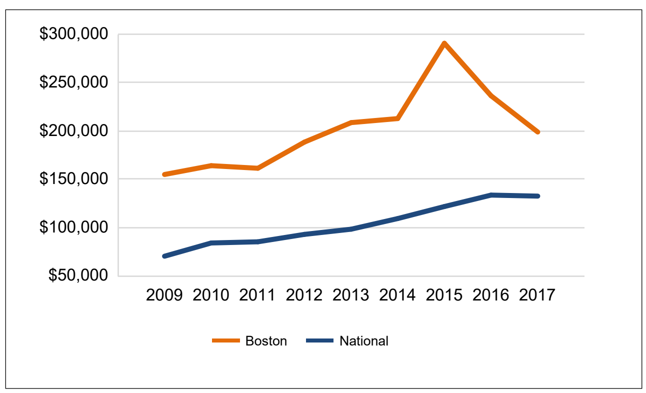
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Westwood	274
Quincy	190
Foxborough	174
Derry	100
Peabody	94
South Boston	64
Lakeview	57
East Boston–Chelsea	56

Source: YardiMatrix

[1] From July 2016 to June 2017

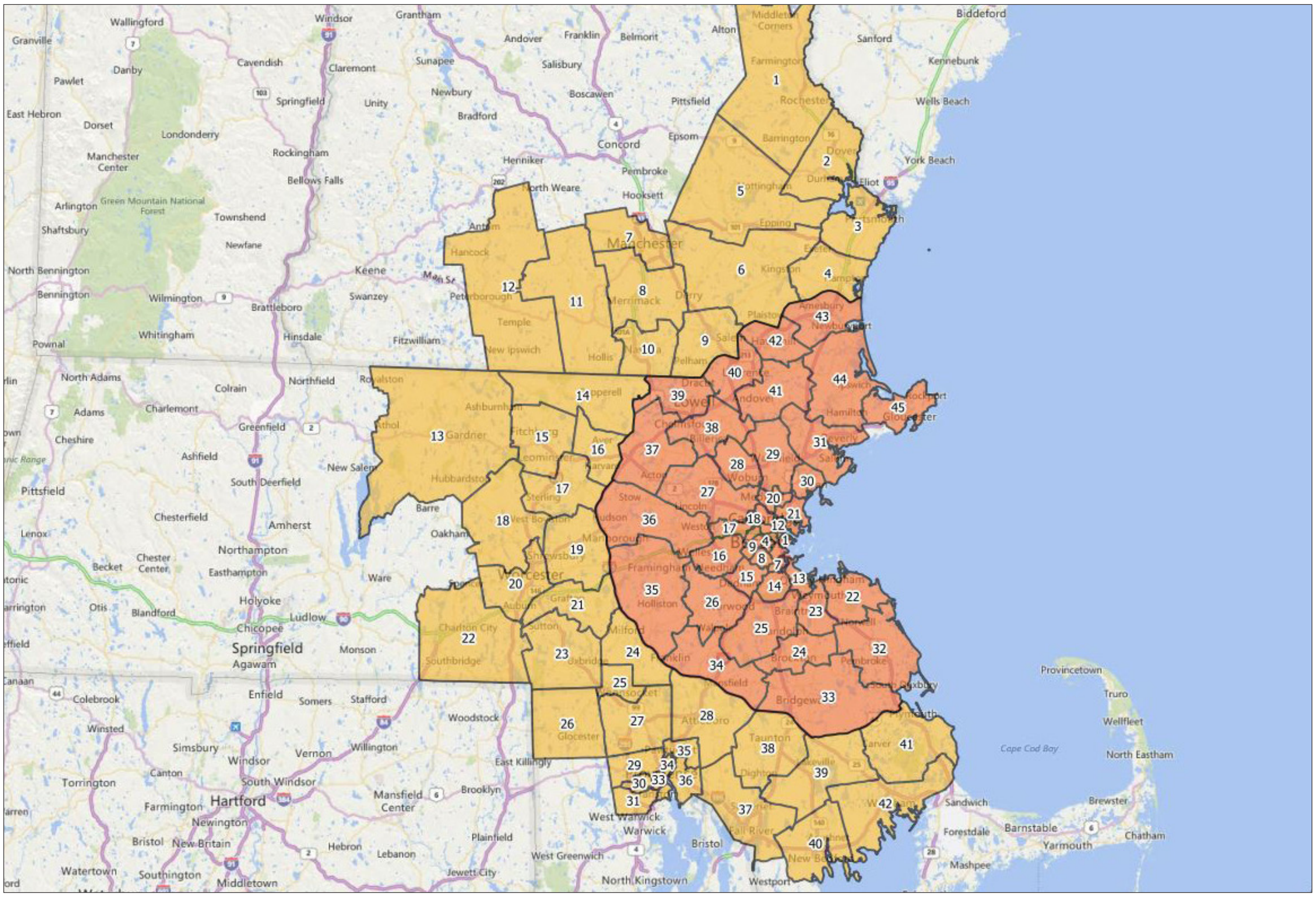
Boston vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Sean Pavone Photo/iStockphoto.com

Boston Submarket



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	Waymouth

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.

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

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