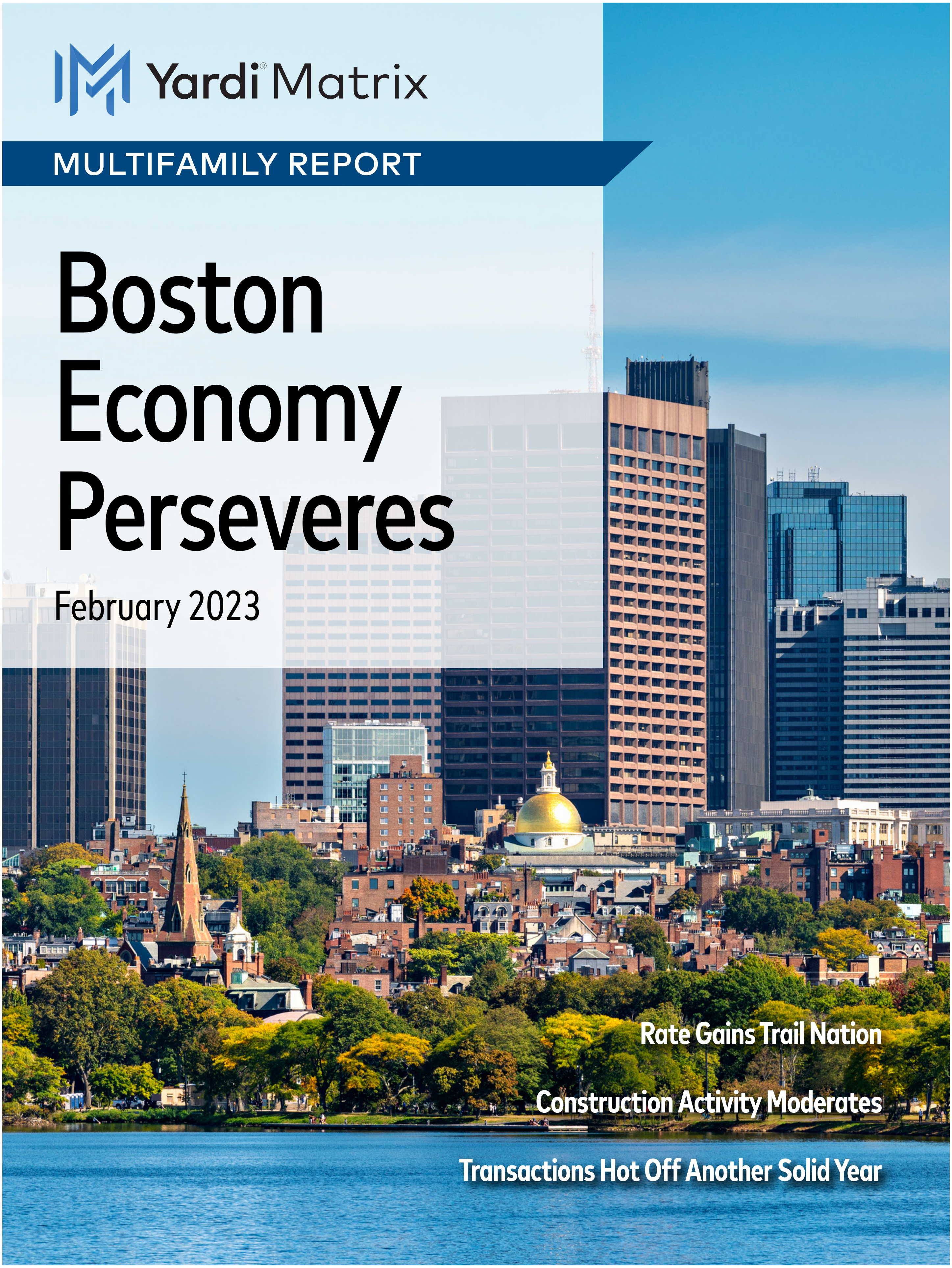
Yardi Matrix

MULTIFAMILY REPORT

Boston Economy Perseveres

February 2023



Rate Gains Trail Nation

Construction Activity Moderates

Transactions Hot Off Another Solid Year

BOSTON MULTIFAMILY

Yardi Matrix

Rental Sector Stable Despite Slow Growth

Boston's multifamily fundamentals moderated in 2022, especially during the fourth quarter. Rents marked the second consecutive month of negative growth on a trailing three-month basis in December, down 0.6% to $2,655, while the U.S. rate declined 0.2% to $1,715. Still, the metro's rental market remains among the tightest in the country, with the occupancy rate in stabilized properties at 96.4%, following a 40-basis-point decline year-over-year as of November.

The unemployment rate in Boston was 2.7% in November, a significant improvement from the 4.4% rate registered in January, but still above pre-pandemic values, according to data from the Bureau of Labor Statistics. The state's unemployment clocked in at 3.4% in November and the U.S. rate stood at 3.6%. The job market posted a 4.2% expansion year-over-year as of October, leading the national rate by 10 basis points. Growth moderated in 2022, but remained steady in the 4% to 5% band, and despite the sustained performance, Boston has yet to recover all jobs lost during the pandemic.

Deliveries totaled 5,468 units in 2022, declining to the lowest volume since 2015, heavily favoring the Lifestyle segment. Some 15,400 units were underway, posting a sharp drop in the number of construction starts. Meanwhile, investment volume amounted to $3.3 billion, and the price per unit decreased 2.3%, to $382,575.

Market Analysis | February 2023

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Recent Boston Transactions

Bay Ridge at Nashua

City: Nashua, Mass.
Buyer: Eagle Rock Properties
Purchase Price: $159 MM
Price per Unit: $384,058

Eagle Rock Apartments at MetroWest

City: Framingham, Mass.
Buyer: Eagle Rock Properties
Purchase Price: $154 MM
Price per Unit: $363,208

The Avens at Dedham Station

City: Dedham, Mass.
Buyer: Rockwood Capital
Purchase Price: $142 MM
Price per Unit: $499,123

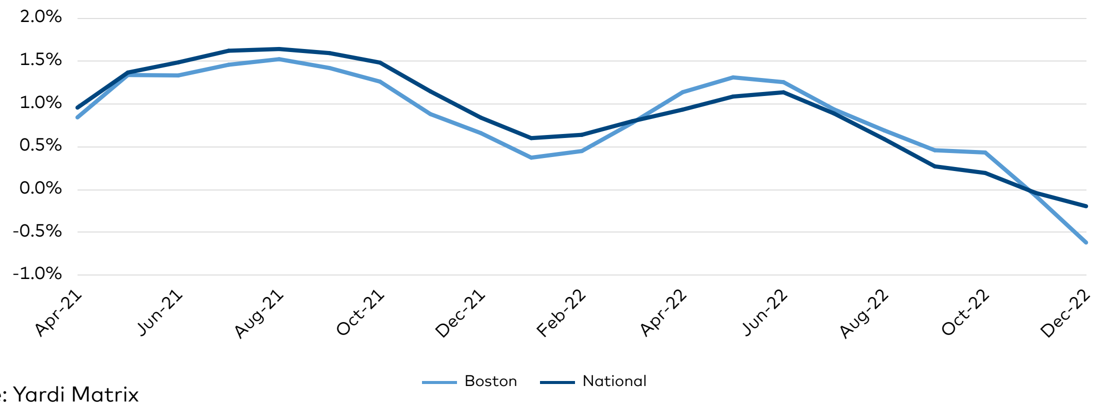
Mosaic

City: Lynn, Mass.
Buyer: Groma
Purchase Price: $67 MM
Price per Unit: $460,616

RENT TRENDS

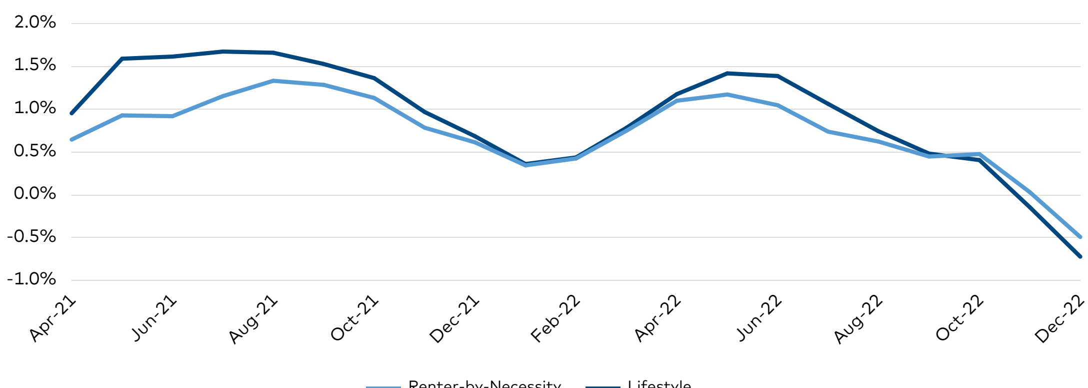
- Mirroring the national trend, the average asking rent in Boston declined, down 0.6% on a trailing three-month (T3) basis through December, to $2,655. The U.S. rate was also down, but only by 0.2%, to $1,715. Boston trailed the nation on a year-over-year basis, too, with rents up 5.7%, 50 basis points below the 6.2% U.S. figure.
- Rents declined across property segments—slightly more in the high-end segment—as most of the stock expansion consisted of upscale projects. Lifestyle rates were down 0.7% on a T3 basis, to $3,136, and Renter-by-Necessity figures decreased 0.5%, to $2,142.
- The occupancy rate in stabilized properties dropped 40 basis points in the 12 months ending in November, but at 96.4%, Boston's rental market remains tight. Strong demand for RBN units kept occupancy in the segment at 97.2%, following a 30-basis-point decline during the period. Meanwhile, occupancy in the Lifestyle segment declined 50 basis points, to 95.8%.
- Boston's annual rent growth was uneven across the map but remained positive in all 57 submarkets tracked by Yardi Matrix. Of these, seven submarkets still posted double-digit rate increases and 12 had an average above the $3,000 mark (up from 10 a year ago). The most-sought-after submarkets had an average rate above $4,000—South End (4.9% to $4,341) and South Boston (3.6% to $4,054). Combined, the construction pipeline in the two submarkets totaled 800 units in December.

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 unemployment rate dropped to 2.7% in November, a remarkable 170-basis-point improvement from the January rate and close to pre-pandemic values, according to preliminary data from the BLS. The metro outperformed both the state (3.4%) and the U.S. (3.6%) figures.
- The job market expanded 4.2% year-over-year, as Boston added 131,000 jobs in the 12 months ending in October. That's 10 basis points above the 4.1% national figure. The growth rate dropped below the 5.0% mark in January and remained in the 4.0% to 5.0% band throughout the year. Despite the steady performance, Boston has yet to fully recover jobs lost during the pandemic.
- All sectors added jobs during this period, led by professional and business services (38,600 jobs). Education and health services (25,000 jobs) and leisure and hospitality (22,300 jobs) rounded out the top three.
- Boston's stature as one of the world's leading biotech hubs is boosted by company expansions and the availability of talent. Among those expanding their footprint in the metro are Vertec Pharmaceuticals Inc.—which has a 344,000-square-foot facility underway, slated for completion in 2025—and Takeda, which leased 600,000 square feet of R&D space in Kendall Square, and in 2023 will break ground on an office building slated for occupancy in 2026.

Boston Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	664	18.7%
65	Education and Health Services	758	21.4%
70	Leisure and Hospitality	345	9.7%
40	Trade, Transportation and Utilities	533	15.0%
15	Mining, Logging and Construction	171	4.8%
50	Information	99	2.8%
30	Manufacturing	217	6.1%
55	Financial Activities	231	6.5%
90	Government	403	11.4%
80	Other Services	126	3.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The second year of the pandemic marked the first time since the 2010 census that Boston's population shrunk, down by 23,682 residents, a solid 1.2% decrease. Meanwhile, the U.S. population expanded 0.1%.

Boston vs. National Population

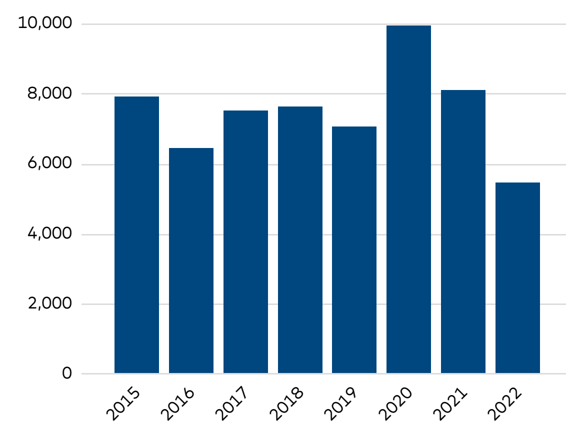
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Boston	2,026,539	2,034,920	2,052,435	2,028,753

Source: U.S. Census

SUPPLY

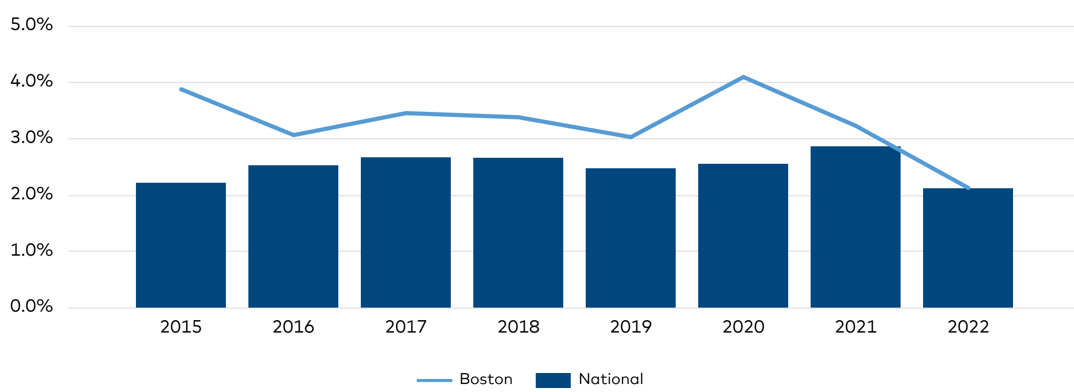
- Developers added 5,468 units to Boston's inventory in 2022, 2.1% of existing stock, which is roughly on par with the U.S. rate. This marks the lowest expansion rate in the metro since 2015.
- Deliveries were heavily geared toward the upscale segment, with Lifestyle properties accounting for nearly 90% of added stock. Units in fully affordable communities accounted for 8% of last year's deliveries.
- The construction pipeline totaled 15,387 units underway and 78,000 in the planning and permitting stages. Although the volume has dropped considerably—to 4,232 units in 2022 from 7,648 units in 2021—the number of construction starts held upward momentum between the first and third quarters, then decreased in the final quarter. The softening recorded at the end of the year can be partly attributed to seasonal patterns, although rising interest rates significantly impacted financing for new construction starts.
- The bulk of the construction pipeline consisted of Lifestyle projects (82%). Units in fully affordable communities accounted for another 10%. Developers were active in 34 of the 57 submarkets tracked by Yardi Matrix, with the largest volumes underway in East Boston-Chelsea (1,834 units) and Lawrence (1,127 units).
- The largest project underway in December was Northland Investment Corp.'s 800-unit Upper Falls in Newton. The property includes 140 affordable units and is slated for completion in 2026.

Boston Completions (as of December 2022)



Source: Yardi Matrix

Boston vs. National Completions as a Percentage of Total Stock (as of December 2022)

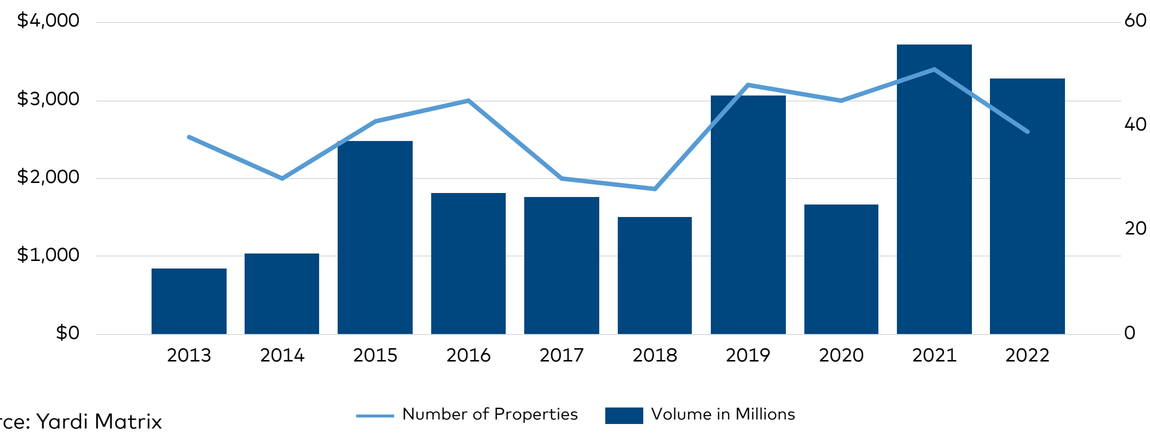


Source: Yardi Matrix

TRANSACTIONS

- Investment activity in 2022 totaled $3.3 billion in multifamily assets, a total that only trails 2021's volume—in the past decade—when $3.7 billion in sales was recorded. Activity was most intense during the second quarter of the year, amounting to $1.5 billion in deals.
- Despite higher investor interest for upscale Lifestyle properties—which accounted for 60% of sales—the price per unit declined 2.3% year-over-year through December, to $382,575, still well ahead of the $215,719 U.S. average. The decrease in average per-unit prices is not necessarily an anomaly, as Boston's per-unit price has fluctuated over the past decade.
- Flats on First, a 136-unit property in Cambridge-South, sold for the highest per-unit price—$755,515—paid to Urban Spaces by Barings, with aid from a $53.9 million loan originated by Bank of America.

Boston Sales Volume and Number of Properties Sold (as of December 2022)



Source: Yardi Matrix

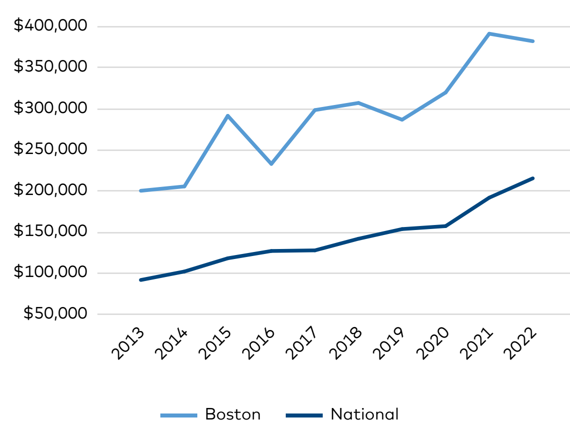
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East Boston-Chelsea	787
Manchester	286
Framingham	240
Peabody	207
Stoughton	189
Marlborough	160
Nashua	159

Source: Yardi Matrix

[1] From January 2022 to December 2022

Boston vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

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MULTI-HOUSING NEWS

What Makes Workforce Housing Such a Resilient Investment?

By Anda Rosu

Workforce housing properties tend to be more resilient across market cycles, with lower default rates, more stable cash flows and less cap rate volatility when compared to other sectors, according to OneWall Communities CIO & Partner Nate Kline. He discussed the challenges and opportunities in this sector across the Mid-Atlantic and the Northeast, in light of the current lending environment.

How much have the Northeast and Mid-Atlantic workforce housing markets changed lately?

The biggest changes in these markets, and other housing markets around the country, are how COVID-19 changed demand patterns, driving people to the suburbs and different locations, and how COVID-19 policies and spending artificially inflated asset prices and rents at an even greater multiple of income growth than had been occurring prior to that.

Now, with the sustained inflation and dramatic interest rate rising to combat it, spending power is eroding at the same time as financing costs are making inflated home prices even less affordable, either driving more people to rent or rent for longer.

What can you tell us about the supply-demand dynamic in these regions?

It is unbridgeable. By that, I mean the current cost of new construction and time required for entitlements in high-demand

locations makes it essentially impossible for developers to keep pace with the growing demand for naturally affordable rental housing. This is happening because capital isn't available due to the economics not working and, even if they did, the pace of construction would not be able to supply the demand.

How can investors plot new deals in this high interest rate environment?

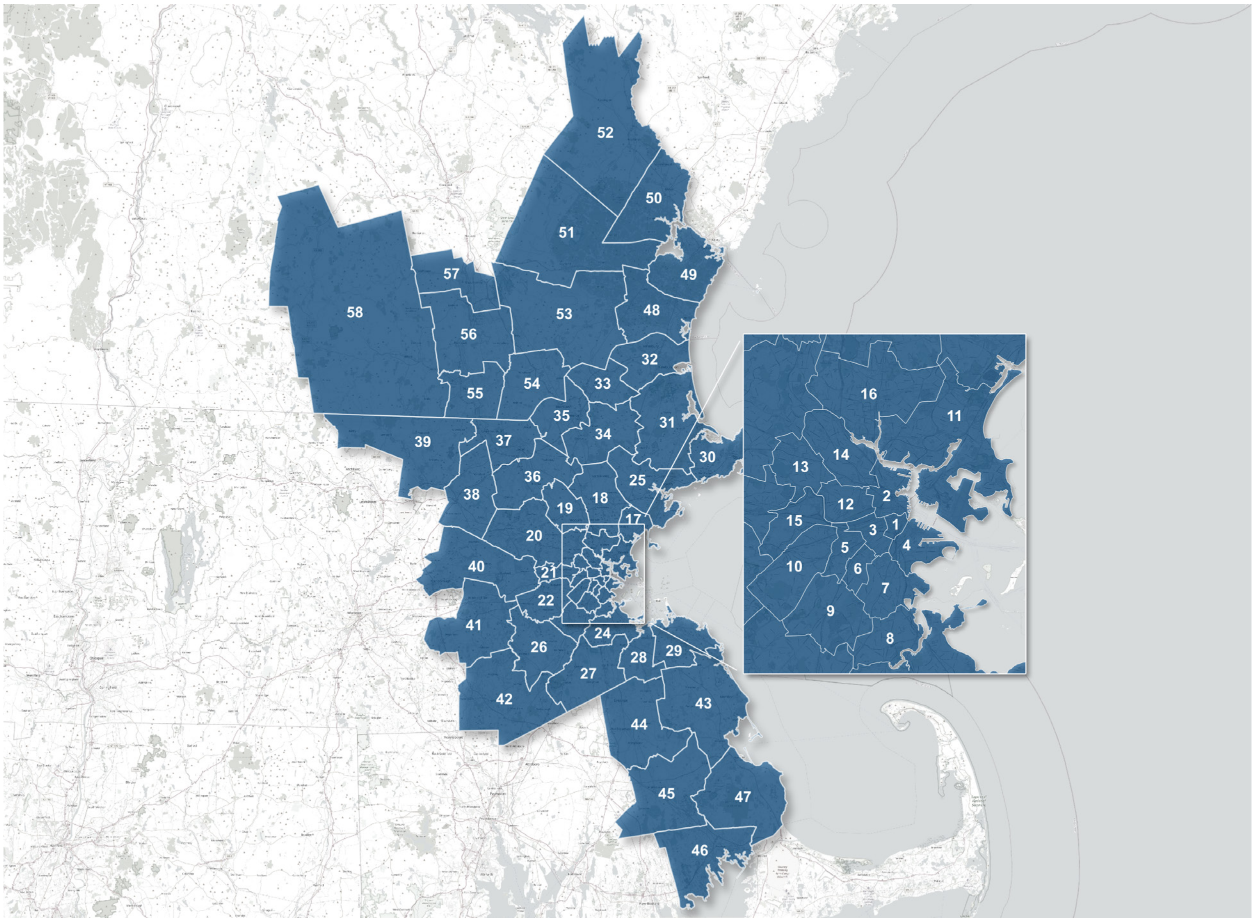
Prices have to come down from where they have been to make financial sense and generate equivalent risk-adjusted yields to what the market has typically experienced. Otherwise, accepted return expectations must come down. We have seen a clear divergence in the bid and ask pricing for the last few months and the opportunistic sellers of three to 12 months ago are opting not to sell, leaving fewer realistic deals in the market.

What makes workforce housing a solid investment in the long run?

Outside of very low-income housing, it has the largest supply-demand imbalance, and we are consistently able to acquire assets for well below replacement cost. As a result, we enjoy sustainable rent growth, consistently high occupancy, ongoing upside from value-added renovations, significant mark-to-market rent cushion relative to newer or newly constructed apartments, limited competition and substantial downside protection. In addition, growing asset values and institutional interest in the sector have increased liquidity and buyer pools upon sale.

(Read the complete interview on multihousingnews.com.)

BOSTON SUBMARKETS



Area No.	Submarket	Area No.	Submarket	Area No.	Submarket
1	Boston–Downtown	21	Waltham	41	Framingham
2	North End–Charlestown	22	Newton	42	Foxborough
3	South End	23	Dedham	43	Marshfield–Pembroke
4	South Boston	24	Quincy	44	Brockton
5	Fenway Kenmore	25	Peabody	45	Middleborough
6	Roxbury	26	Westwood	46	Wareham
7	Mid Dorchester	27	Stoughton	47	Plymouth
8	Dorchester	28	Weymouth	48	Hampton
9	Roslindale	29	Cohasset	49	Portsmouth
10	Brookline	30	Gloucester	50	Dover
11	East Boston–Chelsea	31	Ipswich	51	Raymond–Newmarket
12	Cambridge–South	32	Amesbury	52	Rochester
13	Cambridge–North	33	Haverhill	53	Derry
14	Somerville	34	Andover	54	Salem
15	Brighton	35	Lawrence	55	Nashua
16	Malden	36	Tewksbury	56	Merrimack
17	Lynn	37	Lowell	57	Manchester
18	Reading	38	West Concord	58	Milford
19	Woburn	39	Townsend		
20	Lakeview	40	Marlborough		

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 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 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, 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.

Yardi Matrix

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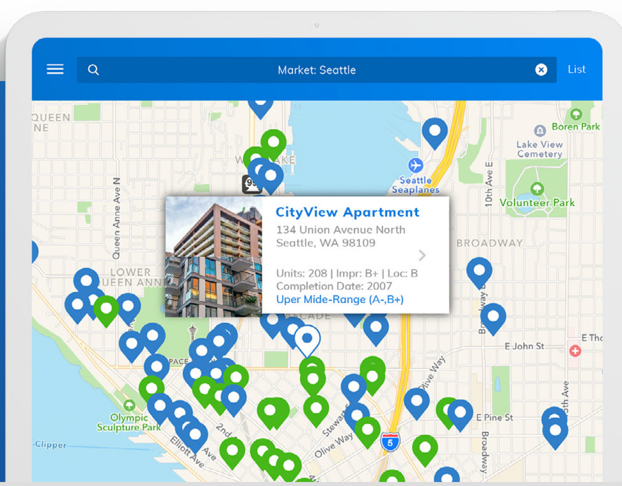
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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