

Boston Fundamentals Advance

June 2023



Occupancy Above 96%

Rate Growth Accelerates

Construction Starts, Investment Soften

BOSTON MULTIFAMILY



Demand Pushes Rents, Occupancy Endures

With occupancy at 96.6% in March, following a 30-basis-point year-over-year downtick, Boston still boasts one of the tightest rental markets in the U.S., behind only a few metros. The new leasing season invigorated rent growth, up 0.6% on a trailing three-month basis through April, and 5.2% year-over-year, to \$2,735. The national rate rose 0.2% on a three-month basis (3.2% year-over-year), to \$1,709.

Boston's jobless rate stood at 3.4% in March, slightly ahead of the state and national figures, both at 3.5%, according to data from the Bureau of Labor Statistics. Still, the job market has yet to reach pre-pandemic levels. Job growth further decelerated to 2.7%, or 81,200 jobs, in the 12 months ending in February, lagging the 3.4% U.S. rate. More than 40% of gains were in the city's two largest sectors—professional and business services (17,300 jobs) and education and health services (16,500 jobs). In recent months, Boston took the lead nationally for office stock under construction, with life science space accounting for most of the pipeline.

Development remained strong, with 1,328 units delivered through April—equal to 0.5% of total stock—and an additional 13,753 units underway. Yet, construction starts plummeted to a fraction of the volume recorded a year ago. Meanwhile, investment tapered off, with just \$287 million in multifamily assets trading through April, for a price per unit that rose 9.6% year-over-year.

Market Analysis | June 2023

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Recent Boston Transactions

The Eddy



City: Boston
Buyer: Tishman Speyer
Purchase Price: \$135 MM
Price per Unit: \$521,236

Woodview at Legacy Farms



City: Hopkinton, Mass.
Buyer: DSF Group
Purchase Price: \$83 MM
Price per Unit: \$343,752

Millside at Heritage Park



City: Canton, Mass.
Buyer: Fidelity Investments
Purchase Price: \$27 MM
Price per Unit: \$443,750

Canton Estates

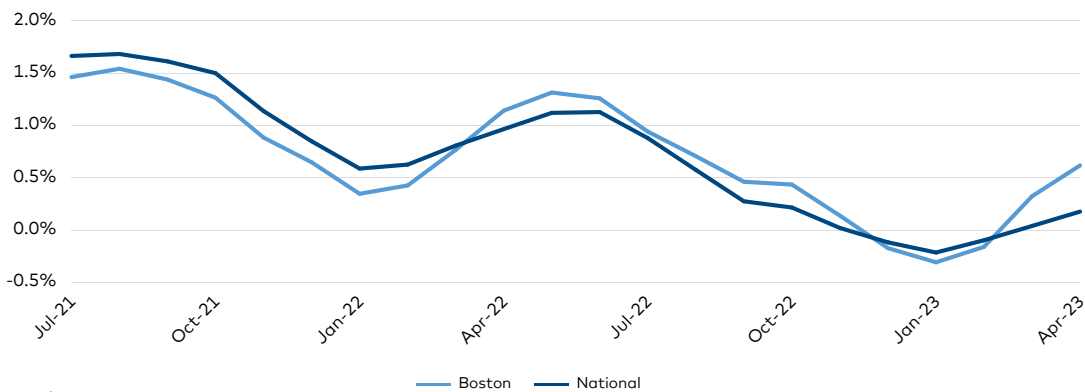


City: Canton, Mass.
Buyer: Standard Communities
Purchase Price: \$15 MM
Price per Unit: \$235,385

RENT TRENDS

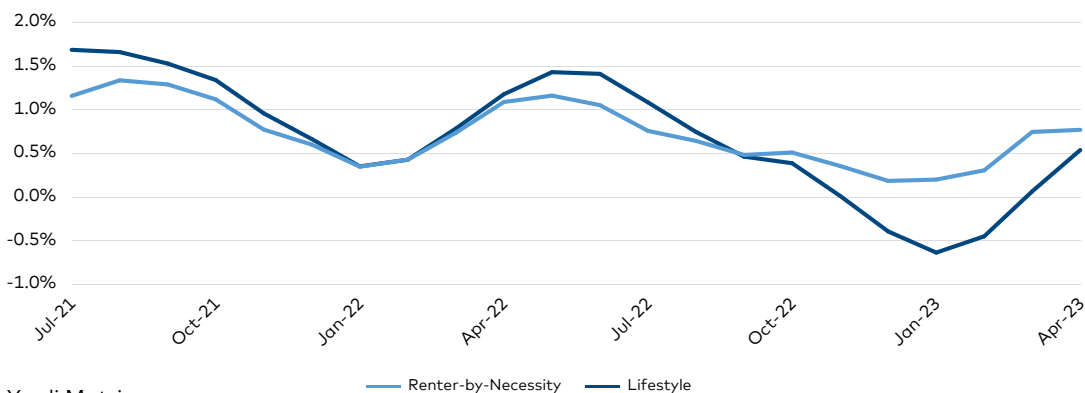
- ▶ Boston rents rose 0.6% on a trailing three-month (T3) basis through April, outperforming the 0.2% U.S. figure. The leasing season helped the rental market record a second-consecutive month of gains, following a three-month dip in negative territory. On a year-over-year basis, Boston's growth ranked fourth among major metros, at 5.2%, trailing Indianapolis (7.7%), Kansas City (6.4%) and New York (6.2%). The national rate of growth decelerated to 3.2%.
- ▶ With rents at \$2,735 and the U.S. average at \$1,709, Boston needs more affordable housing. Local authorities are pushing for a rent control measure to limit annual increases to 10%. Given that overall rent gains surpassed this cap for only a brief period between late 2021 and early 2022, if passed, the measure poses only a marginal risk.
- ▶ The Renter-by-Necessity segment led growth, up 0.8% on a T3 basis through April to \$2,243. Meanwhile, Lifestyle rents rose 0.5% to \$3,201. Occupancy in stabilized assets dropped just 30 basis points in the 12 months ending in March, to 96.6%. This maintained Boston's place as a top performer, behind only New York City and San Diego among major U.S. metros.
- ▶ Annual rent growth was positive across the map except for Southern Plymouth (-6.1% to \$2,617). Only nine submarkets had average asking rents below \$2,000, down from 19 a year ago. The South End (2.2% to \$4,399), South Boston (1.1% to \$4,062) and Downtown (3.4% to \$4,018) had the highest asking rates in the metro.

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 unemployment stood at 3.4% in March, a 30-basis-point improvement from 3.7% in February and 40 basis points higher than the 3.0% December rate, according to BLS data. The rate was just 10 basis points below the national and state figures, both at 3.5%, indicating that the metro is holding on, despite the Federal Reserve's actions that are expected to slow hiring. Boston has yet to recover to pre-pandemic levels in both unemployment and job volume.
- ▶ Job growth remained on a decelerating trend, below the 3.0% mark for the third-straight month, and contracting further. Employment was up just 2.7%, or 81,200 jobs, in the 12 months ending in February, trailing the 3.4% U.S. figure.
- ▶ All sectors added jobs, albeit at a slower pace, led by the metro's largest sectors—professional and business services (17,300 jobs) and education and health services (16,500 jobs). Coming in third was leisure and hospitality, which also saw moderate gains, at 12,300 positions.
- ▶ Job growth was slower overall in Boston, but the metro is supported by top-tier universities and its stature as an established life sciences hub. Last year, Boston led the U.S. in office construction starts; this year, the metro surpassed Manhattan, ranking first for the largest under-construction office pipeline in the country, more than half of which was in life sciences developments.

Boston Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	637	18.3%
65	Education and Health Services	754	21.6%
70	Leisure and Hospitality	315	9.0%
40	Trade, Transportation and Utilities	526	15.1%
55	Financial Activities	239	6.9%
90	Government	408	11.7%
15	Mining, Logging and Construction	155	4.4%
80	Other Services	125	3.6%
50	Information	93	2.7%
30	Manufacturing	235	6.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ The year 2021 marked the first decrease since 2010, with Boston losing 23,682 residents, for a 1.2% decline. Meanwhile, the U.S. rate was a positive 0.1%.
- ▶ Since the 2010 Census, Boston's population has expanded 7.1%, trailing the U.S. rate by 20 basis points.

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

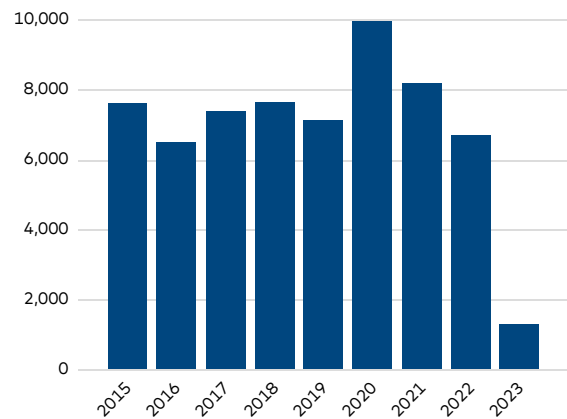
Source: U.S. Census

SUPPLY

- ▶ In 2023 through April, developers delivered 1,328 units, for a 0.5% expansion of the total stock, on par with the U.S. rate. Boston's supply expansion remained on a steadily moderating trend from the 4.1% peak registered in 2020, dropping last year to 2.6% (6,702 units), which marked the lowest volume in the past eight years.
- ▶ Despite high construction costs, developers had 13,753 units underway as of April, and another 87,000 units in the planning and permitting stages. Of these, 9,400 apartments have completion dates set for 2023. Yet given the current economic slowdown pushed by the Fed's numerous interest rate hikes, that number will likely decrease substantially. Yardi Matrix estimates Boston's inventory will grow by 6,180 units (2.4% of existing stock) in 2023.
- ▶ The volume of new projects in Chicago was considerably thin at the beginning of the year. Through April, work began on only 139 units, a mere fraction of the volume registered during the same period last year. Overall, in 2022, construction was started on 5,035 units in 28 properties, fewer than the 5,968 units in 30 properties that broke ground in 2021.
- ▶ Development was limited to 33 of the 57 submarkets tracked by Yardi Matrix, with four submar-

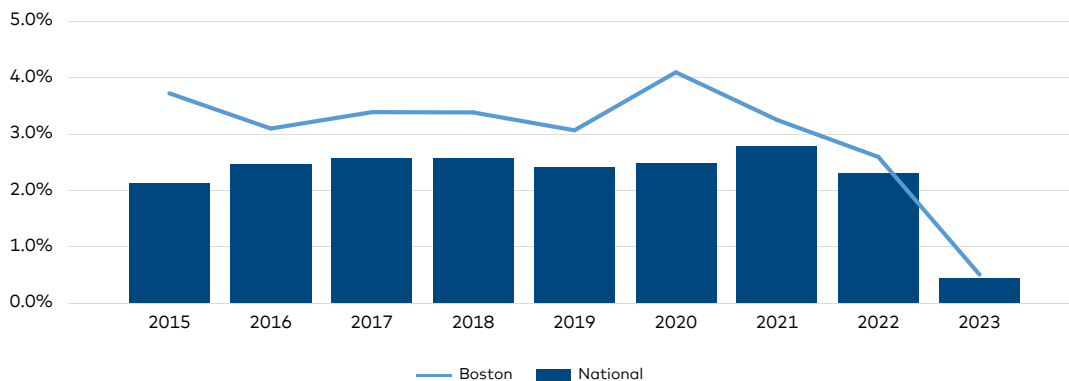
kets accounting for one-third of the construction volume. Each had more than 1,000 units underway: core areas East Boston–Chelsea (1,214 units under construction) and Brighton (1,108 units), and more distant submarkets Quincy (1,075 units) to the south and Lawrence (1,022 units) to the north. East Boston–Chelsea also houses the metro's largest delivery this year through April, Fairfield Residential's 436-unit VERO.

Boston Completions (as of April 2023)



Source: Yardi Matrix

Boston vs. National Completions as a Percentage of Total Stock (as of April 2023)

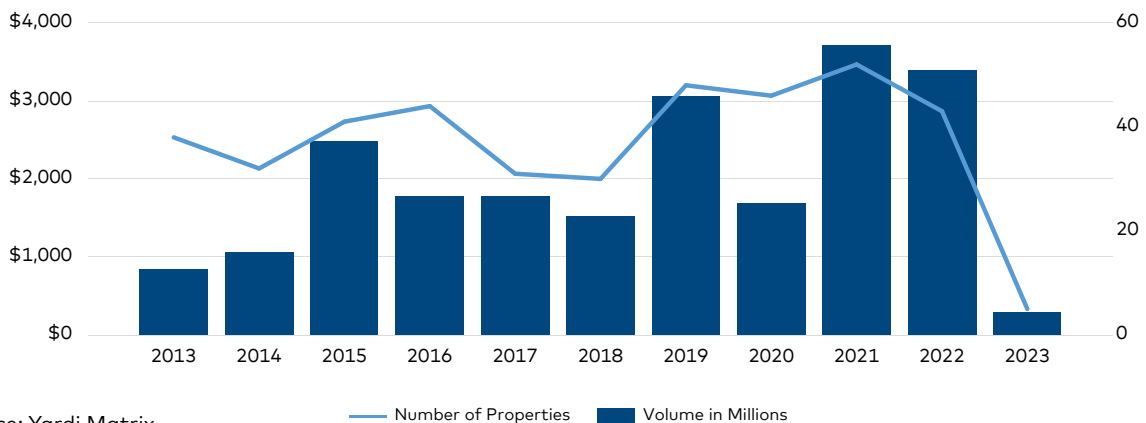


Source: Yardi Matrix

TRANSACTIONS

- ▶ Only \$287 million in multifamily assets traded in Boston in 2023 through April, in a sales mix tilted in favor of upscale apartments. The transaction volume was far from the \$1.3 billion posted during the same interval last year. In addition, persisting financing challenges due to tighter bank underwriting standards will likely add to investors' caution, at least in the short term.
- ▶ The per-unit price rose 9.6% year-over-year through April, to \$417,949, well above the \$178,275 U.S. average. With 559 Lifestyle units and 125 RBN units in this year's sales composition, the metro's average surpassed the \$400,000 mark for the first time.
- ▶ East Boston–Chelsea, a submarket bustling with activity on the development front and a leader in under-construction volume, attracted investors, as well. Sales in the area totaled \$632 million in the 12 months ending in April, including Tishman Speyer's January acquisition of The Eddy for \$135 million, or \$521,236 per unit.

Boston Sales Volume and Number of Properties Sold (as of April 2023)



Source: Yardi Matrix

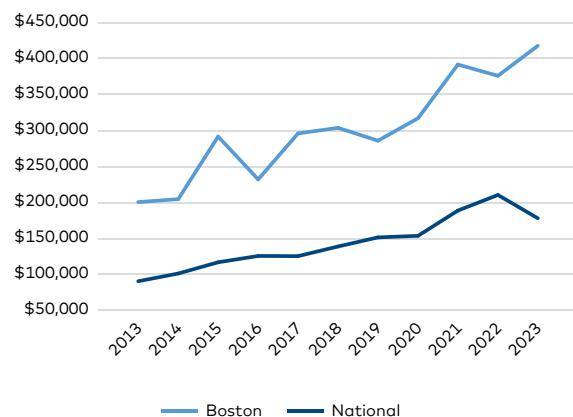
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
East Boston–Chelsea	632
Framingham	388
Peabody	235
Manchester	165
Nashua	159
Stoughton	157
Dedham	142

Source: Yardi Matrix

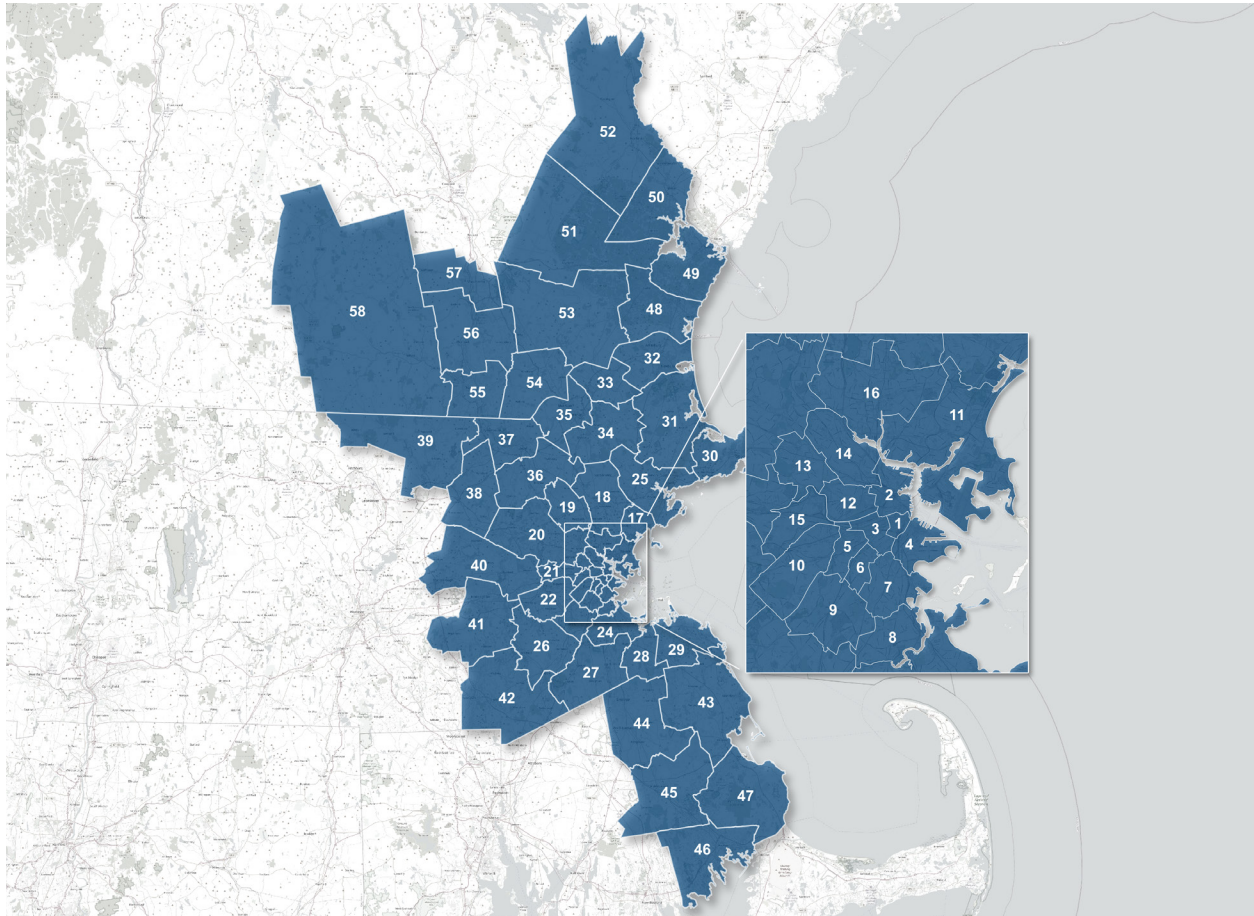
¹ From May 2022 to April 2023

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	Stoughton
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 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.

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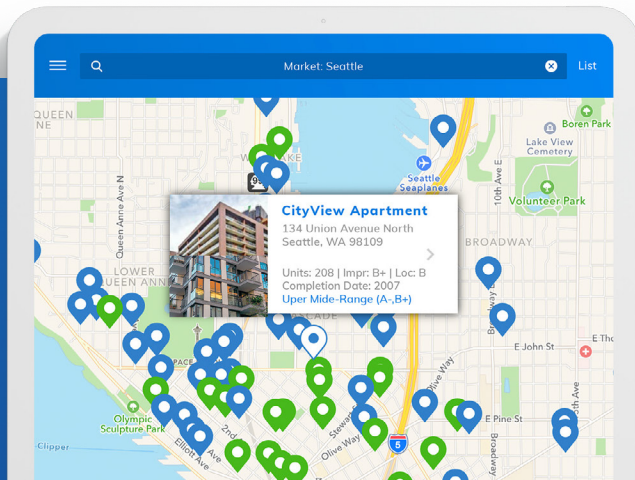
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