



Yardi® Matrix

Boston Runs A Tight Ship

Multifamily Report Spring 2018

Employment, Population Gains Boost Demand

Professional, Business Services Lead Job Growth

Development Activity Remains Lofty

Market Analysis

Spring 2018

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Construction Surge Tempers Rent Growth

Despite the metro's traffic and accessibility issues, demand is on the rise, as both residents and companies are swarming to the city. This is putting further pressure on rents, already among the country's highest. Rental rates rose 2.1% to \$2,142 in the year ending in March, a growth rate surpassed only by New York, San Jose and San Francisco. And with developers heavily focusing on upscale properties, affordability issues continue to thicken.

Professional and business services led growth with the addition of 15,000 positions, more than double the number of jobs generated by the former top-performing education and health services sector. Intense development activity across the metro has also boosted the construction sector, which registered the highest uptick, at 5.6% year-over-year. Notable developments underway include MIT's Volpe Center project, consisting of 1.7 million square feet of commercial space and about 1,400 housing units, as well as the 4.5-acre Fenway Center project, in the works for nearly 20 years, which upon completion is set to deliver roughly 650 housing units and more than 200,000 square feet of commercial space.

Some \$300 million in multifamily assets traded in the first quarter, while the development pipeline remains high, with almost 15,000 units under construction. Yardi Matrix expects Boston rents to rise 2.6% in 2018.

Recent Boston Transactions

Watermark Seaport



City: Boston
Buyer: Clarion Partners
Purchase Price: \$239 MM
Price per Unit: \$690,029

The Commons at Windsor Gardens



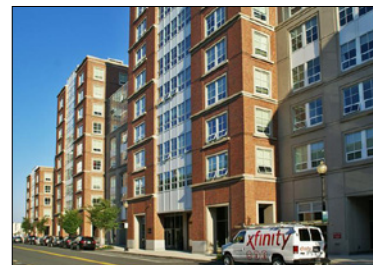
City: Norwood, Mass.
Buyer: AllianceBernstein
Purchase Price: \$199 MM
Price per Unit: \$217,724

Cambridge Park



City: Cambridge, Mass.
Buyer: Heitman
Purchase Price: \$168 MM
Price per Unit: \$538,462

Harborview at the Navy Yard

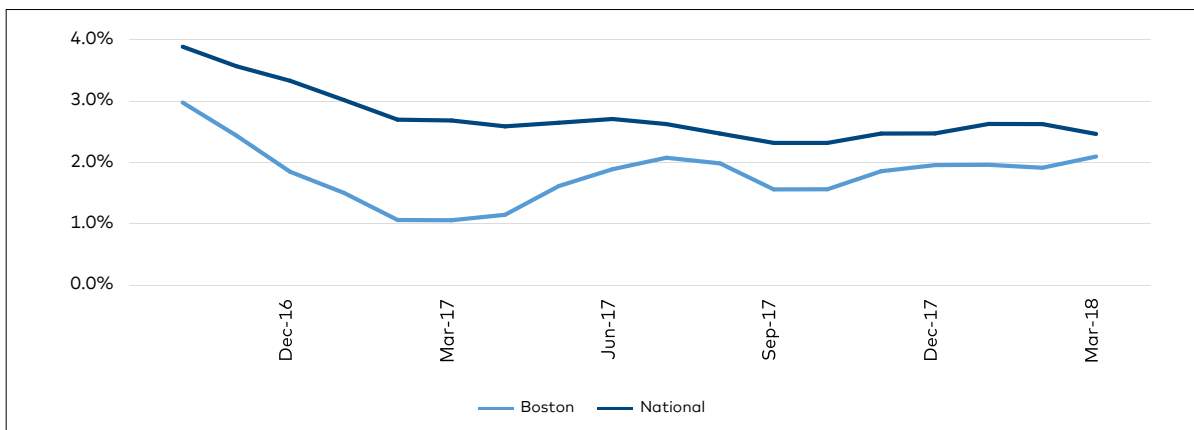


City: Charleston, Mass.
Buyer: John Hancock Mutual Life
Purchase Price: \$149 MM
Price per Unit: \$666,295

Rent Trends

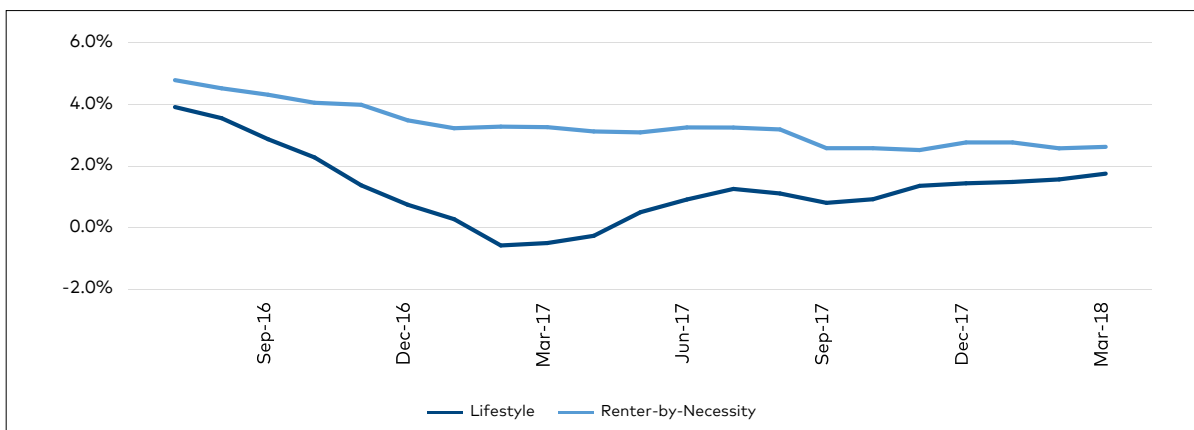
- Rents in Boston rose 2.1% year-over-year through March, to \$2,142, surpassing the national average by more than \$750. Despite a strong multifamily demand, the elevated number of deliveries across the metro has contributed to a slowdown in rent growth, which saw a steady deceleration after the February 2016 cycle high.
- The working-class Renter-by-Necessity segment led growth, increasing 2.6% to \$1,720, while rates for Lifestyle assets rose 1.8%, to \$2,615. The trend is likely to linger as developers continue to focus almost exclusively on high-end properties, with more than 90% of the units delivered in the past four years being upscale.
- Growth was uneven across the metro, with all but 10 submarkets registering growth. The largest gains were in distant submarkets such as Lynn (10.2%), Haverhill (7.2%) and Andover (7.1%). The steepest drops included Mid Dorchester (-6.0% to \$2,240), Roxbury (-4.1% to \$2,261) and Derry (-3.6% to \$1,196). The most affordable submarket is Rochester, up 4.5% to \$877.
- Occupancy in stabilized properties was 96.3% as of February, down 60 basis points year-over-year. However, due to consistent demand, we expect Boston rents to rise 2.6% in 2018.

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)

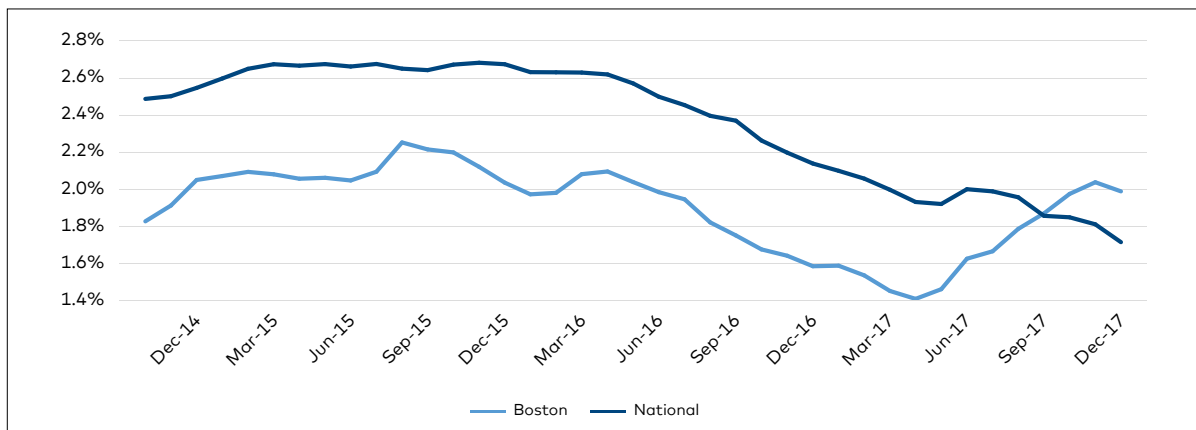


Source: YardiMatrix

Economic Snapshot

- Boston added 30,900 jobs in 2017, a 2.0% expansion, surpassing the 1.7% national rate. Job growth was strong across most sectors, except trade, transportation and utilities and government, which lost a collective 4,600 positions. The unemployment rate stood at 3.5% as of February, below the 4.1% national figure.
- Leading the way was the professional and business services sector, with the addition of 15,000 jobs, followed by education and health services, which expanded by 8,300 positions, as numerous colleges and universities continue to feed a deep talent pool for the metro's diverse economy. Activity in the construction sector, up 5.6% (6,800 jobs), is maintained elevated thanks to intense development across the region. The list of large projects includes the \$750 million One Dalton, the recently approved Seaport Square and the 45-acre mixed-use Cambridge Crossing.
- The office market mirrors the metro's booming economy, being largely driven by Boston's high concentration of academic institutions, as well as health-care and life sciences, financial and technology companies. As per Transwestern, about 1 million square feet of office space was absorbed in 2017, pushing vacancy to a near record low of 12.0%. Some 1.2 million square feet of office space was delivered last year, while an additional 3.4 million square feet were under construction.

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	730	21.4%	18,400	2.6%
60	Professional and Business Services	566	16.6%	10,500	1.9%
70	Leisure and Hospitality	337	9.9%	8,300	2.5%
80	Other Services	135	4.0%	8,300	6.5%
15	Mining, Logging and Construction	140	4.1%	8,000	6.1%
55	Financial Activities	235	6.9%	2,600	1.1%
30	Manufacturing	238	7.0%	2,400	1.0%
40	Trade, Transportation and Utilities	536	15.7%	2,200	0.4%
90	Government	399	11.7%	1,900	0.5%
50	Information	89	2.6%	-1,500	-1.7%

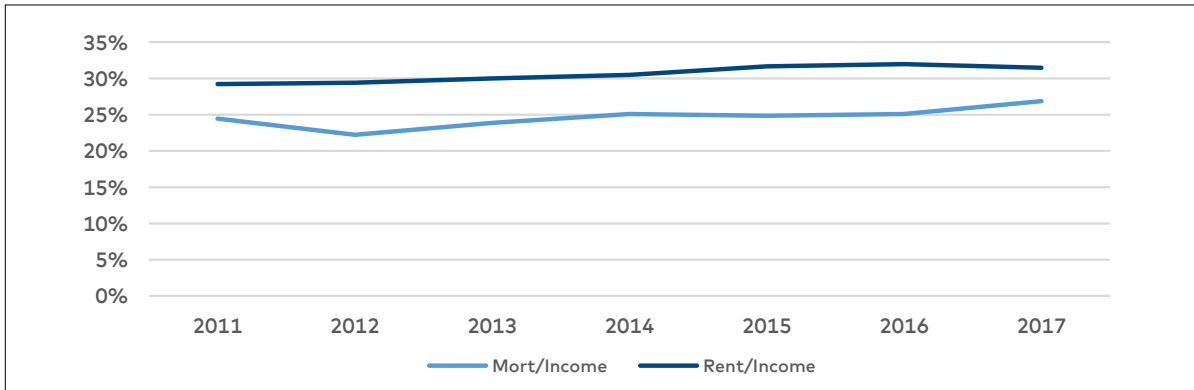
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

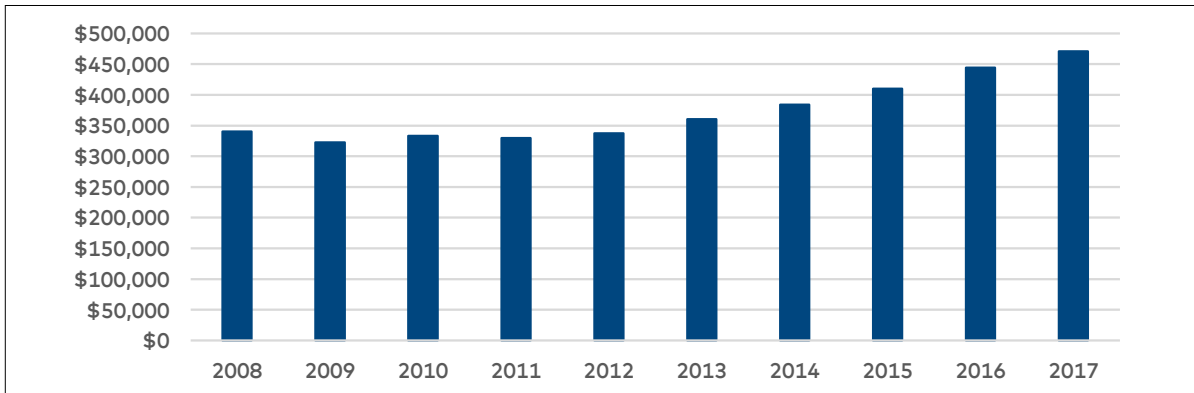
- In a landlord's market, affordability issues deepen. With the average rent of \$2,142 accounting for 31% of the area's median income and the average mortgage payment equating to 27%, owning in Boston remains more affordable than renting. However, as the median home price rose 6% to \$471,093 last year, the high barrier to homeownership for first-time buyers is keeping rentals as a viable alternative.
- The metro's rapid demographic expansion has triggered a shortage of affordable options, which can further deepen the housing crisis. Meanwhile, Boston 2030—the public strategy aiming to deliver 44,000 workforce units, 5,000 units for seniors and 4,000 rent-stabilized units—is moving forward.

Boston Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Boston Median Home Price



Source: Moody's Analytics

Population

- The metro gained nearly 14,000 residents in 2017, surpassing the two million mark. The 0.7% uptick is on par with the national rate.
- Boston added almost 61,000 people between 2013 and 2017, a 3.1% expansion.

Boston vs. National Population

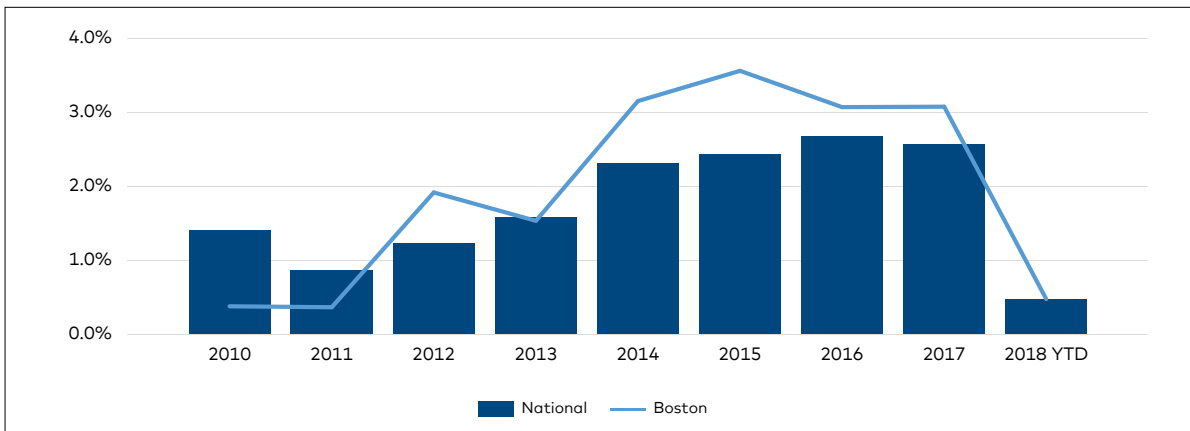
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Boston Metro	1,952,713	1,970,027	1,984,994	1,999,803	2,013,403

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

Supply

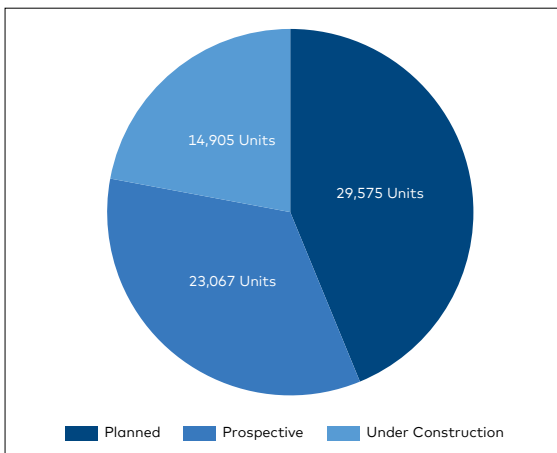
- Supply additions are rapidly absorbed and the construction surge continues. Four properties totaling more than 1,200 units were delivered in Boston in the first quarter of 2018, accounting for 0.5% of the total stock, on par with the national rate. Of the recent deliveries, two are LEED certified and three are partially affordable. This comes after the metro's second-best year for stock expansion this cycle—2017—when more than 6,500 units came online.
- The metro had almost 15,000 units under construction as of March, more than half of which are in partially affordable properties. A large part of construction activity is concentrated in the North End–Charleston (2,060 units), East Boston (1,192), Malden (914) and Quincy (863). Across the metro, an additional 52,642 units are in the planning and permitting stages.
- The largest delivery so far in 2018 was VIA, a 478-unit, partially affordable asset owned by Berkshire Property Advisors. The largest multifamily development underway was the 812-unit, partially affordable, LEED-seeking Bulfinch Crossing. The mixed-use project, owned by National Real Estate Advisors, also includes hotel rooms, office and retail space, and is slated for completion in 2020.

Boston vs. National Completions as a Percentage of Total Stock (as of February 2018)



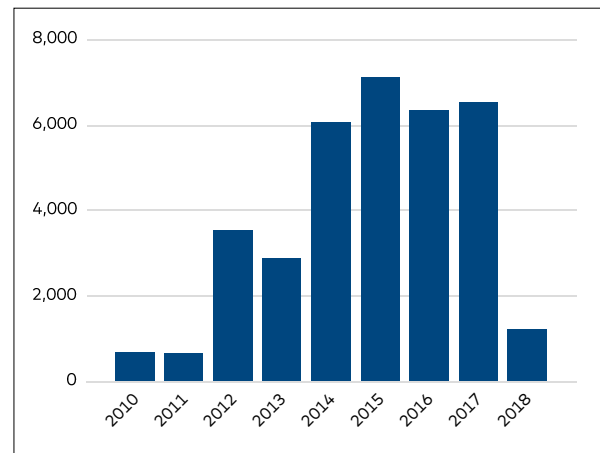
Source: YardiMatrix

Development Pipeline (as of March 2018)



Source: YardiMatrix

Boston Completions (as of March 2018)

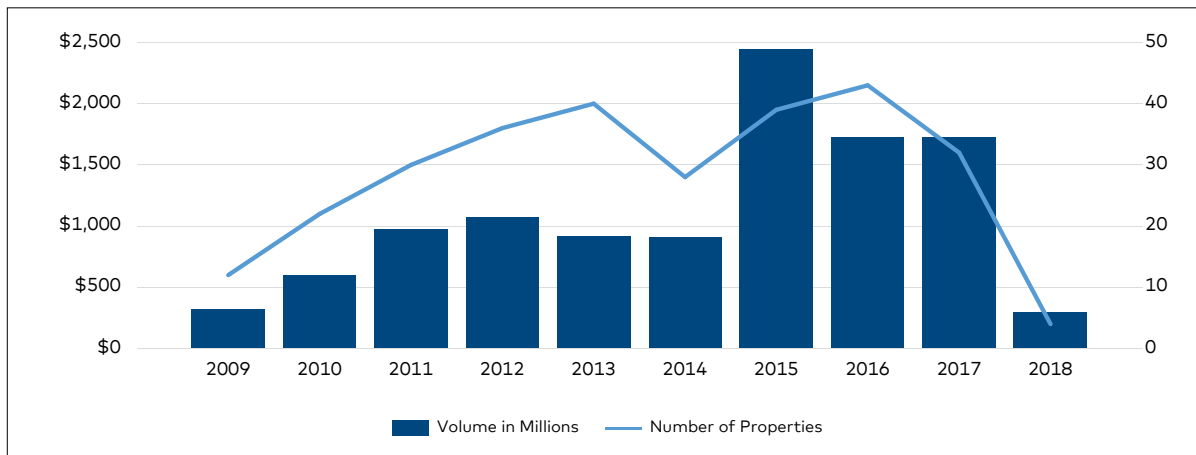


Source: YardiMatrix

Transactions

- Some \$300 million in multifamily assets changed hands in the first quarter of 2018, surpassing last year's figure, when only \$30 million in assets traded during the same period. The per-unit price jumped to \$441,000 from \$292,167 last year, but this is not fully reflective of market conditions, due in part to the sale of Watermark Seaport in South Boston, a Lifestyle asset Clarion Partners acquired from Twinning Properties for nearly \$700,000 per unit. Completed in 2016, the 346-unit amenity-rich property is LEED certified at the Silver level.
- Investment activity in the 12 months ending in March was most intense in Westwood and South Boston, where \$531 million in assets changed ownership. OBP Partners has been one of the metro's most active buyers so far in 2018. The company acquired the 71-unit Dover Heights in West Concord and the 114-unit Richmond Vista Wakefield in Reading for a total of \$45.2 million, or \$244,324 per unit.

Boston Sales Volume and Number of Properties Sold (as of March 2018)



Source: YardiMatrix

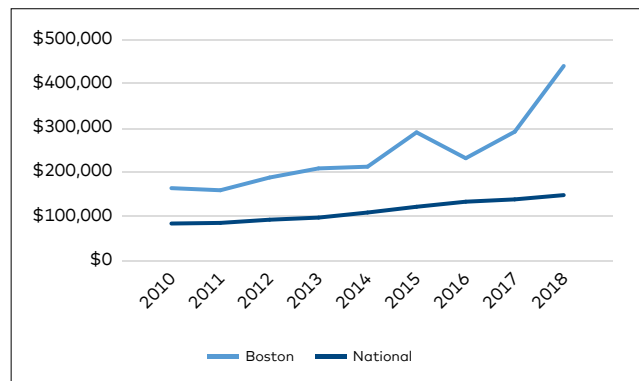
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Westwood	292
Souyth Boston	239
Cambridge-North	168
South End	150
North End-Charleston	149
Boston-Downtown	145
Fenway Kenmore	118
East Boston-Chelsea	116

Source: YardiMatrix

¹ From April 2017 to March 2018

Boston vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Boston Conversion Project
Lands \$160M in Financing



Forest City JV Buys \$300M
Stake in Cambridge Assets



Luxury Waterfront Community
Opens in East Boston

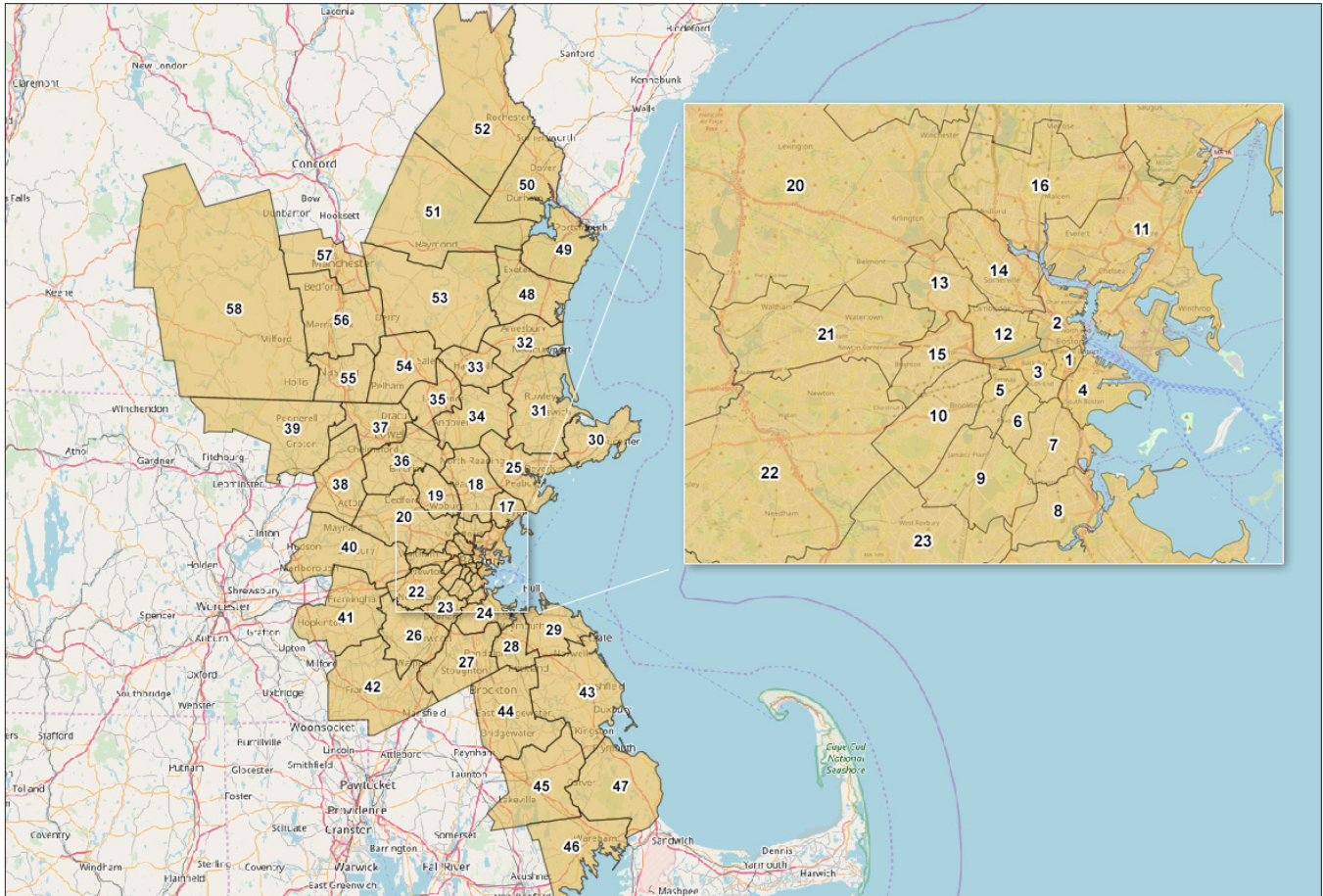


Novaya Sells Boston-Area
Industrial Portfolio for \$73M

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Boston Submarkets



Area #	Submarket
1	Boston–Downtown
2	North End–Charleston
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 #	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 #	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 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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Mark Fogelman
President
Fogelman Properties

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