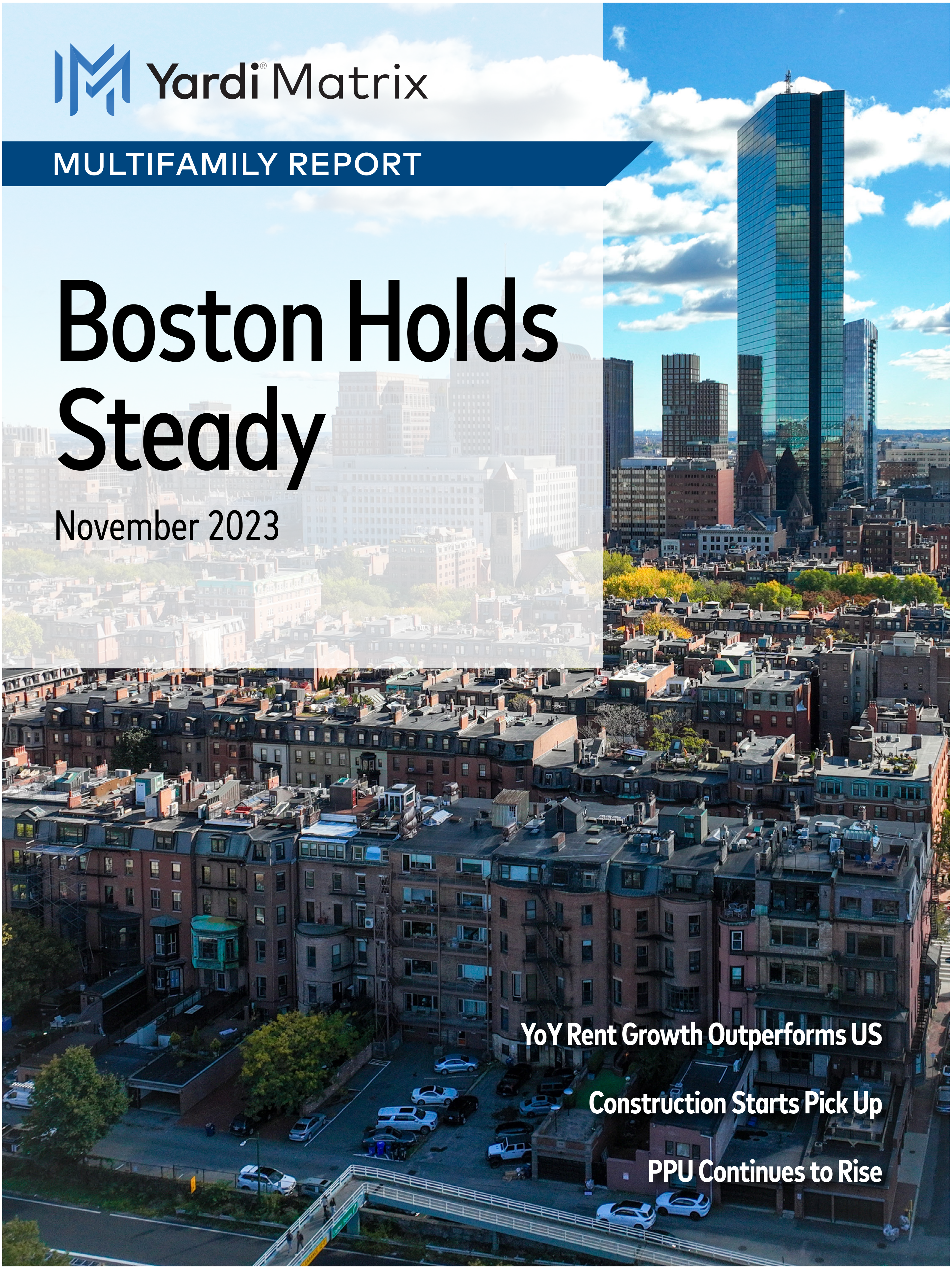
Yardi Matrix

MULTIFAMILY REPORT

Boston Holds Steady

November 2023



YoY Rent Growth Outperforms US

Construction Starts Pick Up

PPU Continues to Rise

BOSTON MULTIFAMILY

Yardi Matrix

Seasonality Further Affects Fundamentals

Boston's multifamily fundamentals held on well through the summer, but in line with seasonal patterns, figures began to soften at the end of the third quarter. Rent growth turned negative, down 0.1% on a trailing three-month basis through September, to $2,774. Meanwhile, the national rate also decreased 0.1%, to $1,722. Yet the occupancy rate in stabilized properties remained one of the highest in the country, at 96.8% in August, following a 0.1% uptick year-over-year.

In the 12 months ending in July, Boston's employment market gained 89,500 jobs, or a 2.5% expansion, trailing the U.S. rate by 10 basis points. Education and health services and professional and business services led growth, with a respective 26,500 and 22,000 positions. Meanwhile, the unemployment rate stayed flat, at 2.6%, in August for the third consecutive month, on par with the state and outperforming the 3.8% national rate. The Boston Planning and Development Agency approved the $1.6 billion mixed-use Fenway Corners project.

Developers delivered 4,088 units during the first three quarters of 2023 and had 17,280 units under construction. Although the current supply volume trails previous years, unlike most metros, the number of construction starts increased in 2023. Meanwhile, investors traded $1.9 billion in multifamily assets through September, for a price per unit that increased 11.3% year-over-year, to $422,136.

Market Analysis | November 2023

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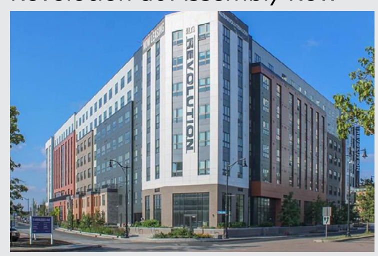
Recent Boston Transactions

Church Park

City: Boston
Buyer: Brookfield Properties
Purchase Price: $439 MM
Price per Unit: $864,173

Revolution at Assembly Row



City: Somerville, Mass.
Buyer: Mesirow Financial
Purchase Price: $188 MM
Price per Unit: $571,429

The Aven at Newton Highlands

City: Newton, Mass.
Buyer: Abacus Capital Group
Purchase Price: $169 MM
Price per Unit: $576,095

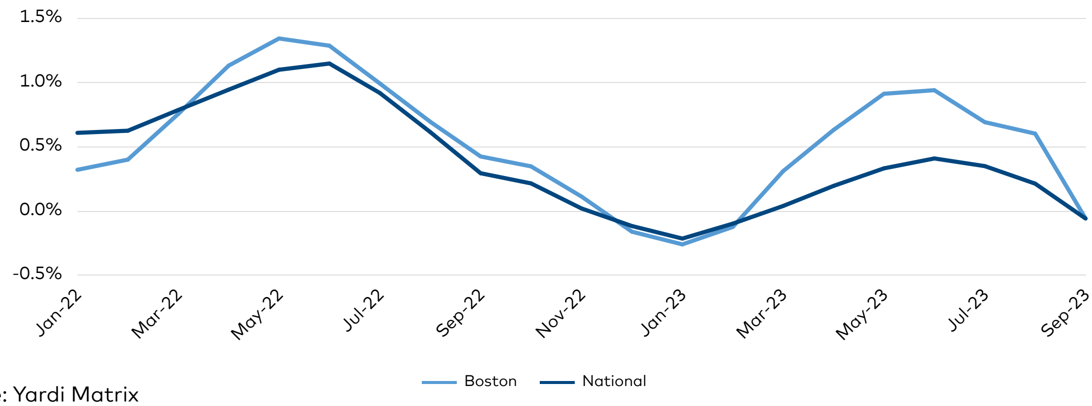
The Residences at Rivers Edge

City: Medford, Mass.
Buyer: Pacific Urban Investors
Purchase Price: $104 MM
Price per Unit: $466,216

RENT TRENDS

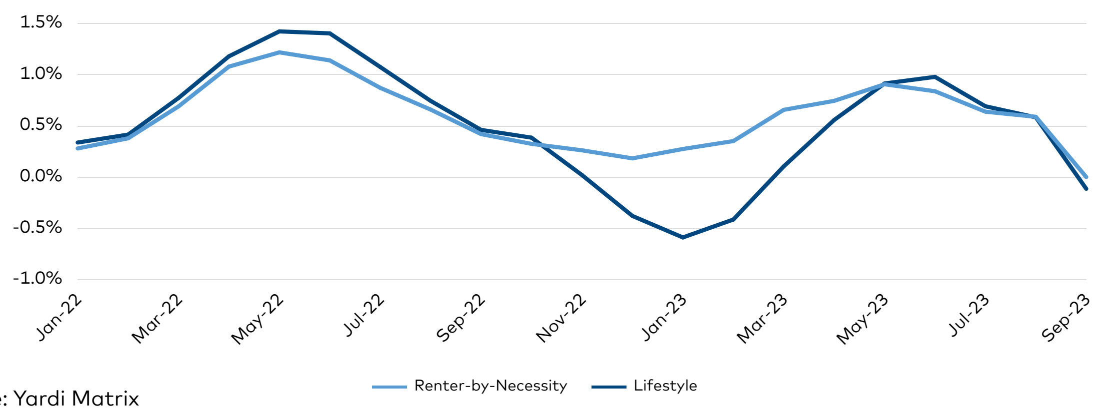
- Mirroring the national trend, Boston rent growth turned negative, down 0.1% on a trailing three-month (T3) basis through September, to $2,774. This followed six consecutive months of consistent gains, when short-term growth averaged 0.7%. On a year-over-year basis, Boston rates rose 3.1% through September, ranking sixth highest among Yardi Matrix's top 30 markets, while the U.S. rate decelerated to 0.8%.
- By asset class, Lifestyle rents inched down 0.1% on a T3 basis through September to $3,252, while Renter-by-Necessity figures remained flat, at $2,262.
- By occupancy, upscale units were in slightly higher demand, as the rate in stabilized properties improved 0.2% in the 12 months ending in August, to a tight 96.5%, while RBN apartments remained nearly flat, at 97.3%. Overall, Boston's average occupancy rate in stabilized assets rose 0.1%, to 96.8%, in August, among the highest rates across major metros.
- Year-over-year rent growth was positive across the map except in Milford, where rents decreased 2.7%, to $1,611, in September, making it the fourth most affordable area in Boston. At the other end of the spectrum, the most expensive average rents were recorded in the South End (up 2.3% year-over-year, to $4,618), South Boston (1.4%, to $4,202) and Boston-Downtown (3.8%, to $4,165).

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 remained unchanged at 2.6% in August for the third straight month, after starting the year in the 3.2% to 3.4% range, according to Bureau of Labor Statistics data. The rate was on par with the state but significantly outperformed the 3.8% U.S. figure.

- In the 12 months ending in July, Boston's employment market expanded 2.5%, just 12 basis points below the national rate. That was the equivalent of 89,500 jobs, with all sectors gaining positions except manufacturing, down by 900 positions. Education and health services (26,500 jobs) and professional and business services (22,000 jobs) led gains, with leisure and hospitality (15,100 jobs) rounding out the top three.

- The life sciences sector has been the engine for the metro's trend-defying office market, but challenges linger. Takeda, which last year secured 600,000 square feet of research and development space in Cambridge's Kendall Square, announced plans to lay off 186 employees in Massachusetts. Meanwhile, Vertec Pharmaceuticals Inc. has a 344,000-square-foot facility underway, slated for completion in 2025. The Boston Planning and Development Agency approved the $1.6 billion Fenway Corners, a mixed-use project that will materialize into office (500,000 square feet), lab space (730,000 square feet), 266 residential units and retail space along Jersey Street, Brookline Avenue and Van Ness Street.

Boston Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	750	20.7%
60	Professional and Business Services	670	18.5%
70	Leisure and Hospitality	395	10.9%
15	Mining, Logging and Construction	175	4.8%
90	Government	382	10.6%
55	Financial Activities	244	6.7%
40	Trade, Transportation and Utilities	532	14.7%
50	Information	97	2.7%
80	Other Services	133	3.7%
30	Manufacturing	239	6.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Boston lost 23,682 residents in 2021, marking the first population decline since 2010. This was equal to 1.2% of the metro's demographics. Nationally, the rate inched up 0.1%.

- Between 2010 and 2021, Boston's population increased 7.1%, lagging 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

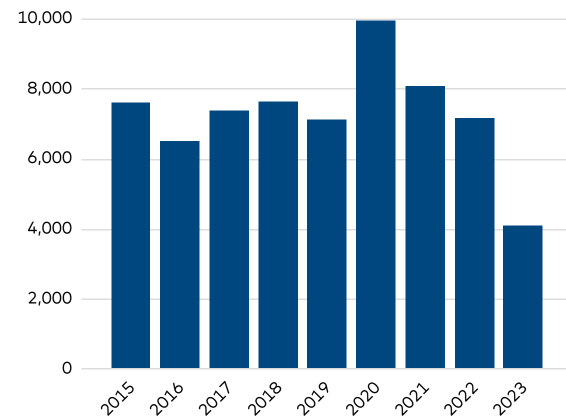
- Boston's multifamily inventory expanded by 4,088 units in 2023 through September, the equivalent of 1.6% of total stock and 80 basis points above the national average. The bulk of deliveries (95.2%) were units in upscale Lifestyle properties; just 2.6% were units in fully affordable communities.

- The construction pipeline had 17,280 units underway and another 84,000 units in the planning and permitting stages. Developers remained focused on the upscale segment, with more than 81% of units in Lifestyle projects. The portion allocated to fully affordable communities was greater, accounting for 10.2% of the pipeline. By the end of 2023, another 1,655 units will be delivered for a total of 5,743 units, marking the lowest stock expansion of the past decade.

- By volume of construction starts, more units broke ground in Boston in 2023 through September than during the corresponding interval last year (6,035 vs. 4,832 units in 2022). However, current permit issues have motivated developers to consider building larger communities as 30 properties started construction this year and 31 in 2022 through September.

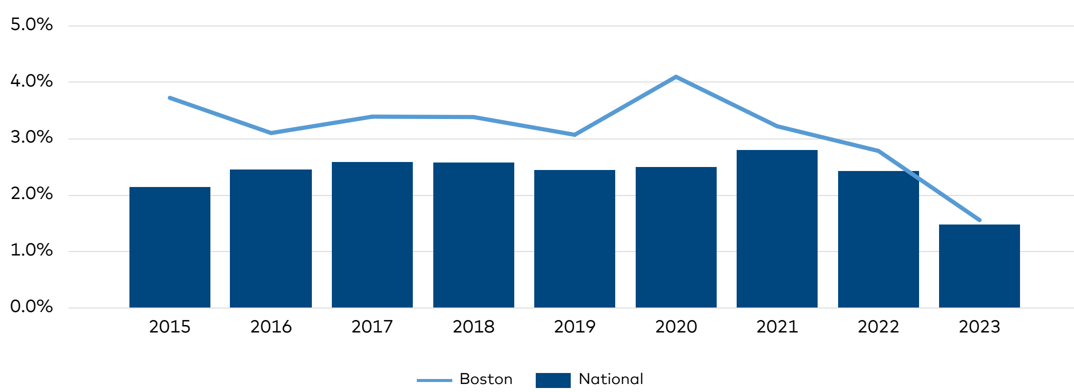
- Development was most intense in East Boston-Chelsea (3,638 units underway), Brighton (1,614 units) and Quincy (1,433 units). The latter also houses the largest project slated for completion by the end of the year, the 610-unit The Abby. The project started construction in 2019 and is owned by Bozzuto Group and Atlantic Development. It holds a $159.4 million construction loan issued by Northwestern Mutual.

Boston Completions (as of September 2023)



Source: Yardi Matrix

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

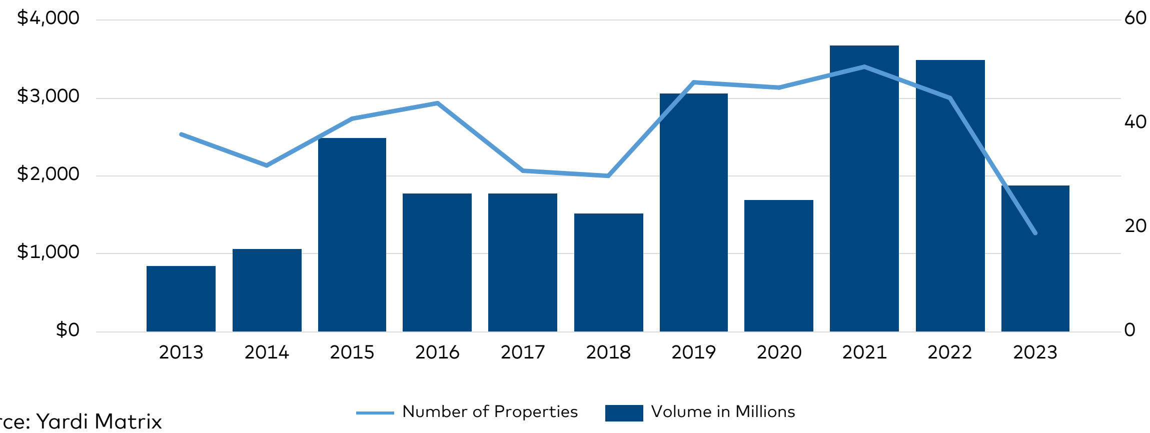


Source: Yardi Matrix

TRANSACTIONS

- Transaction activity moderated, with investors trading $1.9 billion in multifamily assets in Boston during the first three quarters of 2023. During the same period last year, the metro registered $2.9 billion in investment volume.
- Sales composition was balanced across asset classes—nine Lifestyle properties and 10 RBN properties changed hands through September. The price per unit marked an 11.3% increase year-over-year, to $422,136 in September, more than double the $189,598 national average.
- Home of the Red Sox and Fenway Park, the Fenway Kenmore submarket had the highest investment volume—$462 million—which was the sale price paid to Boyd Smith by Brookfield Properties for Church Park, a 508-unit property built in 1973. The property sold for a hefty $864,173 per unit with aid from two loans—a $200 million permanent loan issued by AIG and a $65 million mezzanine loan originated by OMERS.

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



Source: Yardi Matrix

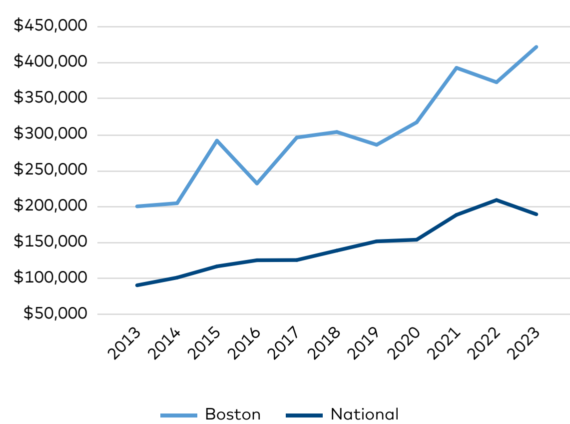
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Fenway Kenmore	462
Framingham	302
Somerville	188
Stoughton	183
Newton	169
Nashua	159
Lakeview	156

Source: Yardi Matrix

[1] From October 2022 to September 2023

Boston vs. National Sales Price per Unit



Source: Yardi Matrix

When Tackling Affordability Is a Family Business

By Anca Gagiuc

Cruz Cos. is one of the country's oldest and largest entirely Black-owned companies, active in the fields of construction, development and property management. Launched in 1948, it is a third-generation family business that focuses on affordable housing. Senior Vice President Daniel Cruz Jr. and Project Manager Armond McCoy shared their thoughts on the affordability crisis and what it takes to make a project financially feasible today.

From a developer's perspective, how does the housing affordability crisis look today?

Cruz Jr.: The most difficult task today is, hands down, making projects financially feasible. Unfortunately, we are in a market where material and labor costs have increased at a staggering rate. Over the last three to four years, costs have increased by 50 percent.

Developers are continuously trying to find money to fill financing gaps. Cost is the number one issue today in affordable housing, followed by the delays that result from the challenges of assembling that financing all the while trying to navigate the many approvals needed to bring a project to fruition.

How can the federal government boost support for affordable housing developers?

Cruz Jr.: The federal, state and city government agencies should be working in collaboration to find ways to shorten the development timeline. Every developer knows that a project's success is significantly impacted by two key factors: time and money. The current affordable housing development process stretches both resources to the limit.


Daniel Cruz Jr. *(left)*, Armond McCoy *(right)*

McCoy: A related challenge is that, in many cases, city, state or federal requirements for funding try to solve many problems at once but put them on developers and owners of affordable housing. Yet, the government needs to put the infrastructure in place to make these solutions sustainable beyond the immediate term.

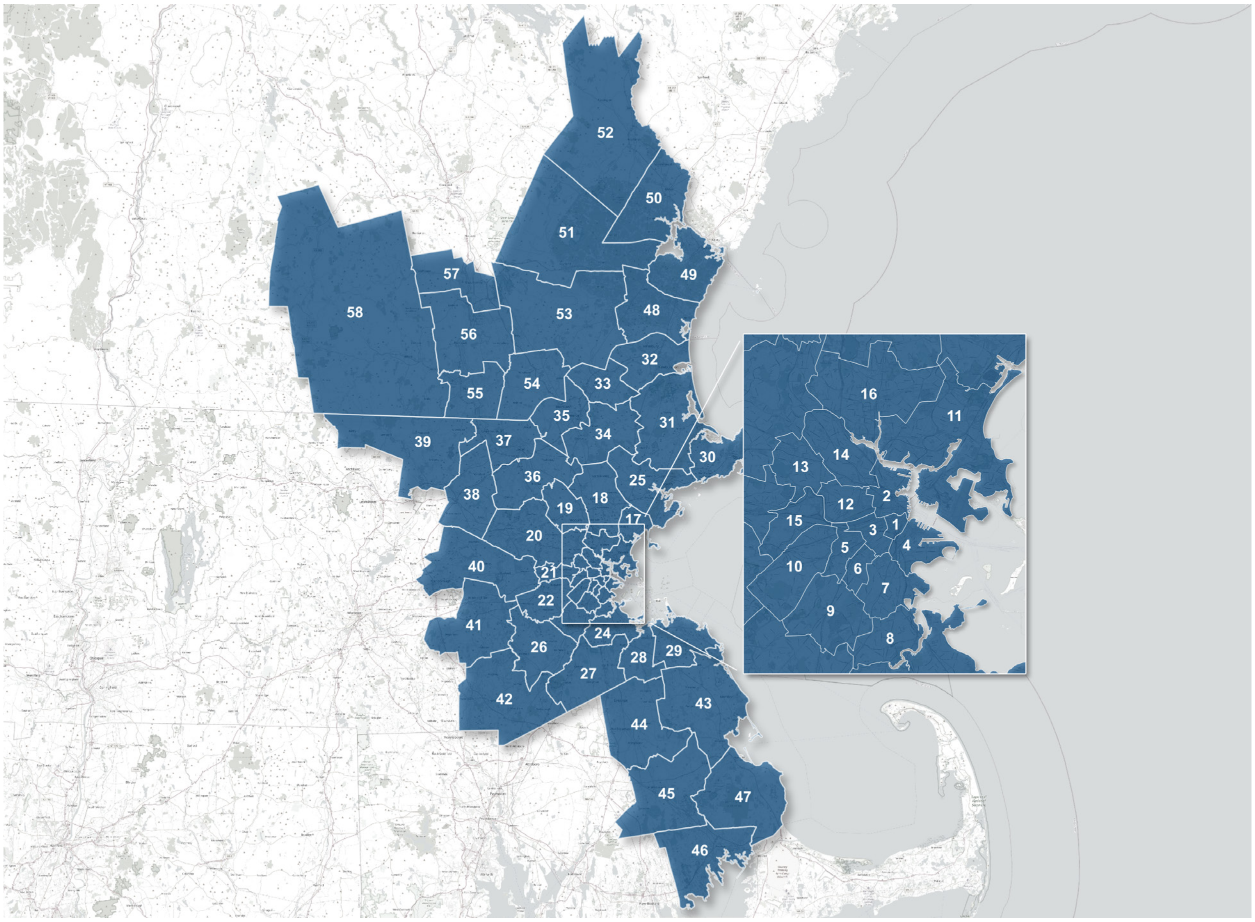
What federal incentives are you using in the development of all the projects in your pipeline?

Cruz Jr.: Our affordable housing deals tend to bring together financing from seven or eight different sources. We utilize federal and state tax credits, along with federal and state housing subsidies, while incorporating soft debt funds from city and state agencies. We look to infrastructure and brownfield funding to help with project costs, which are very useful when other housing funds are at their per-project limits.

McCoy: It takes a lot of work to not only identify every incentive that's available but then to understand what the requirements are and how to combine programs in the most effective way. The state-to-state variability is a challenge. For example, Massachusetts has a gap filler in its state tax credits—which we've used to a great extent—but Maryland doesn't.

(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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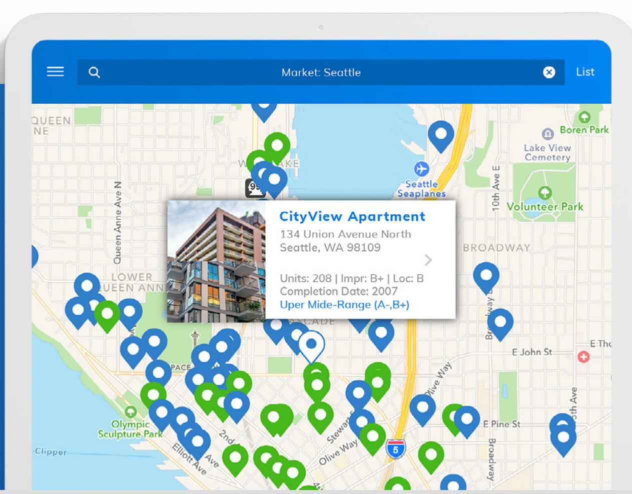
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- 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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