

Yardi® Matrix

Boston's Demand Hits The Gas

Multifamily Report Summer 2018

Rent Growth Outpaces National Average

Professional, Business Services Lead Job Gains

Development Boom Continues

Market Analysis

Summer 2018

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Rent Growth Rebounds

The Boston multifamily market remains stable, having posted a strong rental season. Monthly rates rose 2.9% year-over-year through July, and despite the metro's strong and steady pipeline, demand is once again outpacing supply.

Professional and business services led growth, having generated 22,400 positions. Boston's renowned academic institutions, health-care providers and high-tech research and financial companies fortify the metro's status as an East Coast economic anchor, generating high-paying jobs at a rapid pace. This, in turn, is maintaining upscale housing demand elevated. The construction sector is also thriving, thanks to a steady stream of developments underway. The list includes the 45-acre Cambridge Crossing, which upon completion is set to add 2.1 million square feet of science and technology space, 200,000 square feet of retail and roughly 2,400 new residential units.

Transaction activity softened, with \$654 million in multifamily assets trading in the first half of 2018. Even so, values remain high, as the per-unit price reached \$363,641 this year through July. With nearly 16,500 units under construction and roughly 4,900 units anticipated to come online for the whole of 2018, we expect rents to rise 2.8% in Boston this year.

Recent Boston Transactions

Watermark Seaport



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

Prynn Hills



City: Randolph, Mass.
Buyer: LivCor
Purchase Price: \$131 MM
Price per Unit: \$278,072

Fuse Cambridge



City: Cambridge, Mass.
Buyer: Wafra Investment Advisory Group
Purchase Price: \$128 MM
Price per Unit: \$522,541

The Point at North Quincy

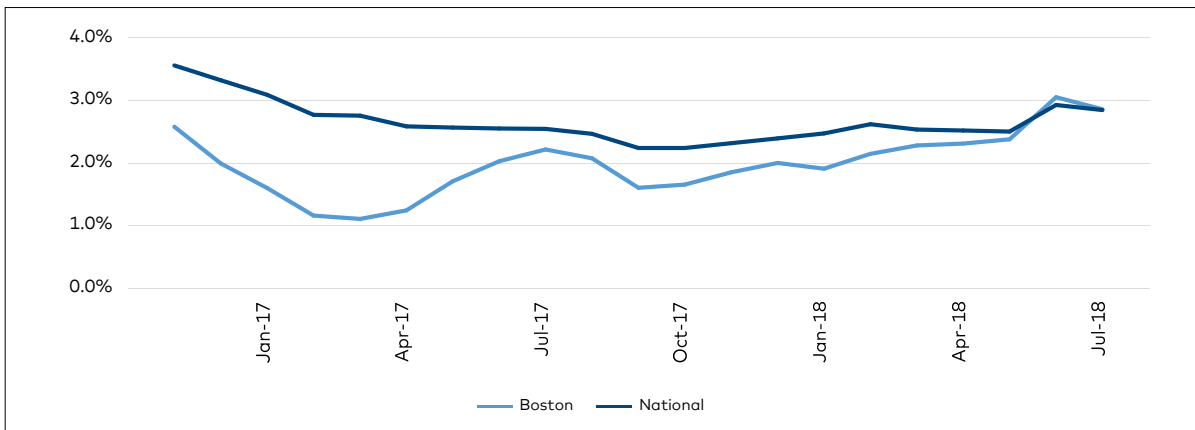


City: Quincy, Mass.
Buyer: Pantzer Properties
Purchase Price: \$64 MM
Price per Unit: \$286,830

Rent Trends

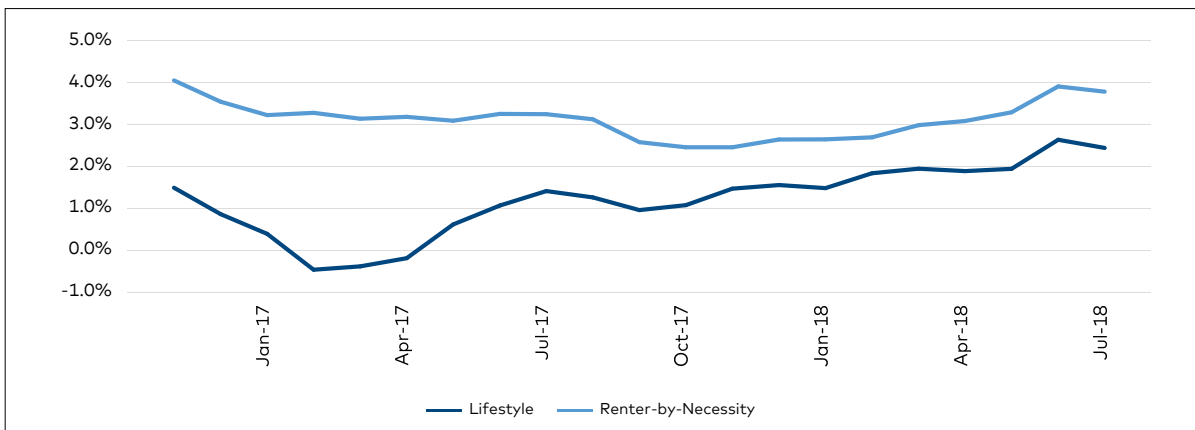
- Rents in Boston are on the rebound, having caught up with the U.S. growth rate. The average rent was up 2.9% year-over-year through July to \$2,230, way above the \$1,409 national figure. Despite a prolonged construction boom, demand is stronger than supply, putting upward pressure on rents.
- Rents in the working-class Renter-by-Necessity segment led growth, up 3.8% year-over-year to \$1,780, while rates for Lifestyle assets increased by 2.4%, to \$2,724. Considering that deliveries in the first half of 2018 consisted entirely of Lifestyle assets, and the current pipeline is also geared toward the upper end of the quality spectrum, this trend is likely to continue.
- Fringe submarkets such as Marshfield–Pembroke (9.5%), Rochester (8.9%) and Haverhill (8.2%) led growth. Meanwhile, expensive core areas including Boston–Downtown (0.6%), South Boston (1.8%), South End (2.7%) and North End–Charleston (3.2%) recorded much smaller hikes. Rates were flat in Cambridge–North and dropped only in two submarkets: Waltham (-0.2%) and Newton (-1.0%).
- Occupancy in stabilized properties slid 50 basis points year-over-year to 96.3% as of June, but the metro’s sustained demographic expansion and steady job growth continue to boost demand. We expect Boston rents to rise 2.8% 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)

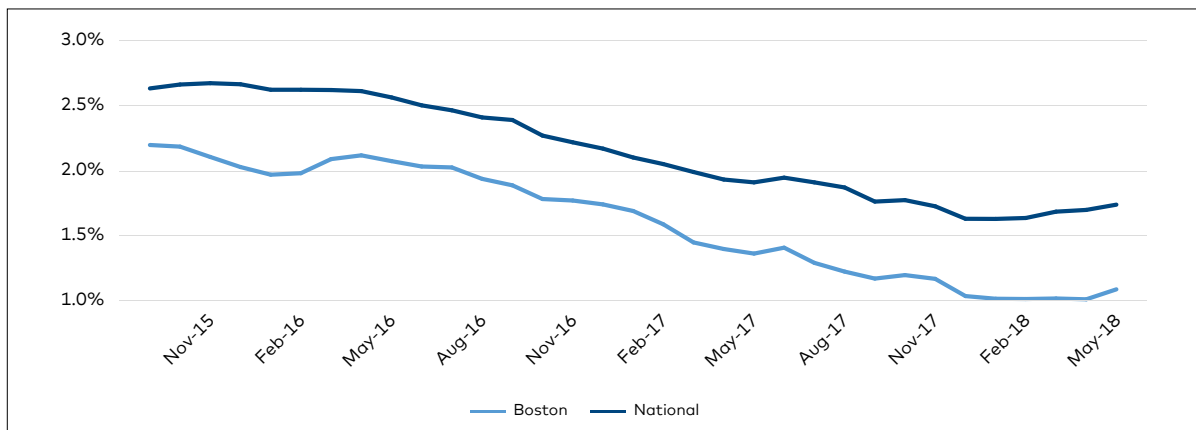


Source: YardiMatrix

Economic Snapshot

- Boston added 53,100 jobs in the 12 months ending in May, a 1.1% increase, trailing the 1.7% national average. Employment gains were consistent, even as the metro approaches full employment—the unemployment rate dropped to 3.1% in May, 70 basis points below the national rate. Strong labor and housing demand could lead to further increases in housing costs. Yet retiring Baby Boomers should pull down labor force growth, unless young workers across the country and the world continue to settle in the metro.
- Employment growth was uneven, with the information and government sectors losing 1,900 jobs combined, while the financial activities sector stayed flat. Professional and business services led growth with the addition of 22,400 positions, while the second-best performing sector—leisure and hospitality—grew by 8,300 jobs. Construction, up by 8,000 positions, closed the top three.
- Demand for office space remains robust in Boston, with roughly 1.2 million square feet absorbed in 2018 through July, according to Colliers International. Roughly 2 million square feet of office space was delivered in the metro this year through August, Yardi Matrix data shows. The fast-paced addition of high-earning jobs continues to fuel demand: The metro had an additional 4.5 million square feet of office space underway as of August, roughly two-thirds of which is located within 2 miles of downtown.

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	%
60	Professional and Business Services	597	17.0%	22,400	3.9%
70	Leisure and Hospitality	376	10.7%	8,300	2.3%
15	Mining, Logging and Construction	150	4.3%	8,000	5.6%
65	Education and Health Services	737	21.0%	7,100	1.0%
30	Manufacturing	242	6.9%	4,000	1.7%
80	Other Services	135	3.8%	3,100	2.4%
40	Trade, Transportation and Utilities	544	15.5%	2,100	0.4%
55	Financial Activities	230	6.6%	-	0.0%
50	Information	91	2.6%	-100	-0.1%
90	Government	407	11.6%	-1,800	-0.4%

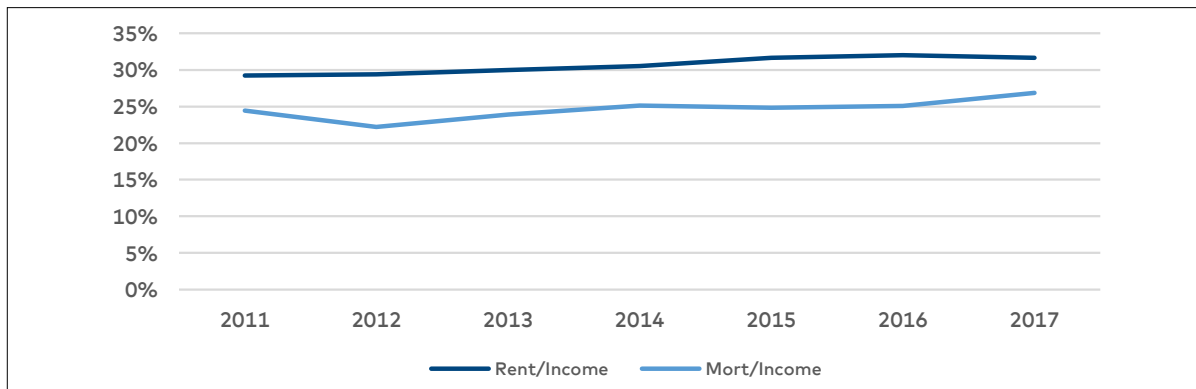
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

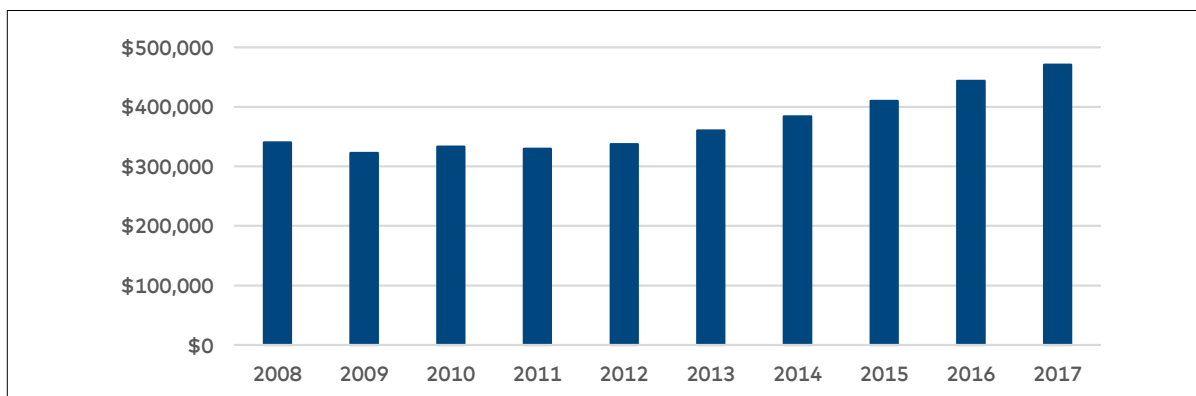
- An abundance of luxury units, rising construction costs and limited housing subsidies have been pushing down the share of affordable housing since 2003. In the first seven months of 2018, only about 300 units of the total 2,663 apartments that came online were affordable.
- The average rent of \$2,230 accounted for 32% of the area median income, while the average mortgage payment equated to only 27%. However, the high barrier to entry for first-time buyers continues to rise: The median home price, up 6.0% to \$470,723 in 2017, makes it difficult for renters to become homeowners.

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 grew by nearly 14,000 residents in 2017 for a 0.7% expansion, on par with the U.S. average.
- The metro added almost 120,000 people between 2010 and 2017, a 6.3% demographic boost.

Boston vs. National Population

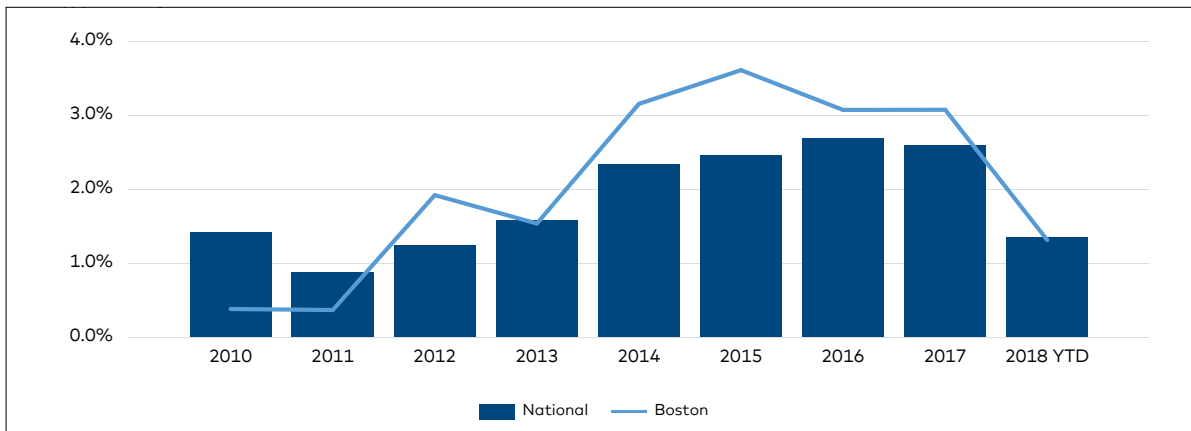
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Boston Metro	1,952,713	1,970,027	1,984,994	1,999,803	2,013,403

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

Supply

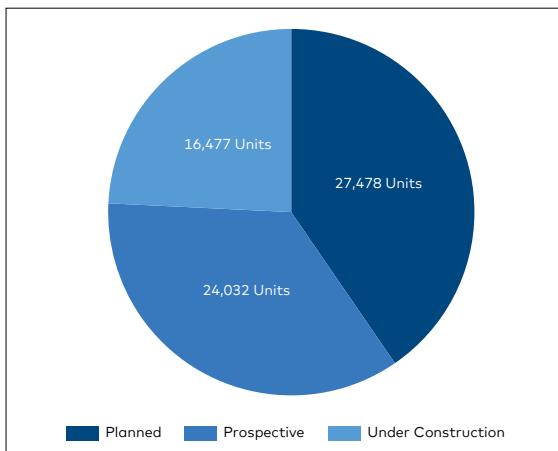
- Although deliveries slowed down slightly in the first part of the year, the metro's construction pipeline remains robust. Approximately 2,600 units in 11 properties came online in 2018 through July. All these communities are in the Lifestyle segment, of which nine have an affordable component and three are LEED certified.
- Boston had more than 16,000 units underway as of July, with about half of the upcoming communities offering an affordable component. Construction activity is high across the map, but is led by North End–Charleston (4,016 units), South Boston (1,003 units) and East Boston–Chelsea (992 units). When adding projects in the planning and permitting phases, the metro's total pipeline adds up to roughly 68,000 units.
- The largest development underway is Cambridge Crossing, a 4.5 million-square-foot mixed-use project set to include 2,400 new residential units. DivcoWest's revamping of the former NorthPoint development is also slated to include 2.1 million square feet of office and laboratory space, as well as retail and 11 acres of public parks and open space.

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



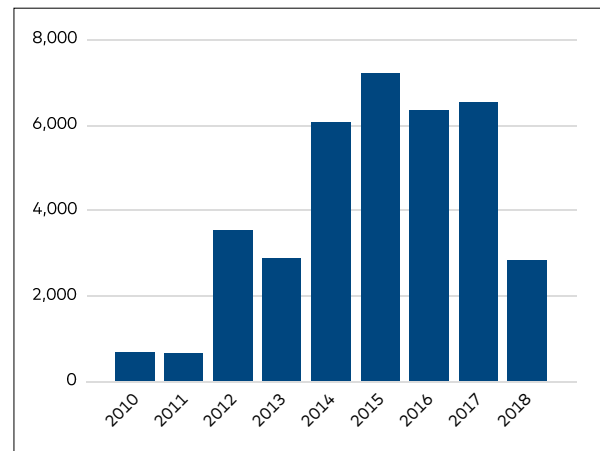
Source: YardiMatrix

Development Pipeline (as of July 2018)



Source: YardiMatrix

Boston Completions (as of July 2018)

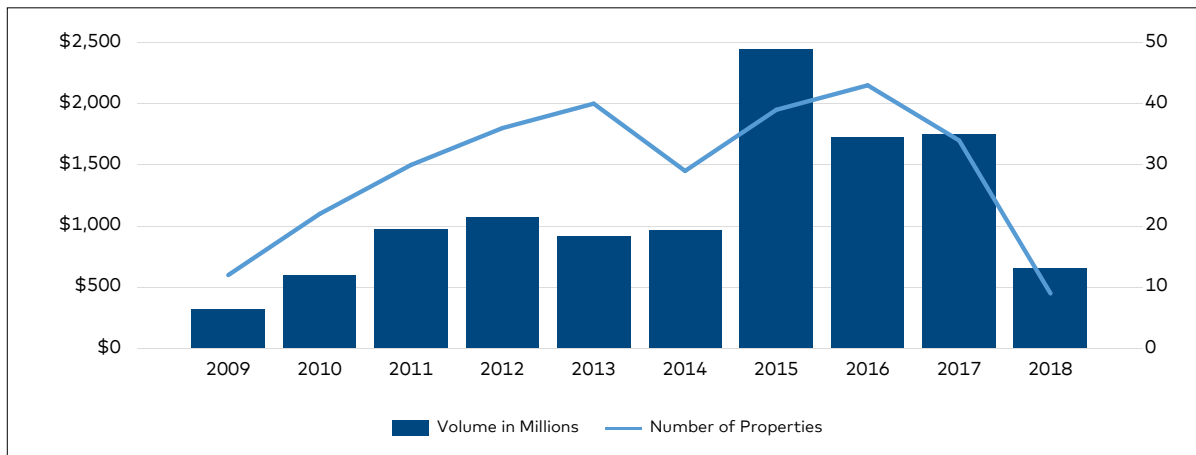


Source: YardiMatrix

Transactions

- The transaction volume is down from 2017, but values remain high, with some \$654 million in multifamily assets changing hands this year through June.
- Of the nine properties that traded, five were in the Lifestyle segment, which boosted per-unit prices by 24.7%, to \$363,641. The average RBN unit clocked in at \$201,585, while the average for Lifestyle units rose to \$432,414. The latter's hike was partially due to the sale of Watermark Seaport, which traded at \$690,029 per unit due to its location, amenity package and sustainable features. Clarion Partners bought the 2016-built, Class A asset from Twining Properties.
- Investment activity was strongest in South Boston and South End, where a total of nearly \$400 million in multifamily assets traded in the 12 months ending in June.

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



Source: YardiMatrix

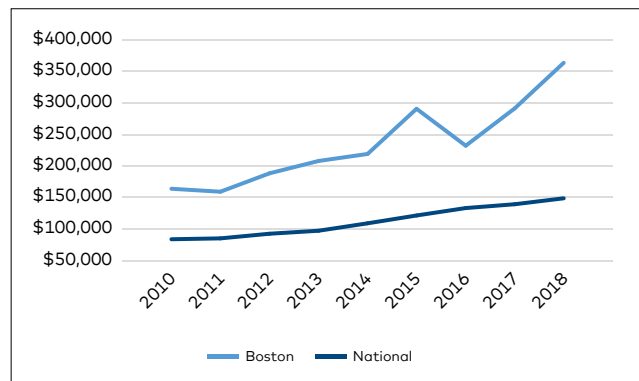
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
South Boston	239
South End	150
North End–Charleston	149
Boston–Downtown	145
Sloughton	131
Cambridge–North	128
Malden	111
Fenway Kenmore	103

Source: YardiMatrix

¹ From July 2017 to June 2018

Boston vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:



Boston's Tallest Residential Tower Reaches Full Height

One Dalton, located atop the 215-key Four Seasons hotel, offers 160 apartments and access to shared amenities such as a theater, a spa and a 65-foot lap pool.



CBRE Secures \$27M For Former MA Chocolate Factory

The historic building, close to downtown Mansfield, is being redeveloped into a mixed-income, mixed-use property that will include 130 units.



Boston-Area Community Trades For \$44M

PP Hudson Investors has acquired the 176-unit Matrix Hudson in Hudson, Mass. The seller was a joint venture between Heritage Properties and Moss Development.



WinnCos. Breaks Ground on Veterans Housing

The Residences at Brighton Marine is the first of its kind to offer mixed-income housing in Boston since World War II. The property will include 102 units and on-site services and is scheduled for completion by December 2019.



Boston Luxury Community Trades For \$43M

Grossman Cos. teamed up with The Waypoint Cos. to sell the recently completed, 80-unit property situated in the Allston neighborhood.



Cornerstone Arranges \$14M for MA Asset

Langley Terrace in Newton currently comprises three buildings and one two-family home, which will be leveled in order to construct a three-story apartment asset.

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Sidestepping the Pitfalls of Brownfield Development

As multifamily demand continues to remain high—underscored by recent rent growth across most major metro areas—a number of investors are taking on brownfield development as an alternative way to increase supply. These projects have taken many forms, from adaptive reuse to ground-up construction in former industrial areas.

Boston-based Trinity Financial has a history of transforming older buildings into multifamily properties, primarily in the Northeast. Dan Drazen, project manager at Trinity Financial, spoke with Associate Editor Jeff Hamann about the upsides and challenges in brownfield multifamily projects, as well as the firm’s next major adaptive reuse project in Lawrence, Mass.

What aspects of a site need to be considered before investing in a brownfield development?

When investing in a brownfield development, it’s important to research the historical use of the site to understand the type of activity that may have contributed to the contamination. Topography and site location are also important elements to consider. We tend to be leery of brownfield sites that are uphill from adjacent properties or near sensitive environmental areas like groundwater drinking districts.

How does the timeline for a brownfield development differ from a standard multifamily project?

Brownfield projects introduce another layer of complexity to the development process, which can translate into a protracted development timeline. However, with some planning, these delays can be mitigated. During predevelopment, securing the necessary approvals for a proposed remediation treatment plan can take time, because the state



environmental agencies typically have a minimum of 30 days to respond to any submissions.

During construction, the environmental remediation scope of work can generally be performed in parallel with other construction activities, but coordination with the general contractor is critical, because some treatment programs can take several months to achieve their goal.

How can the history of the site impact the total cost of development?

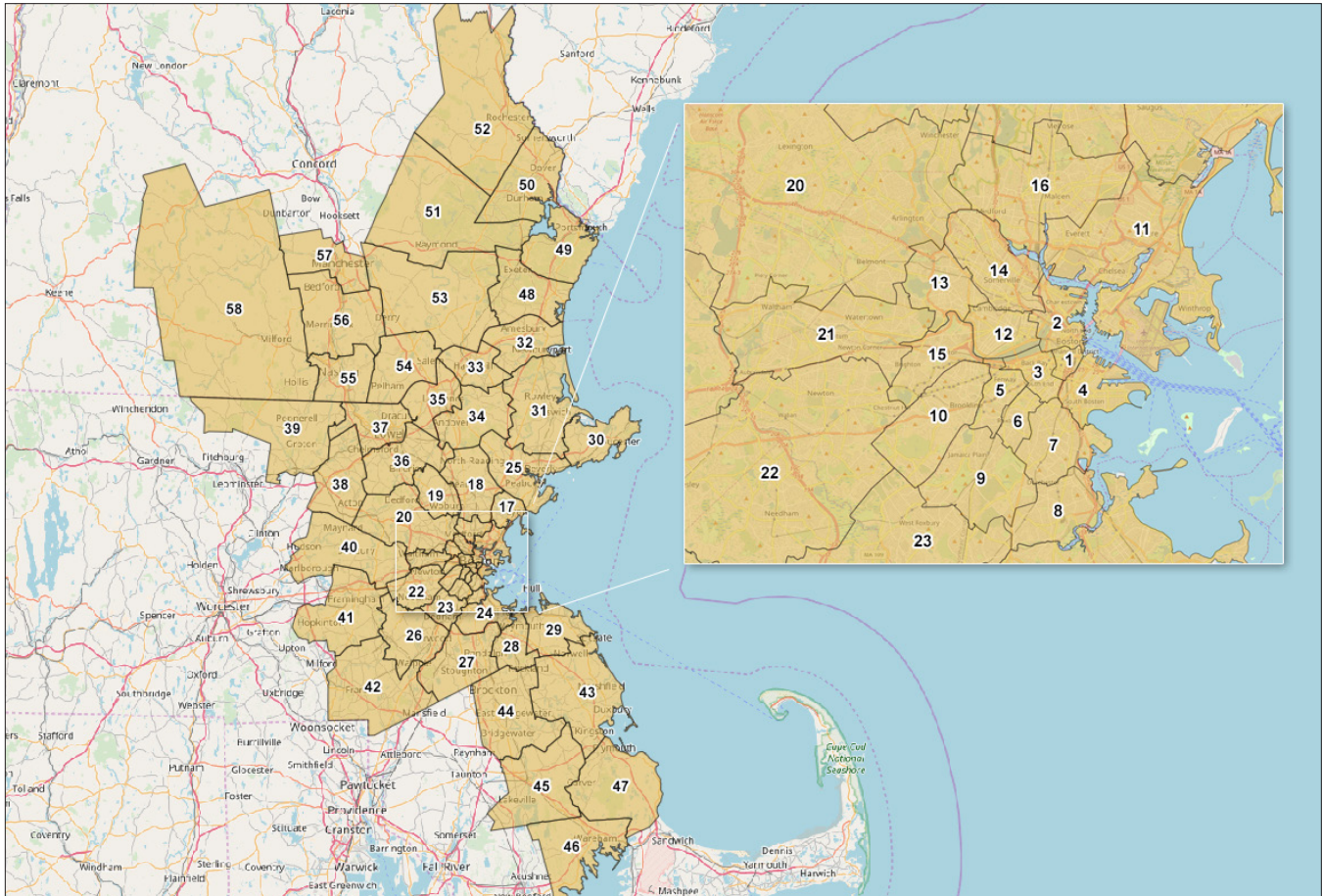
Environmental remediation can add a premium to the overall cost of a project, so it’s helpful to assume a

certain baseline level of remediation work will be necessary with any brownfield site. However, there are a host of programs available through the United States Environmental Protection Agency and state agencies to offset the added cost of environmental remediation work. Here in Massachusetts, there is also a Brownfield Tax Credit program.

What is unique about the site Trinity has chosen for the Van Brodie Mill project?

The Van Brodie Mill was originally part of a 75-acre complex of roughly 23 historic mills called the Arlington Mills. While a few of the original buildings have been demolished, the district is still largely intact, which is unique. For example, there is a separate 4,000-square-foot building that we are renovating into two apartments, as part of the Van Brodie Mill project that used to be the incinerator for the entire complex. Also, our historical research indicated that the company which owned the Van Brodie Mill in the 1950s produced toy prizes for cereal boxes.

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	Raymound–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.

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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President
Fogelman Properties

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