



Yardi® Matrix

Boston's Bidding Wars

Multifamily Report Spring 2019

Property Values Spike Once More

Rent Growth Slated to Decelerate

Occupancy Stays
High Despite Supply Surge

Market Analysis

Spring 2019

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Solid Fundamentals Draw Investors

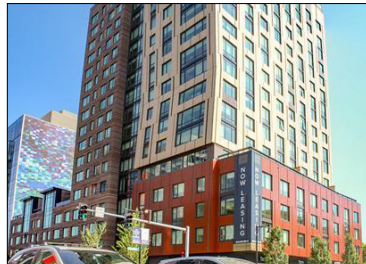
Boston's multifamily market remains healthy, thanks to a strong concentration of high-paying jobs supported by a knowledge-based economy, household formation and a high barrier to homeownership.

Professional and business services led employment growth in 2018, with the addition of 26,100 jobs, followed by education and health services (13,100) and construction (9,300). The metro's highly skilled workforce, business-friendly environment and thriving tech scene are prompting companies to expand here. Wayfair, the online retailer of home goods based in the Back Bay, announced a third location in the city, with plans to create 3,300 jobs statewide while retaining 3,809 existing positions. In January, Facebook opened a 130,000-square-foot office in Kendall Square, where it plans to grow from some 200 to more than 600 employees. In February, Google signed a 15-year lease to occupy 362,000 square feet at Kendall Center in Cambridge, bringing its total footprint in Boston to 800,000 square feet.

More than \$1.4 billion in assets traded in 2018, at an average per-unit price of \$315,324, a cycle peak due to tight supply of multifamily investments, steering buyers toward older and smaller properties. Considering the 8,250 units slated to come online in 2019, which would mark a new development cycle high, we expect rent growth to moderate slightly, to 2.7% for the year.

Recent Boston Transactions

The Harlo Fenway



City: Boston
Buyer: Invesco Real Estate
Purchase Price: \$150 MM
Price per Unit: \$707,665

The Serenity



City: Boston
Buyer: Oxford Properties
Purchase Price: \$123 MM
Price per Unit: \$632,051

Halls at Manchester



City: Manchester, N.H.
Buyer: DSF Group
Purchase Price: \$89 MM
Price per Unit: \$138,281

Cabot Crossing

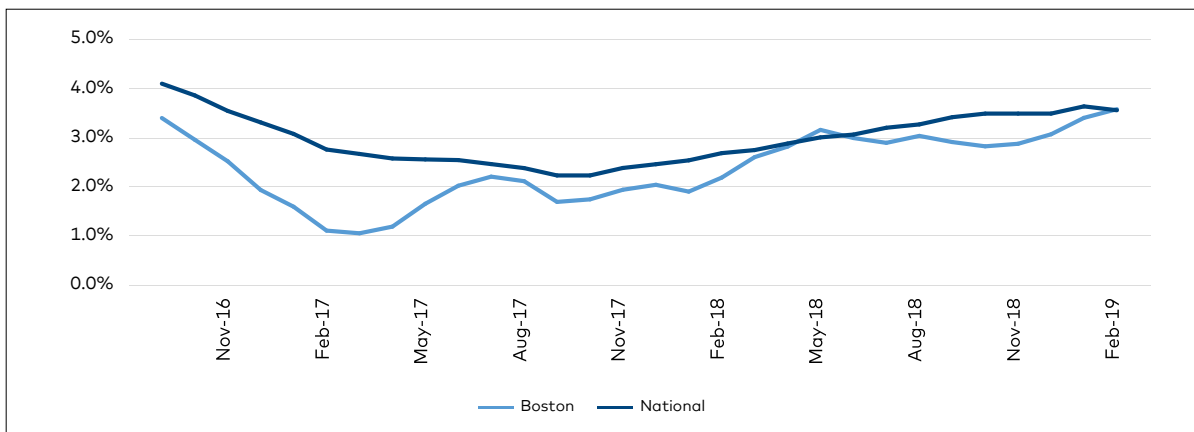


City: Lowell, Mass.
Buyer: JRK Property Holdings
Purchase Price: \$42 MM
Price per Unit: \$168,254

Rent Trends

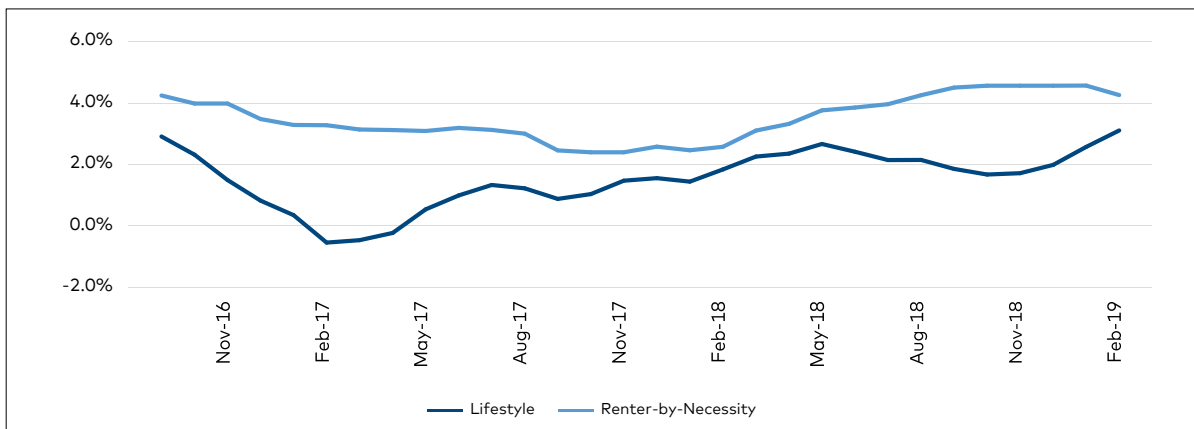
- Boston rents rose 3.6% year-over-year through February, on par with the national rate. The average rent stood at \$2,227, well above the \$1,426 U.S. figure. A steady development surge has led to rent growth deceleration, followed by a rebound, as demand is catching up with new supply. Occupancy sat in a tight band, at 96.2% as of January, flat from 12 months prior and one of the nation's highest.
- Rents in the working-class Renter-by-Necessity segment rose 4.3% to \$1,789, while Lifestyle rates increased 3.1% to \$2,691. Demand remains robust for both asset classes due to a strong concentration of jobs in well-paying industries coupled with a high cost of owning single-family homes.
- Rent growth was particularly strong in several moderately priced submarkets, including Milford (11.6% to \$1,198), Amesbury (9.4% to \$1,506), Gloucester (8.3% to \$1,471) and Marlborough (8.0% to \$1,822). The average rent in the South End, the metro's most expensive submarket, rose 0.8% to \$3,845. In South Boston, rents grew 3.2% to \$3,609, while Downtown rates rose 1.2%, to \$3,490. In the North End–Charleston, the metro's largest multifamily submarket, rents were up 3.7%, reaching \$3,404.
- With Boston multifamily deliveries slated to hit a new cycle peak this year, we expect rents to improve just 2.7% in 2019.

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)

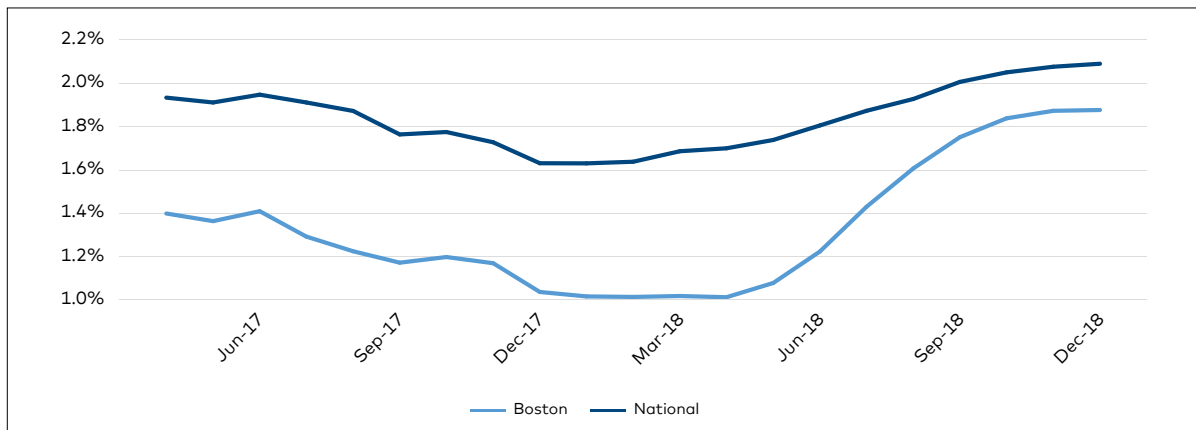


Source: YardiMatrix

Economic Snapshot

- Metro Boston added 60,700 jobs in 2018 for a 1.9% year-over-year increase, behind the 2.1% national rate. During last year's fourth quarter, the metro's unemployment rate hit a record low, standing at 2.4% as of November.
- Growth was led by professional and business services, which added 26,100 jobs. Boston's highly skilled workforce and business-friendly environment prompt companies to relocate or expand across the area. Education and health services added 13,100 positions, while construction gained 9,300 jobs.
- The local tech scene is growing: Wayfair, the online retailer of home goods based in the Back Bay, announced a third location in the city on St. James Avenue, with plans to hire a broad range of white-collar professionals, including software engineers and marketers. In exchange for its pledge to add 3,300 jobs across the state while retaining the existing 3,809 positions, the company will receive a \$31.4 million tax break, one of the largest awarded by the Massachusetts Economic Assistance Coordinating Council. Facebook is also expanding, with the January opening of its new 130,000-square-foot office in Kendall Square, where it plans to grow from about 200 to more than 600 employees. In February, Google signed a 15-year lease to occupy 362,000 square feet at Boston Properties' Kendall Center in Cambridge, bringing its total footprint in Boston to 800,000 square feet.

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	608	17.2%	26,100	4.5%
65	Education and Health Services	750	21.2%	13,100	1.8%
15	Mining, Logging and Construction	154	4.4%	9,300	6.4%
40	Trade, Transportation and Utilities	562	15.9%	3,900	0.7%
50	Information	94	2.7%	2,300	2.5%
80	Other Services	132	3.7%	2,100	1.6%
90	Government	409	11.6%	2,100	0.5%
30	Manufacturing	244	6.9%	2,100	0.9%
70	Leisure and Hospitality	351	9.9%	500	0.1%
55	Financial Activities	234	6.6%	-800	-0.3%

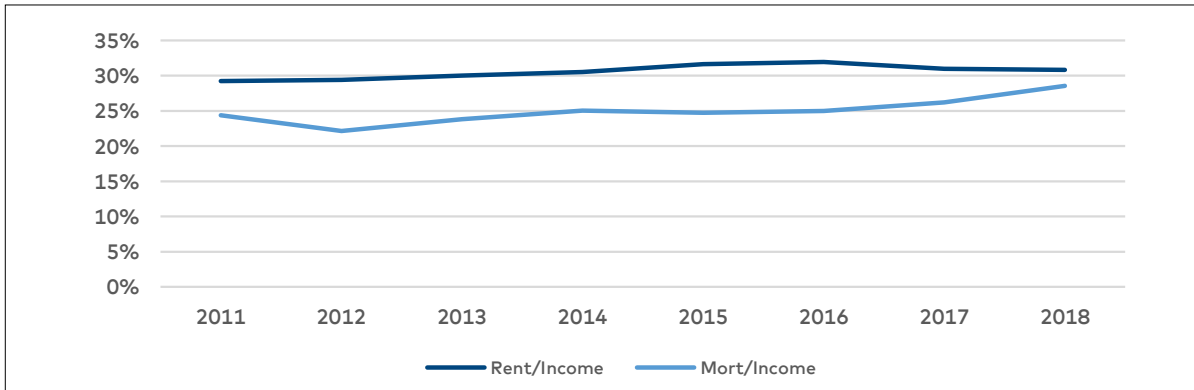
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

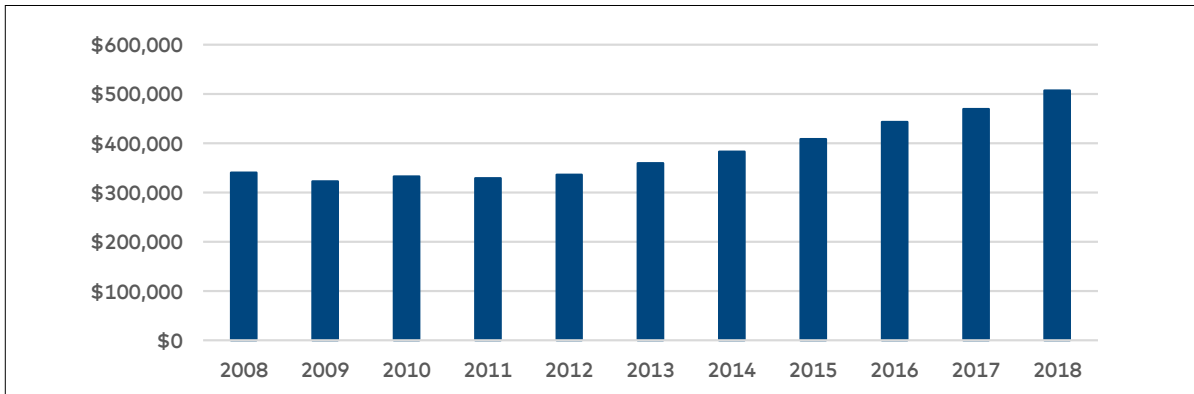
- The median home price rose to a cycle peak of \$507,062 in 2018, up 7.9% since 2017 and 54.1% above the 2011 level. The average mortgage payment accounted for 29% of the area's median income, while the average rent equated to 31%.
- Boston's Housing Innovation Lab—co-housed in the city's Department of Neighborhood Development and the Mayor's Office of New Urban Mechanics—engaged residents to test new policies, which helped shape pilots such as the Compact Living Policy, allowing units as small as 385 square feet, and the ADU Policy, allowing homeowners to build extra dwelling units on their properties for additional income.

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 gained 13,600 residents in 2017, a 0.7% increase, in line with the national average.
- Between 2013 and 2017, the metro's population rose by 60,690 residents, or 3.1%.

Boston vs. National Population

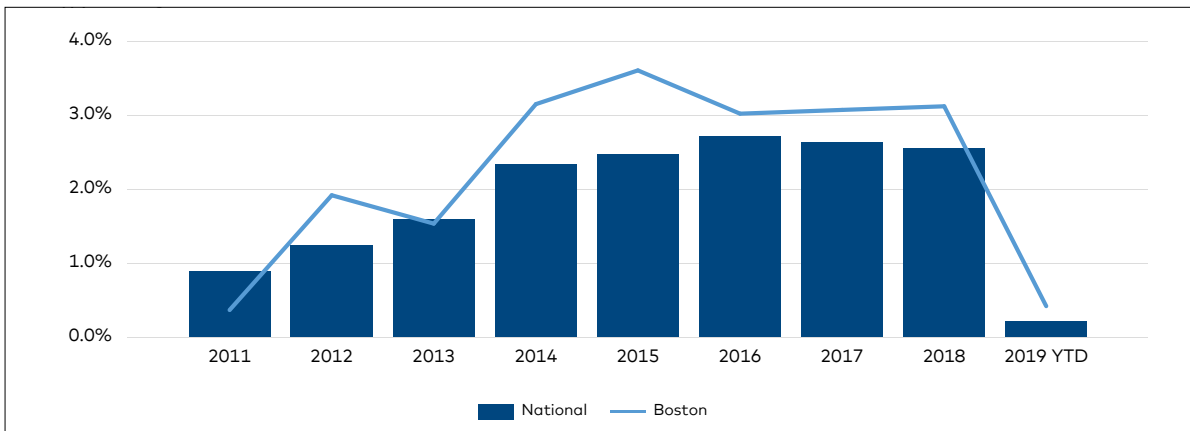
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Boston Metro	1,952,713	1,970,027	1,984,994	1,999,803	2,013,403

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

Supply

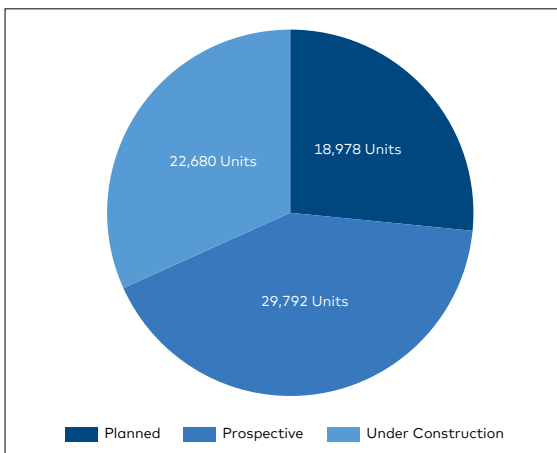
- Developers delivered 6,695 units in 2018, representing 3.1% of total stock, above the 2.6% U.S. average. Following nationwide trends, most of the new properties cater to Lifestyle renters. In 2019, a cycle peak of 8,250 units are scheduled to come online, equating to 3.6% of stock.
- A total of 22,680 apartments were under construction across the metro as of February. Another 48,770 units were in the planning and permitting stages—about 10,500 units, or 20.6%, were in designated opportunity zones. Boosted by steady population and job gains, absorption is expected to keep up with the spate of new supply, which is slated to put downward pressure on the metro's average occupancy rate while slightly moderating rent growth along the way.
- New construction remains concentrated within or very close to the city core and along major transit corridors. The list of submarkets leading development as of February included the North End–Charleston, which had 4,549 units underway, followed by East Boston–Chelsea (1,725 units), South Boston (1,250 units), Waltham (1,231 units), Brighton (959 units), Roxbury (846 units) and Fenway Kenmore (702 units).

Boston vs. National Completions as a Percentage of Total Stock (as of February 2019)



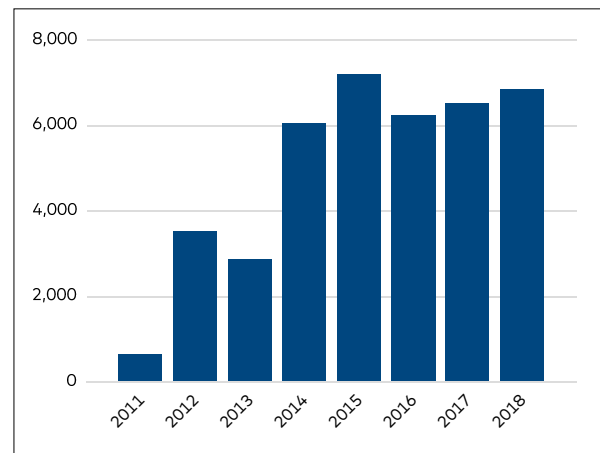
Source: YardiMatrix

Development Pipeline (as of February 2019)



Source: YardiMatrix

Boston Completions (as of February 2019)

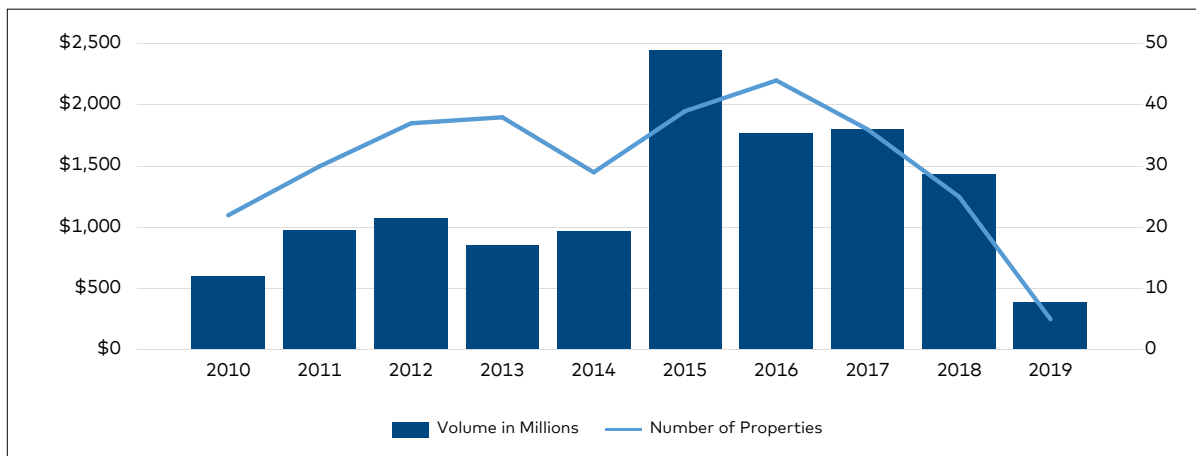


Source: YardiMatrix

Transactions

- More than \$1.4 billion in assets changed hands in 2018, at an average price per unit of \$315,324, more than double the \$154,305 U.S. average. In the first two months of 2019, five properties traded for \$387 million, at an average per-unit price of \$327,714.
- Investors targeted Lifestyle communities, with acquisition yields ranging from 3.75% to 4.75% for stabilized assets, as well as medium-size and smaller RBN properties, with yields going as high as 6.75% for Class C assets in infill locations and from 7.0% to 7.5% for suburban properties.
- A recent notable deal is Invesco Real Estate's \$150 million acquisition of The Harlo Fenway, a 17-story tower with 212 boutique units and retail space in the Fenway neighborhood. In February, a joint venture between Skanska USA and PGIM Real Estate sold the LEED Gold-certified high-rise for 707,665 per unit.

Boston Sales Volume and Number of Properties Sold (as of February 2019)



Source: YardiMatrix

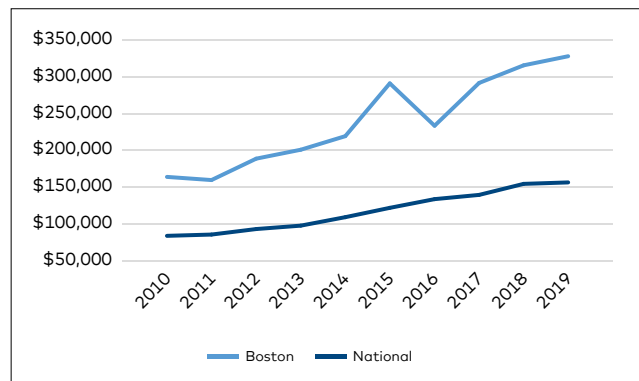
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Fenway Kenmore	273
Boston–Downtown	216
Sloughton	131
Cambridge–North	128
East Boston–Chelsea	104
Quincy	101
Manchester	89
Marlborough	65

Source: YardiMatrix

¹ From March 2018 to February 2019

Boston vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Helge Capital Closes \$62M in Financing For MA Portfolio

The 19-building portfolio consists of workforce housing with a combination of market-rate and affordable apartments in Boston and Lynn, Mass.



MA Senior Housing Asset Extends Affordability With \$45M Refi

Non-profit B'nai B'rith Housing intends to execute a capital improvement program on 200 units at Covenant House in Brighton and ensure rental affordability for the next three decades.



MA Modular Development Moves Forward

More than 100 "boxes" that will create residential units in Newton, Mass., are being installed as the mixed-use project prepares for a summer opening.



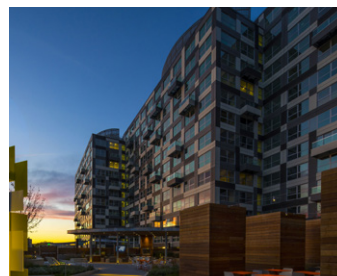
Invesco Pays \$150M For Boston M-U High-Rise

The Harlo Fenway features 212 apartments and access to amenities such as an 18th-floor sky deck, yoga terrace and dog spa as well as ground-floor retail.



NKF Brokers \$123M Sale of High-End Property in Boston

Oxford Properties Group entered the Boston residential market with the acquisition of a 195-unit luxury community adjacent to the Longwood Medical Area.



MA Community Receives \$120M Loan

The 392-unit rental property in Cambridge is LEED Silver-certified. Greystar added the asset to its portfolio as part of the acquisition of Monogram Residential Trust.



Boston's Affordable Housing Market: An Insider's View

By Laura Calugar

John Fraser, an experienced specialist that joined Community Preservation Partners as senior project manager, agrees that affordable housing demand in Boston is severely outpacing supply. Since launching its eastern division a year ago, the affordable housing rehabilitation company acquired several communities in the region, including the 216-unit Midlothian Village Apartments in Richmond, Va.

In the interview below, Fraser weighs in on trends in Boston and along the East Coast, as well as creative strategies for financing affordable development.

How serious is the affordable housing crisis in Boston?

The affordable housing crisis is very serious in Boston, and not just at the very low-income side of the spectrum. It is also felt all the way up to the middle-income demographic. The problem here is the same as in many other hot real estate markets: Supply has not kept pace with demand. One real solution is increased allocation of low-income housing tax credits—both competitive and volume cap—as well as programs for middle-income families up to 160 percent of the area's median income. The other side of the equation is pushing for local policies that encourage development rather than policies that make it unrealistically cumbersome on developers to build where the greatest demand exists.

How are students at Boston-area universities influencing the affordable housing market in the metro?

The main impact is increased competition for some of the more affordable market-rate housing in



certain neighborhoods. It comes back to supply and demand, more demand for housing that is outpacing supply. There have been several new, ground-up developments of student housing in Boston, such as at Northeastern University and UMass-Boston, but the market could benefit from more. I'm also intrigued by news of private high-rise student housing coming to Boston, although concerned it will turn into a new sector of luxury rentals unattainable to the average student.

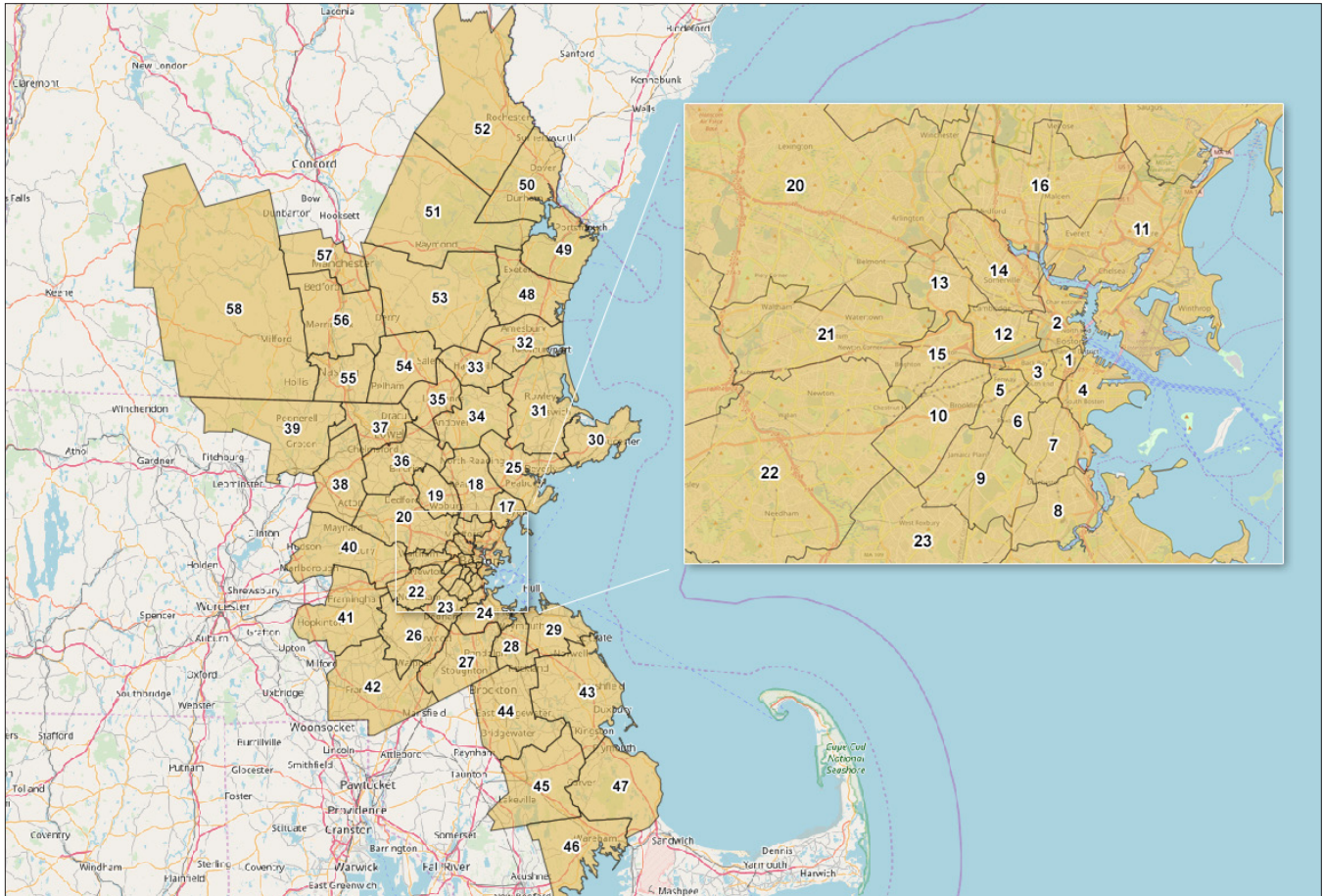
How old is the affordable housing stock on the East Coast and how do you manage to obtain the necessary funds for rehabilitation works?

Most of the preservation opportunities we're seeing on the East Coast were built in the 1970s and 1980s, with some even older. This means that in addition to a typical rehabilitation, we must seriously look at building systems, mainly the HVAC system and environmental concerns. Employing 4 percent LIHTC with tax-exempt bond financing, often boosted by a mark-up-to-market, or budget-based rent increase for Section 8 properties, is the typical formula for preservation that we have employed. However, with more competition for volume cap, higher construction costs and tighter equity markets, preservation developers need to be even more creative.

What type of sustainable features do you integrate more frequently into your projects?

Energy Star appliances, LED lighting, new HVAC systems—the cost of high-efficiency mini-split systems has decreased substantially over the years—new windows and air sealing are standard scope items on most preservation deals.

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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