

An aerial photograph of the Boston skyline at sunset. The sky is a mix of blue, orange, and pink. Numerous skyscrapers are visible, many with their windows lit up, creating a warm glow. The buildings vary in height and architectural style, with some having distinctive shapes like the cylindrical Prudential Center.

Yardi® Matrix

# Boston Pushes On

Multifamily Report Summer 2019

Cost of Ownership Fuels Rental Demand

Rent Growth Hits Three-Year High

Employment Growth Decelerates



## Market Analysis

Summer 2019

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## Surging Demand for Urban Living

Boston's multifamily market maintained its healthy fundamentals in the first half of 2019. In June, year-over-year rent growth reached the highest value in nearly three years—3.8%—supported by high demand for upscale apartments in core submarkets, particularly in North End–Charlestown, home to the largest multifamily development underway, the 2,400 units within the Cambridge Crossing megaproject.

While employment growth slowed down, the metro continued to consolidate the main pillars of its economy, adding a total of 22,300 jobs in the 12 months ending in May. Education and health services (11,500), government (5,200) and professional and business services (5,000) led growth. Boston's tech market is among the nation's most competitive, with more graduates than available jobs. Nearly half of all Boston office leases in 2018 involved technology companies, according to a Cushman & Wakefield analysis that ranked the market fourth after Silicon Valley, Salt Lake City and San Francisco.

Almost 25,000 units were underway in Boston as of June and a total of 7,894 units are slated to come online this year for a new cycle peak. Even though demand should remain strong, particularly for upscale apartments, we expect rent growth to moderate slightly, at 3.5% for the whole of 2019.

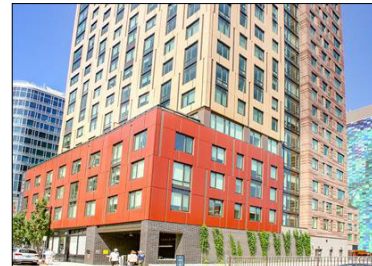
## Recent Boston Transactions

Jefferson Hills



City: Framingham, Mass.  
Buyer: DSF Group  
Purchase Price: \$227 MM  
Price per Unit: \$222,598

The Harlo Fenway



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

Mave



City: Stoneham, Mass.  
Buyer: Wakefield Investments  
Purchase Price: \$128 MM  
Price per Unit: \$431,040

The Serenity

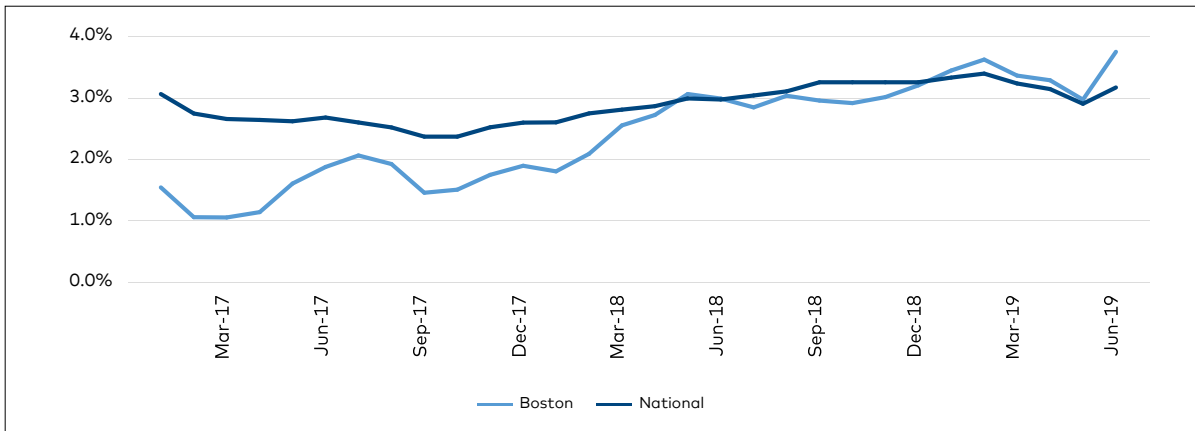


City: Boston  
Buyer: Oxford Properties Group  
Purchase Price: \$123 MM  
Price per Unit: \$632,051

## Rent Trends

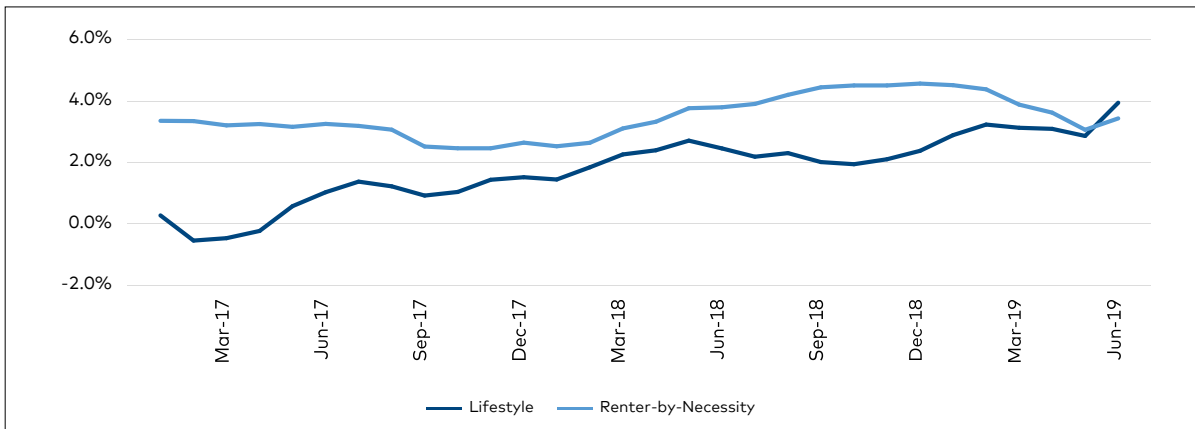
- Boston rents rose 3.8% year-over-year through June, the highest rate in three years and above the 3.3% national figure. The average rent reached \$2,323, topping the \$1,465 U.S. figure. On a trailing three-month basis, Boston had the second-highest rate of growth across major U.S. metros as of June—1.2%—second only to Seattle (1.3%).
- Surging home values, the addition of high-income jobs and Millennials seeking well-located modern units have increased demand for high-end rentals. Rates in the Lifestyle segment rose 3.9% to \$2,822, while rents for workforce Renter-by-Necessity units were up 3.4% to \$1,840.
- The North End–Charlestown submarket, adjacent to Boston’s downtown, recorded a 5.7% uptick in rents, the highest among core areas, and remained one of the metro’s most expensive with an average monthly rate of \$3,633. Only three submarkets had higher average rents as of June: the South End (\$4,048), South Boston (\$3,797) and Boston–Downtown (\$3,663).
- Despite the significant inventory expansion, occupancy was down just 10 basis points over 12 months, at 96.2% as of May. With the number of deliveries expected to peak in 2019, rent growth for the year is anticipated to moderate slightly. We expect the average Boston rent to advance 3.5% 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)

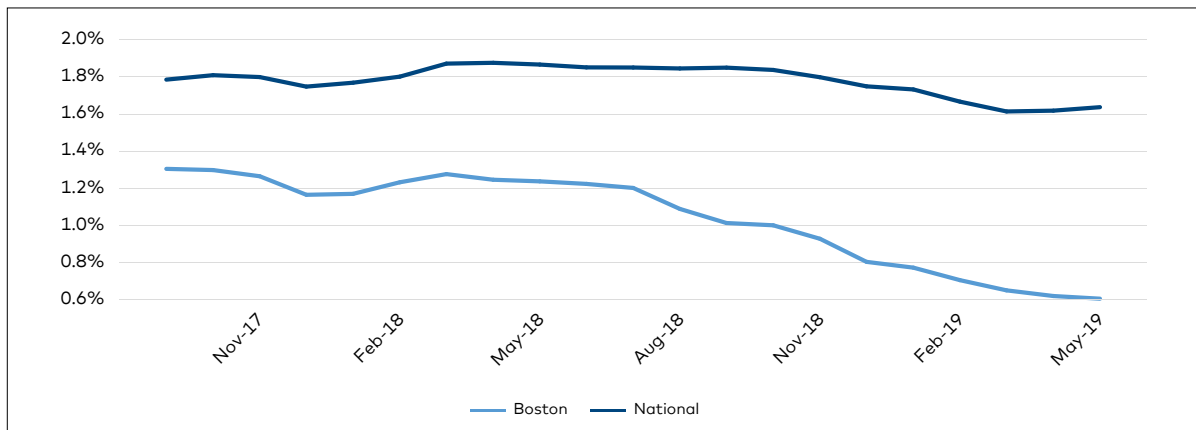


Source: YardiMatrix

## Economic Snapshot

- Boston added 22,300 jobs in the 12 months ending in May for a 0.6% expansion, 100 basis points behind the U.S. figure. The pace of employment growth started to slow down in the second part of 2018, the rate falling under the 1.0% threshold in the fourth quarter.
- Education and health services led gains (11,500 jobs), followed by government (5,200 jobs) and professional and business services (5,000 jobs). At the same time, the metro lost 5,300 net jobs across four sectors. While Boston continues to solidify its primary economic sectors, it is also becoming a very competitive tech market. Boston occupies the fourth spot for tech degree completions, according to CBRE's 2019 Scoring Tech Talent report. The research shows that the metro, together with Washington, D.C., and Los Angeles, produces much more tech degrees than available jobs. Between 2012 and 2017, more than 37,700 degrees were completed, a 61% increase, while only 3,710 jobs were added between 2013 and 2018.
- In addition to its tax relief agreements for economic development, the local government is set to invest \$2.8 billion over the next five years to improve infrastructure. At the same time, more than 10% of new city funding is slated to go toward climate-resilient projects, particularly in East Boston, Charlestown and South Boston.

### 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	744	21.1%	11,500	1.6%
90	Government	413	11.7%	5,200	1.3%
60	Professional and Business Services	600	17.0%	5,000	0.8%
50	Information	93	2.6%	2,300	2.5%
15	Mining, Logging and Construction	153	4.3%	2,100	1.4%
80	Other Services	133	3.8%	1,500	1.1%
40	Trade, Transportation and Utilities	542	15.4%	-600	-0.1%
55	Financial Activities	233	6.6%	-800	-0.3%
30	Manufacturing	239	6.8%	-1,100	-0.5%
70	Leisure and Hospitality	374	10.6%	-2,800	-0.7%

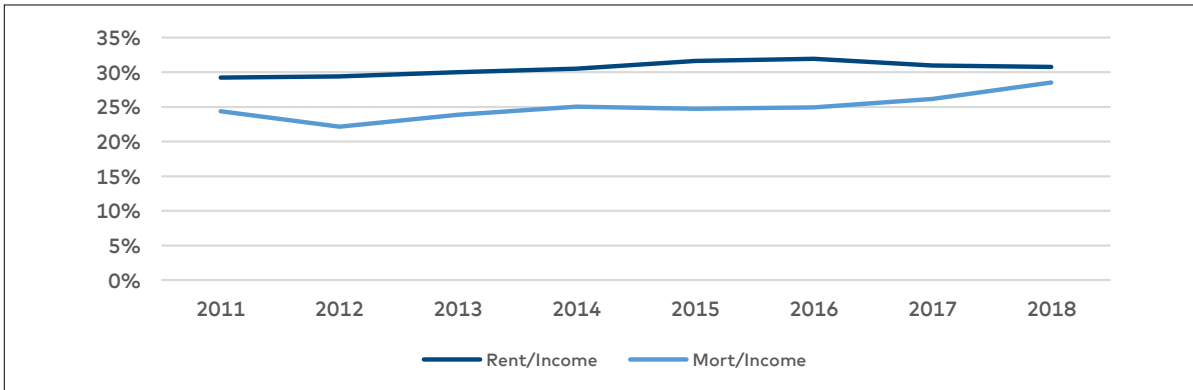
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

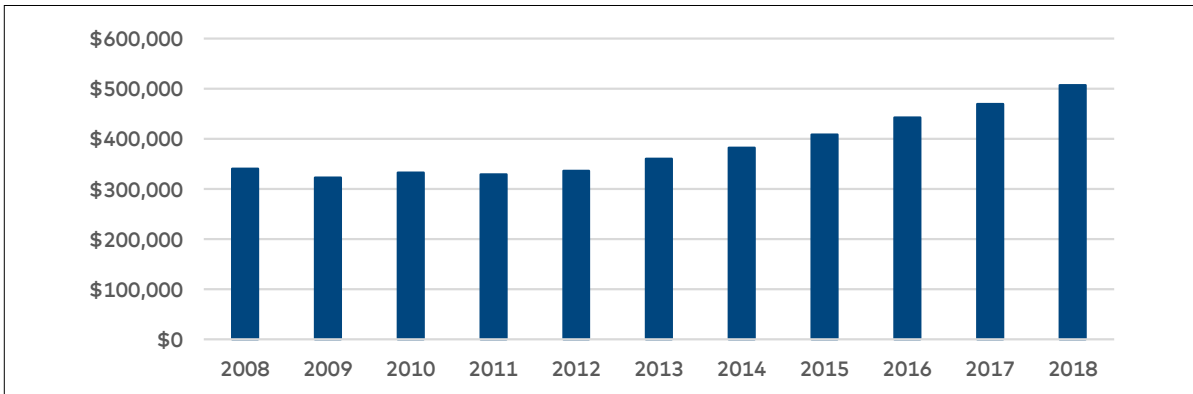
- The median home price in Boston peaked at \$507,032 in 2018, up 8.1% for the year and 57.3% since 2009, when the market bottomed out. The metro's median home price appreciated at an average 7% rate since the last downturn.
- The average rent accounted for 31% of the area median income last year, while the average mortgage payment comprised 29% of the same amount. Boston updated its affordable housing plan in 2018 and aims to add 69,000 new units by 2030. This year, the city increased its funding for addressing affordable housing challenges by 45%, according to Moody's.

### 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 added 13,600 residents in 2017 for a 0.7% uptick.
- Millennials make up 23% of Boston's population, according to a 2018 report by Politico, and have the greatest impact on its economy.

### Boston vs. National Population

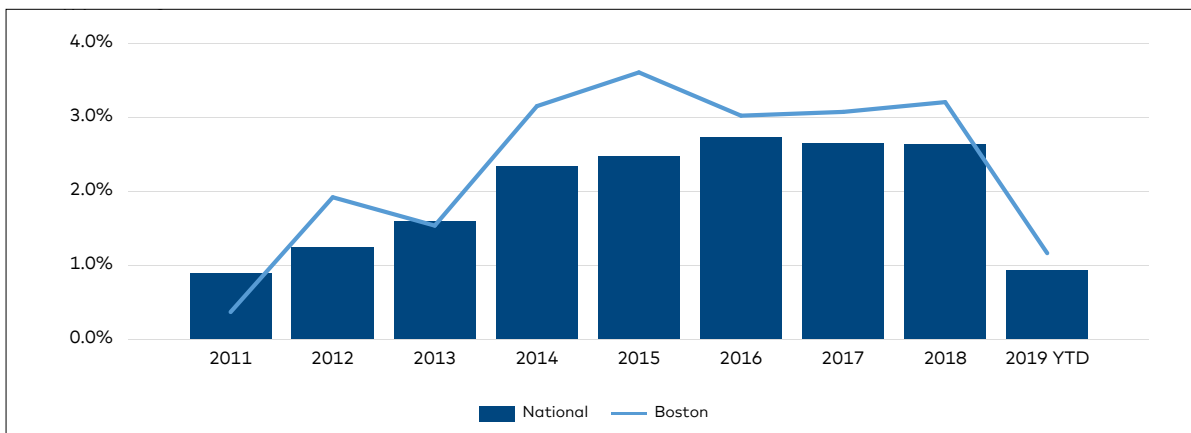
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Boston Metro	1,952,713	1,970,027	1,984,994	1,999,803	2,013,403

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

## Supply

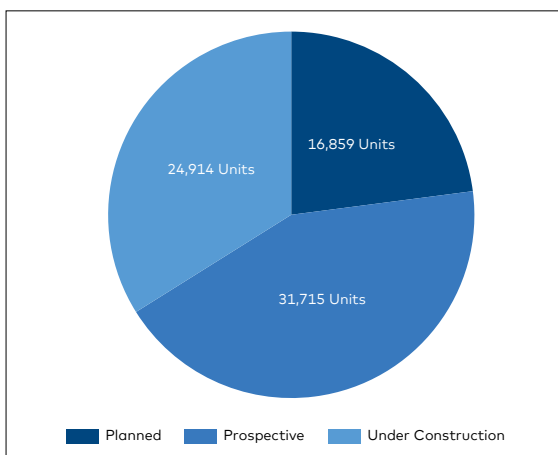
- A total of 2,592 units were delivered in Boston in the first half of 2019, but the bulk of new supply is expected to come online over the last two quarters, bringing the total to 7,894 units for the year—a projected peak for this prolonged cycle.
- The pace is expected to keep going further, as Boston had 24,914 units under construction as of June and nearly 49,000 apartments in the planning and permitting stages. The metro’s favorable demographic expansion continues to fuel demand, ensuring the steady absorption of new supply. More than 7,500 apartments were absorbed in the 12 months ending in June.
- Mirroring trends in other Millennial-driven markets with a solid tech sector, development activity is concentrated in core submarkets and most projects also include commercial uses. North End–Charleston led the way as of June, with 4,025 units under construction, with more than half set to come online within the 43-acre, 4.5 million-square-foot Cambridge Crossing development. East Boston–Chelsea (2,215 units), South Boston (1,475 units), North End–Charlestown (1,207 units) and Brighton (963 units) rounded out the top five.

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



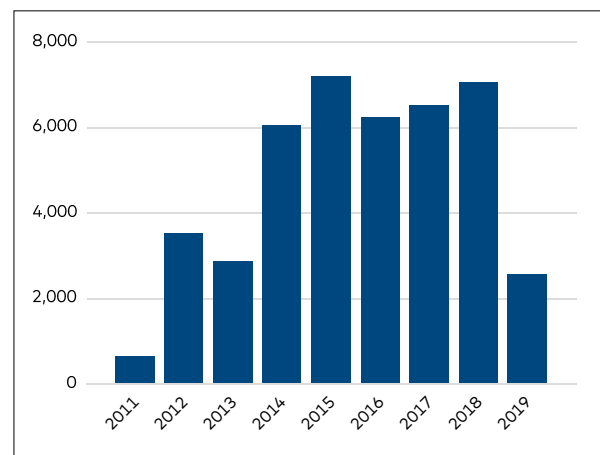
Source: YardiMatrix

**Development Pipeline** (as of June 2019)



Source: YardiMatrix

**Boston Completions** (as of June 2019)

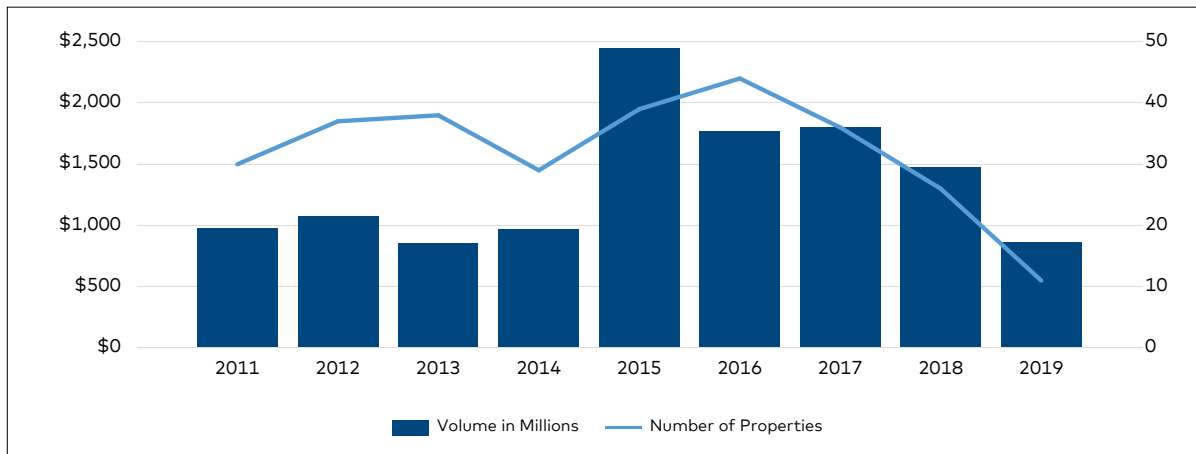


Source: YardiMatrix

## Transactions

- Boston multifamily sales totaled \$858 million in the first half of the year. Investment activity is expected to exceed 2018, when 26 assets traded for a total of \$1.5 billion, but is still well below the \$2.4 billion cycle peak recorded in 2015. After hitting its highest point of the cycle last year, the average price per unit dipped 16% to \$268,853 as of June, still well above the national average of \$157,028.
- In preparation for the expected economic slowdown ahead, investors mostly targeted well-located upscale assets, with acquisition yields ranging between 3.8% and 5.0% for stabilized properties. The sale of the 1,020-unit Jefferson Hills in Framingham is illustrative. DSF Group purchased it from LivCor for \$227 million in the largest deal closed in the metro over the first six months of 2019. The price has risen approximately 12% since 2015, when the asset last traded.

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



Source: YardiMatrix

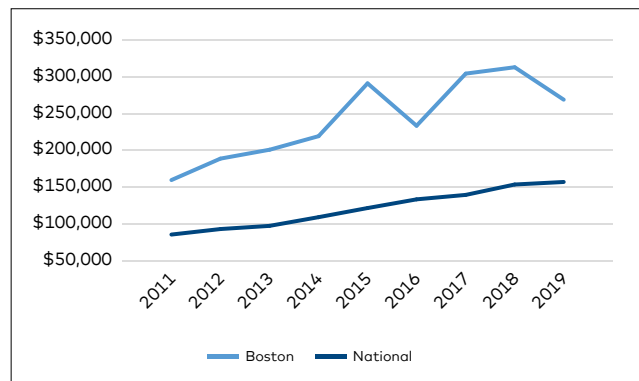
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Fenway Kenmore	273
Framingham	227
Boston-Downtown	216
Manchester	156
Reading	128
East Boston-Chelsea	104
Marlborough	65
Dedham	65

Source: YardiMatrix

<sup>1</sup> From July 2018 to June 2019

**Boston vs. National Sales Price per Unit**



Source: YardiMatrix

## News in the Metro

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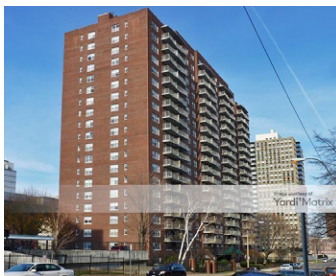
### Boston-Area Development Gets \$23M Loan

The financing includes funds from MassHousing's \$100 million Workforce Housing Initiative. Just-A-Start intends to create 23 new apartments and preserve 65 units for low-income residents.



### 1,020-Unit MA Community Commands \$227M

An affiliate of the DSF Group acquired the multifamily property, located in Framingham, from LivCor. The rental community is spread across 27 acres.



### Equity Residential Makes \$165M Sale

ING Group provided LaSalle Investment Management and Jefferson Apartment Group with more than \$104 million in acquisition financing for a rental community.



### Brookline Community Lands \$30M In Financing

Working on behalf of Forest Properties, American Street Capital arranged the non-recourse loan for the 111-unit Barclay on Beacon.



### Jones Street Scores \$31M Construction Loan

Boston Realty Advisors secured the five-year mortgage from Cambridge Savings Bank for the construction of a mixed-use development in an Opportunity Zone in North Attleboro.



### New England Portfolio Secures \$164M Refi

The 14 communities totaled 1,620 units are spread across Greater Boston and suburban New Hampshire. PGIM Real Estate Finance originated the Fannie Mae loan used to retire existing debt.





## Why Co-Living Is Here to Stay

By Laura Calugar

According to a recent Federal Reserve Bank of Boston report, some 25 cities and towns across Massachusetts—including Boston—are bound to lose all of their subsidized housing by 2025 because of the likely expiration of subsidies and the expected conversion of subsidized housing to market-rate units.

Bungalow Co-Founder & CEO Andrew Collins makes the case for co-living as a solution to the affordable housing crisis and discusses his company's most recent expansion.

*How serious is the affordable housing crisis in Boston nowadays?*

There's simply not enough affordable housing stock, and zoning laws often prohibit building infill density in urban centers. Boston, specifically, is one of the most expensive cities in the U.S. and it's also one of the oldest, which means there's very little available land left to build new, affordable housing. To their great credit, city leaders are working hard to build more housing and incentivize developers to help preserve economic diversity, but it will take time and it's hard to say how "affordable" new housing units will be.

*Why did you pick Boston and not another metro with low affordability to expand?*

Boston is one of the most popular cities with Millennials and it's one of the most expensive cities in the country. It was clear that there's a need in Boston for more desirable rental units right now. That said, we're expanding rapidly and seeing the same need in many cities across



the country—it's not confined to cities like Los Angeles, New York City, San Francisco and Boston.

*What are the perks of living in such rentals?*

Renters get much more than just a room: Prescreened roommates, community events (that they actually want to go to), services like cleaning and utilities taken care of and the ability to move without the financial risk. Housemates also tell us they're forming relationships with diverse groups of people they wouldn't otherwise meet and building incredibly strong support networks. It's a New

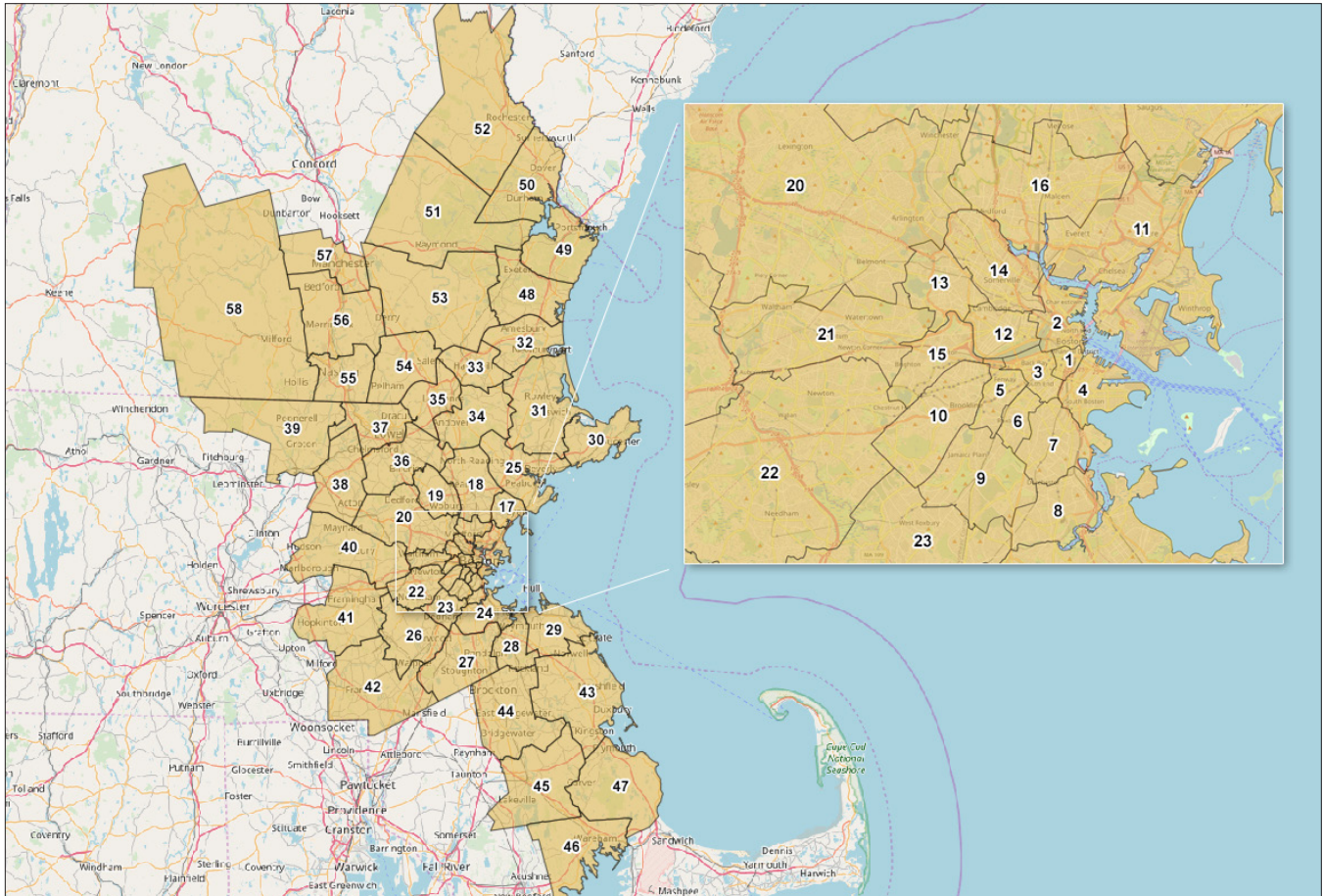
World take on communal living, and, of course, it's not for everyone.

*How do you expect the co-living sector in Boston and across the U.S. to evolve going forward?*

It's clear that co-living isn't just a fad—it's a response to both what's happening with rents in cities and a younger generation's shifting values when it comes to renting and buying homes. I've always believed that smaller footprint, more communal living is the future of how we'll live in cities, but the demand we're seeing across the country exceeds even my expectations. But there's a caveat: The term "co-living" is so new and it's increasingly being used for developments that are just luxury high-rises—rebranded and with less personal space. I don't think that's stopping anytime soon and we'll continue to see developers investing hundreds of millions in massive adult "dorms" with micro units that aren't actually affordable or a desirable way to live.

*(Go to [multihousingnews.com](http://multihousingnews.com) to read the complete interview.)*

## Boston Submarkets



Area #	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 #	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

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## 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](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.



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