



Yardi® Matrix

Boston Keeps Up Its Momentum

Multifamily Report Fall 2019

Transaction Activity Accelerates

Occupancy Rate Tops National Average

Development Targets Urban Core

Market Analysis

Fall 2019

Contacts

Paul Fiorilla

Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Laura Calugar

Senior Associate Editor

Demand, Supply Surge Together

Boston's rental market will end the year on a high note, backed by robust demographic and economic growth. Despite a consistent pipeline over several years, demand kept up the pace. As a result, rents rose 3.9% year-over-year through October 2019, while occupancy inched up 20 basis points to 96.6% in the 12 months ending in September.

Education and health services, and professional and business services accounted for two-thirds of jobs gained in the 12 months ending in September. The high-paying industries the region is known for are stimulating developers, who continue building large-scale, mixed-use projects. The Abbey Group is demolishing the former Boston Flower Exchange building to make room for a \$600 million commercial, tech and life science project. Shovels also hit the ground for the office component of the \$1.5 billion Bulfinch Crossing. Public projects are also in the works: The \$2.3 billion Green Line extension is roughly 20% complete and Logan International Airport is preparing for a \$2 billion upgrade over the next five years.

Nearly \$2.1 billion in multifamily assets changed ownership and more than 4,350 units came online in Boston in the first 10 months of 2019. However, considering the pace of job gains in burgeoning high-paying industries, we expect rent growth to remain robust going into 2020.

Recent Boston Transactions

The Commons at Windsor Gardens



City: Norwood, Mass.
Buyer: UDR
Purchase Price: \$270 MM
Price per Unit: \$295,405

Alterra at Overlook Ridge



City: Revere, Mass.
Buyer: Rockpoint Group
Purchase Price: \$206 MM
Price per Unit: \$284,972

The Chase at Overlook Ridge



City: Malden, Mass.
Buyer: Rockpoint Group
Purchase Price: \$120 MM
Price per Unit: \$181,222

Riverbend on the Charles

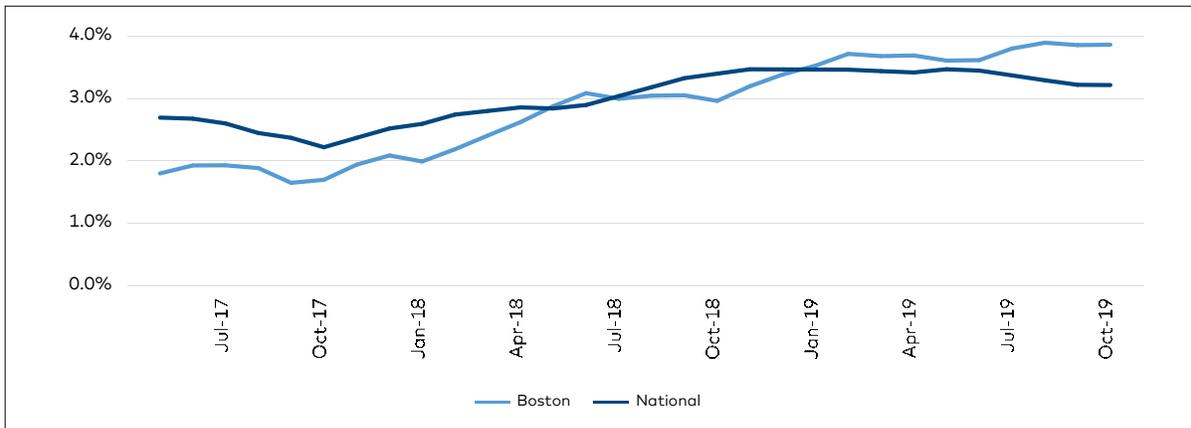


City: Watertown, Mass.
Buyer: Harbor Group International
Purchase Price: \$76 MM
Price per Unit: \$447,941

Rent Trends

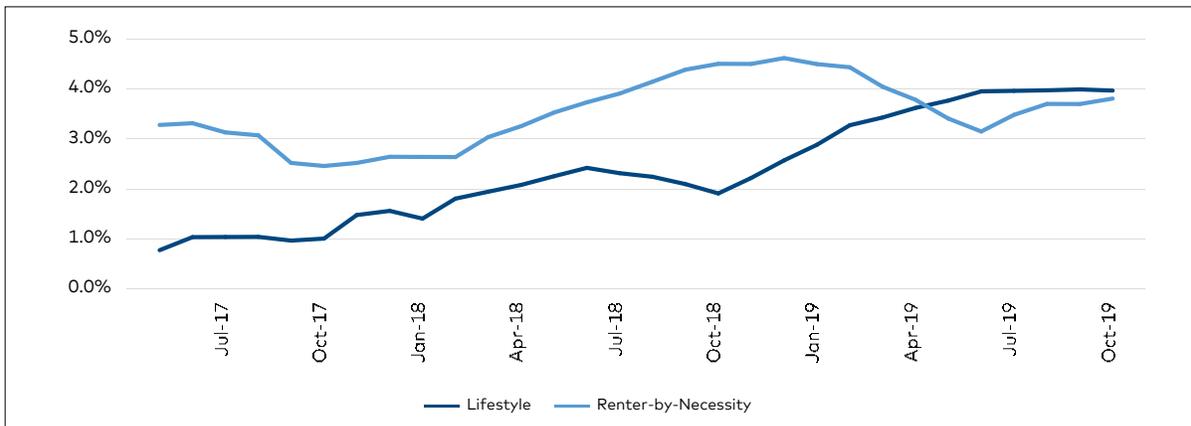
- Boston rents rose 3.9% year-over-year through October, 70 basis points above the national rate. The metro's average rent stood at \$2,311, topping the \$1,476 U.S. figure. However, on a trailing three-month basis, tech markets such as San Jose (-0.5%), Seattle (-0.3%), Boston (-0.1%) and San Francisco (-0.1%) recorded declines. These same tech markets are also the most volatile in the short term, having been at or near the top of the T-3 rankings earlier this year. Considering the high competition for top tech talent in metros such as Boston, there seems to be a correlation with rapidly growing rents in the summer, when graduates find their first jobs, followed by a significant seasonal slowdown.
- High-end apartments continue to be in high demand, with rents in the Lifestyle segment—up 4.0% to \$2,778—leading growth. Rents in the working-class Renter-by-Necessity segment increased 3.8% year-over-year through October, reaching \$1,855.
- A mismatch between lasting demand and somewhat low supply sparked rent increases across the map, particularly in the suburbs, with rates rising at a fast pace in northern submarkets such as Derry (6.8%) and Dover (6.7%). The region's healthy economy is also keeping rents high within or close to the city's core, including in the South End (\$3,953), South Boston (\$3,732), Downtown (\$3,611), the North End-Charlestown (\$3,515), Cambridge-South (\$3,306) and Fenway Kenmore (\$3,060).

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)

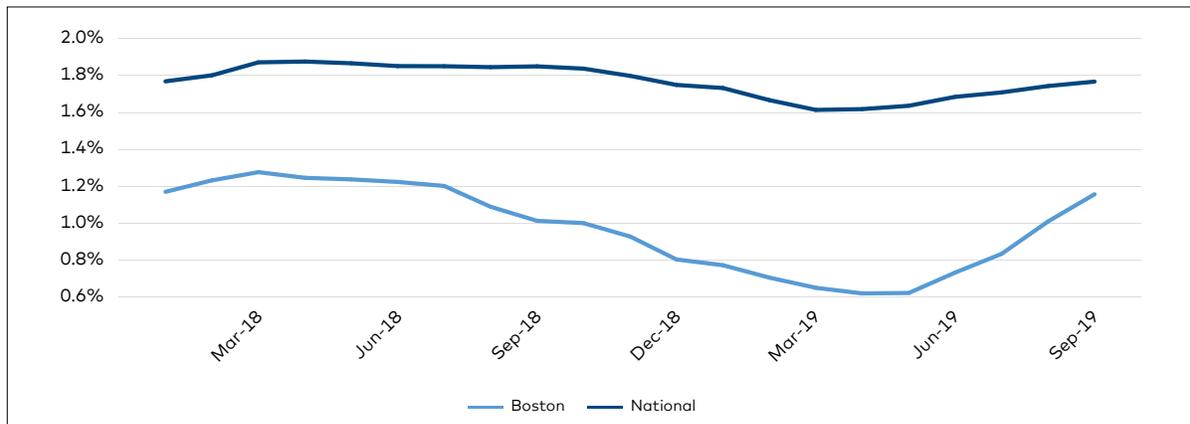


Source: YardiMatrix

Economic Snapshot

- Boston gained 50,200 jobs in the 12 months ending in September for a 1.2% uptick and 60 basis points below the national average.
- Economic growth was led by education and health services (19,800 jobs). The Massachusetts House approved a seven-year plan to invest \$1.5 billion into the state's public education system, which should further boost the sector in the long run. Professional and business services came in second with 13,000 jobs. Biotech, life sciences and research also remain a thriving part of the local economy.
- Several large mixed-use projects are in the works, including Millennium Partners' 1.6 million-square-foot Winthrop Square Tower, John Rosenthal's \$500 million Fenway Center, and The Abbey Group's \$600 million development on the Flower Exchange site in the South End. Two sizable projects, Nexus and The Volpe Center, are also expected to bring new businesses and high-paying jobs, while putting more pressure on the public transit system. MBTA's \$2.3 billion Green Line extension is roughly 20% complete, with the first cars scheduled to go into service at the end of 2021.
- Manufacturing was the only employment sector that contracted this past year (-2,300 jobs). Fogarty, Nestle and The Coca-Cola Co. were among the companies that announced layoffs over the past year.

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	748	21.1%	19,800	2.7%
60	Professional and Business Services	614	17.3%	13,000	2.2%
90	Government	409	11.5%	6,500	1.6%
50	Information	95	2.7%	3,600	3.9%
55	Financial Activities	236	6.7%	3,000	1.3%
70	Leisure and Hospitality	379	10.7%	2,900	0.8%
15	Mining, Logging and Construction	155	4.4%	1,900	1.2%
80	Other Services	130	3.7%	1,100	0.9%
40	Trade, Transportation and Utilities	541	15.3%	700	0.1%
30	Manufacturing	238	6.7%	-2,300	-1.0%

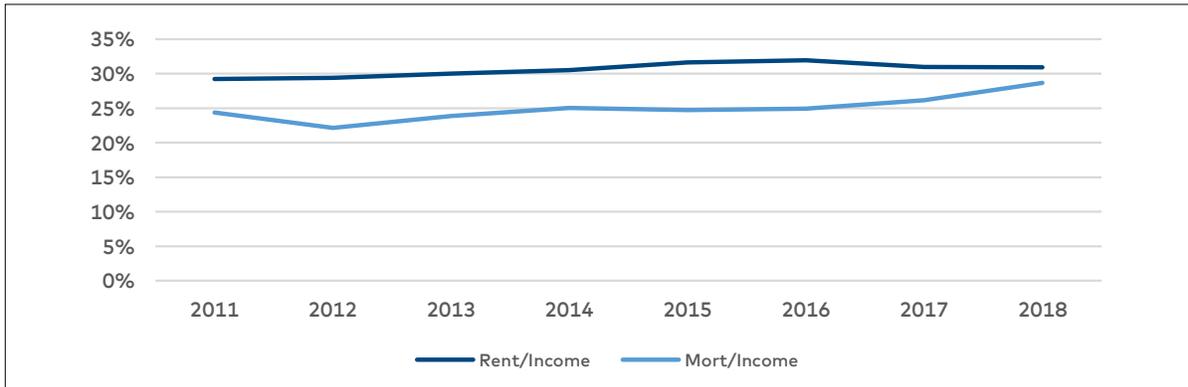
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

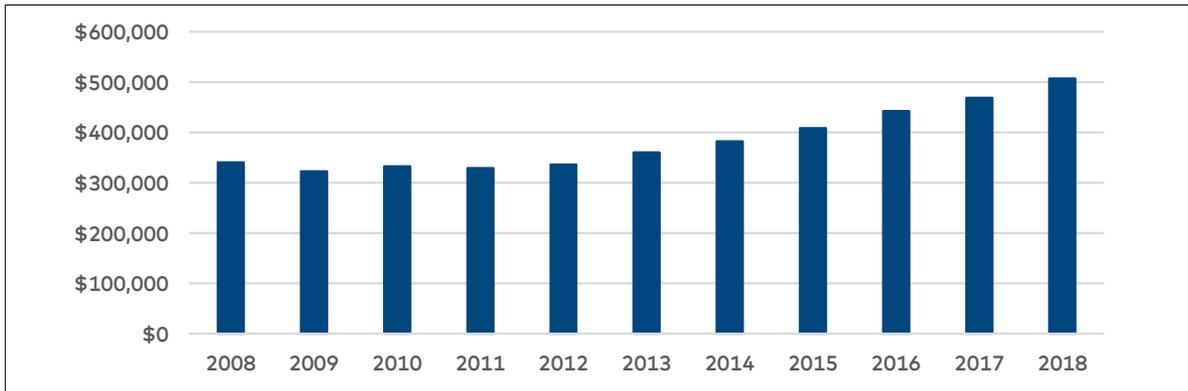
- The median home price in Boston exceeded the \$500,000 mark in 2018, up 49% over the past decade. Renting was slightly more expensive than owning, with the average rent accounting for 31% of the area median income, while the average mortgage payment equated to 29%.
- According to a recent report by the Massachusetts Smart Growth Alliance and six other organizations, state and local authorities are working on changing restrictive zoning and other requirements that hinder multifamily development. Additionally, Cambridge now requires 20% of every new project's net square footage to be reserved as affordable units.

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 13,031 residents in 2018, a 0.6% uptick, on par with the national average.
- The metro grew by nearly 136,000 residents between 2010 and 2018, which accounted for a 7.2% change.

Boston vs. National Population

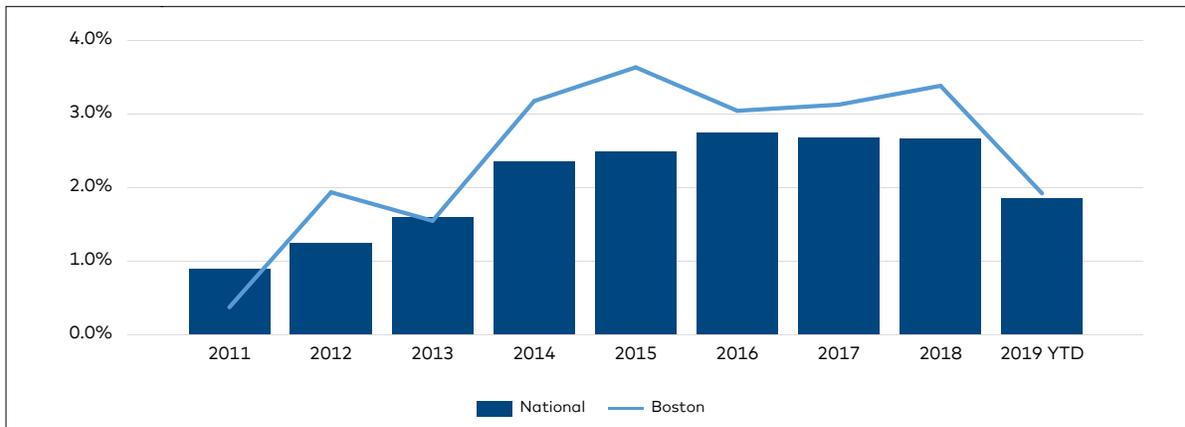
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Boston Metro	1,972,803	1,986,895	2,002,540	2,017,741	2,030,772

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

Supply

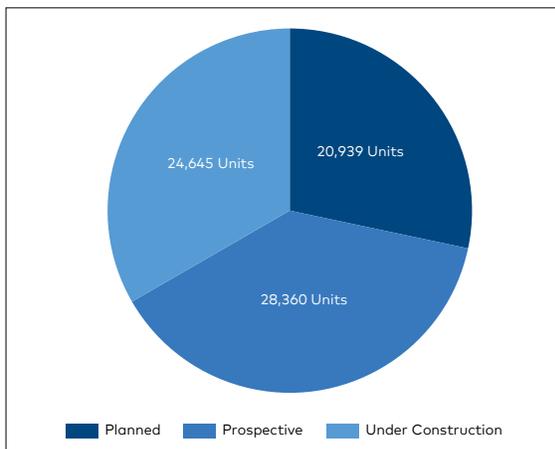
- Boston had 24,645 units under construction as of October, with 90% of those geared toward Lifestyle renters. The pipeline remained relatively healthy, particularly in core walkable submarkets, which are magnets for high-earning Millennials at tech and financial companies.
- Although deliveries decelerated in the first three quarters of 2019, a total of 4,354 units across 27 properties came online through October. Of those, only four communities were in the Renter-by-Necessity segment, reflecting an ongoing demand-supply imbalance that is putting additional pressure on workforce rental households.
- Construction is mainly concentrated in the urban core and along major thoroughfares. With 3,774 units underway, North End–Charleston leads the development pipeline. The submarket is home to the Cambridge Crossing megaproject, which has 2,400 units underway as well as a commercial component. East Boston–Chelsea (2,247 units), South Boston (1,475), Cambridge–South (1,148) and Downtown (1,008) also have consistent upcoming inventories.

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



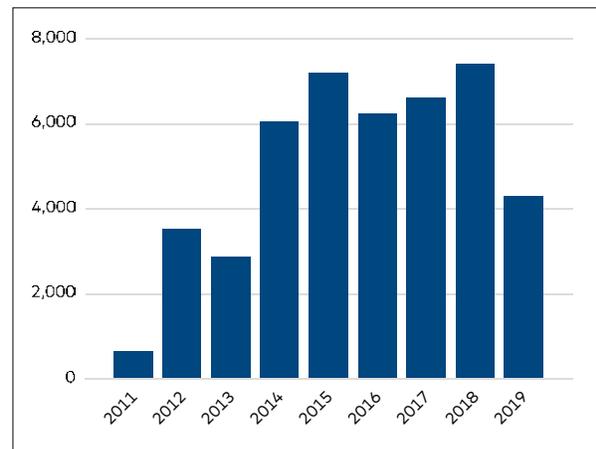
Source: YardiMatrix

Development Pipeline (as of October 2019)



Source: YardiMatrix

Boston Completions (as of October 2019)

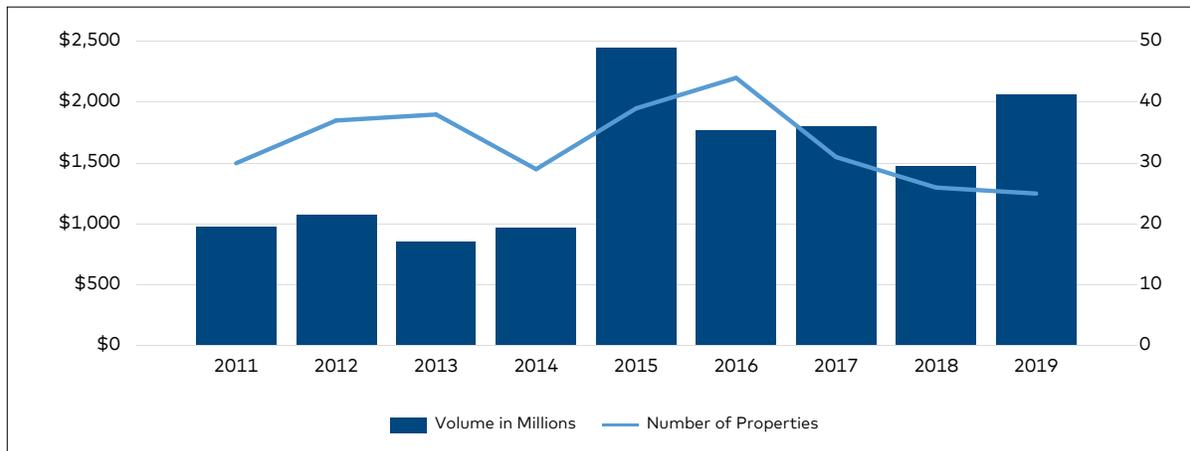


Source: YardiMatrix

Transactions

- Almost \$2.1 billion in multifamily assets changed ownership in 2019 through October, marking an acceleration from the past three years. Total investment activity for 2019 is likely to match or exceed 2015's cycle high of \$2.4 billion.
- Despite dropping 12% below 2018's numbers, the \$279,326 average per-unit price was still well above the \$162,889 national average. Yields for urban Class A stabilized assets remained in the 4.0% to 5.0% range.
- Fenway-Kenmore (\$439 million), an urban core submarket, attracted the most capital in the 12 months ending in October, followed by suburban areas such as Westwood (\$270 million) and Framingham (\$227 million). Acquisitions made by three companies—DSF Group, Rockpoint Group and UDR—accounted for almost half of the \$2.3 billion total transaction volume over the same period.

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



Source: YardiMatrix

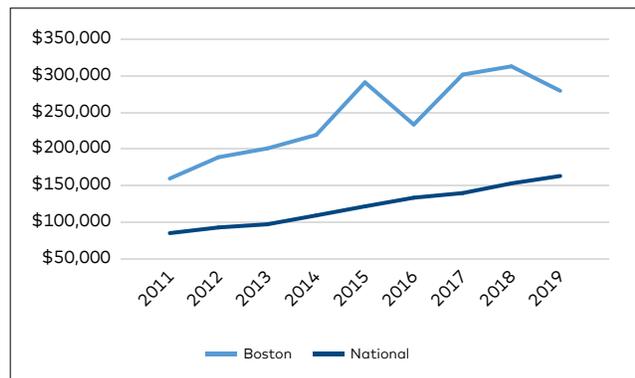
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Fenway Kenmore	439
Westwood	270
Framingham	227
East Boston-Chelsea	206
Waltham	161
Manchester	156
Malden	152
Reading	128

Source: YardiMatrix

¹ From November 2018 to October 2019

Boston vs. National Sales Price per Unit



Source: YardiMatrix



Secondary Locations Gain Popularity

By Evelyn Jozsa

Given its strong intellectual capital and healthy economics, Boston has a lot to offer. Soon, the metro's housing market will no longer be defined by its core urban pockets as developers gravitate toward secondary locations to avoid high costs, according to Travis D'Amato, managing director of property sales in Walker & Dunlop's Boston office. D'Amato discusses how investors and developers are shifting their approach in Boston's multifamily market.

How would you describe the current multifamily lending landscape in Boston?

There is an abundance of liquidity from every type of lender ranging from government-sponsored enterprises and life insurance companies to local, regional and national banks as well as debt funds.

What sets Boston apart from other East Coast markets?

Boston's stable base of world-class medical and educational institutions. This base of employment grows steadily and produces a well-paid, highly educated workforce. This growing demand coupled with high barriers to entry on the development side gives Boston one of the best supply-demand dynamics in the country.

With the current pipeline lagging demand, what can you tell us about the outlook for multifamily development in Boston?



There is desire and capital availability to build multifamily product from the urban core to the far suburbs, even New Hampshire and Rhode Island. We will see developers gravitate towards secondary markets to build projects as costs in the urban core continue to rise. I believe most of the pipeline going forward will be stick-built suburban product.

How is the market's affordability crisis impacting investment?

We are seeing investors buying in more "price-appropriate" markets. Instead of just buying in the urban

core at top-of-the-market rents, they are willing to invest further and further out, into markets where the total dollar rents are lower. This benefits investors, because not only are they able to underwrite higher rent growth from a lower starting point but this lower-cost housing is likely more recession-resistant.

What is the most important aspect investors should consider when deploying capital in Boston?

They should review the risk-adjusted return versus other markets. Our cap rates may be slightly lower, but our risk-adjusted returns are expected to be the highest in the country over the next several years. Investors should also be very knowledgeable about the micro-location surrounding the deal they are considering investing in. There are some pockets of supply, and every deal has its own risk profile.

(Read the complete interview on www.multihousingnews.com.)

News in the Metro

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Historic Community Lands \$10M Loan

In a deal arranged by Hunt Real Estate Capital, the 47-unit Navy Yard Apartments received financing through Fannie Mae.



Mack-Cali Spends \$820M in Boston, New Jersey Trades

The REIT's purchases included Chase at Overlook Ridge and Alterra at Overlook Ridge, just outside of Boston.



High-Rise Changes Hands for \$29M

Capstone Apartment Partners' Stasiu Geleszinski, Austin Green and AJ Klenk brokered the sale of the 24-story tower in Worcester. The team also procured the buyer.



Colliers International Arranges Sale

The firm represented the seller in the disposition of a 112-unit Class A community in Millbury. Charger Ventures acquired the property for \$17.5 million.



South Massachusetts Community Breaks Ground

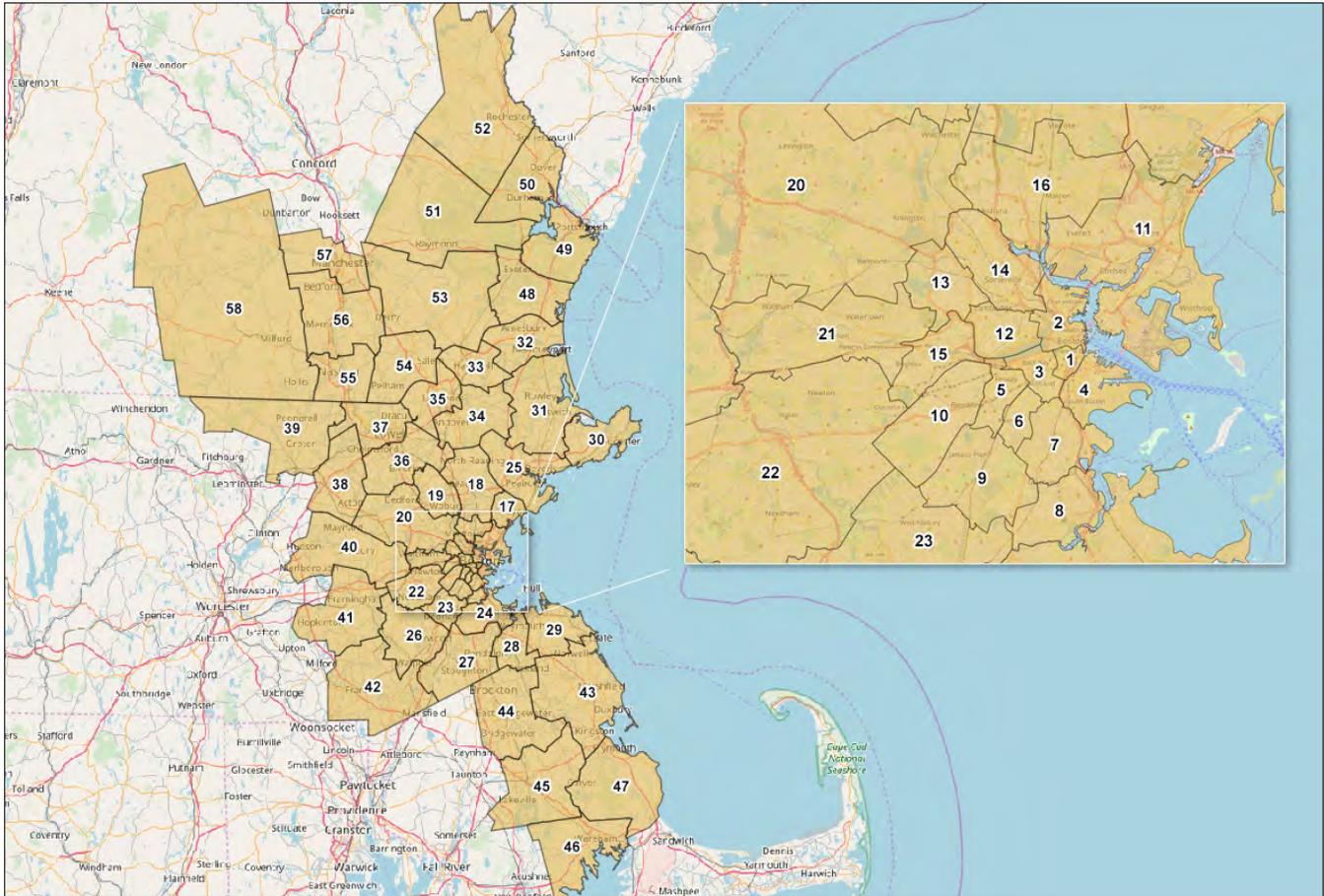
Mill Creek Residential is developing Modera Marshfield, a 248-unit project in Marshfield. The property is expected to open in late 2020.



Capitol Seniors Housing Opens Community

Stone Hill at Andover is operated by The Northbridge Cos. and features 96 units providing independent and assisted living as well as memory care.

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

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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