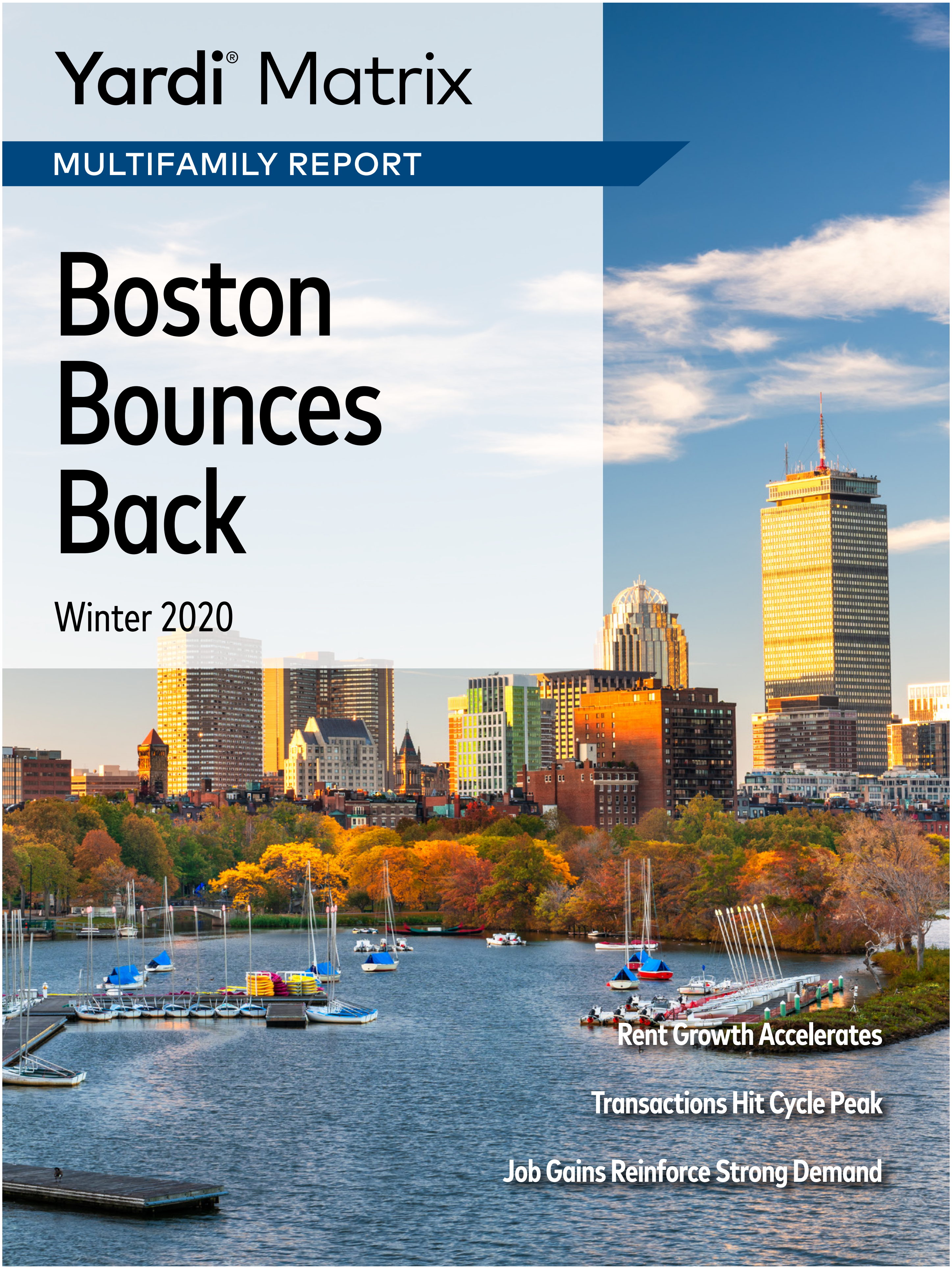
Yardi® Matrix

MULTIFAMILY REPORT

Boston Bounces Back

Winter 2020



Rent Growth Accelerates

Transactions Hit Cycle Peak

Job Gains Reinforce Strong Demand

BOSTON MULTIFAMILY

Yardi® Matrix

Job Additions Rebound, Rents Consistently Thrive

Boosted by the energetic addition of high-paying jobs, Boston's multifamily market is displaying healthy fundamentals for the first half of 2020. The average rent was up by 4.0% year-over-year through January, 100 basis points above the national rate, while the average occupancy in stabilized assets inched up 20 basis points over 12 months, to 96.4% as of December.

Boston's economy is once again on an upswing, adding 55,700 jobs in the 12 months ending in November 2019. The metro's top two sectors—education and health services and professional and business services—accounted for nearly two-thirds of gains. Projects underway include the $2.3 billion Green Line extension and the $2 billion Logan International Airport overhaul over the next five years. Boston's development pipeline also includes a handful of massive mixed-use projects—such as Bulfinch Crossing, Winthrop Square Tower, Cambridge Crossing, Allston Yards and Echelon Seaport—in addition to Amazon's new base in the Seaport District.

2019 marked a new cycle high for transactions closed, with more than $2.7 billion in assets changing ownership. Meanwhile, more than 6,000 units came online across the metro, with an additional 24,718 apartments underway as of January. Factoring in the metro's growth prospects and current pipeline, we expect the average Boston rent to advance by 3.5% this year.

Market Analysis | Winter 2020

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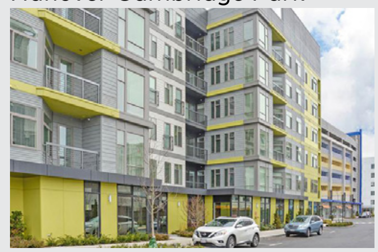
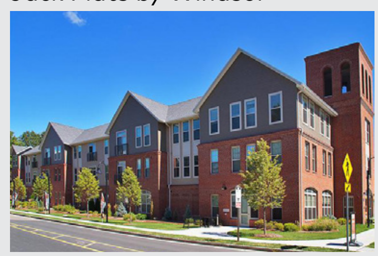
Recent Boston Transactions

Hanover Cambridge Park



City: Cambridge, Mass.
Buyer: Guardian Life Insurance Co.
Purchase Price: $150 MM
Price per Unit: $590,551

Jack Flats by Windsor



City: Melrose, Mass.
Buyer: GID
Purchase Price: $102 MM
Price per Unit: $479,717

The Westerly at Forge Park

City: Franklin, Mass.
Buyer: Bluerock Real Estate
Purchase Price: $84 MM
Price per Unit: $300,893

Mill Street Gardens

City: Woburn, Mass.
Buyer: The Hamilton Co.
Purchase Price: $57 MM
Price per Unit: $316,944

RENT TRENDS

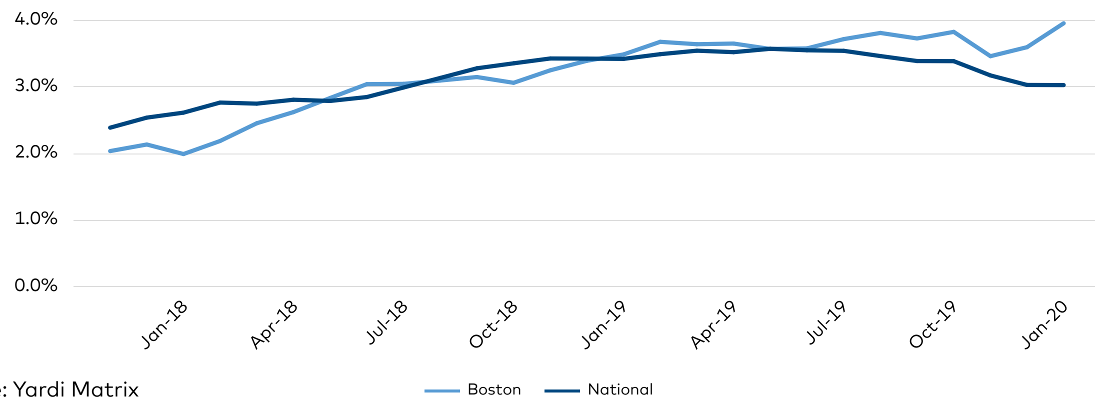
- Boosted by an accelerating economy, Boston rents were up 4.0% year-over-year through January, 100 basis points above the national figure. In the past three years, Boston's rates have mostly been aligned with national trends. This is the first time since March 2017 that the spread between the two rates went as high as 100 basis points. At the close of 2019, the average Boston rent was $2,312, above the $1,463 national figure.

- Although seasonality usually dampens rent growth during winter, Boston rents advanced by 10 basis points on a trailing three-month basis as of January. During the same period, rates contracted across 20 of the country's largest cities, including tech centers such as San Jose, San Francisco, Austin and Denver.

- Although the suburbs drove much of the rent growth in the 12 months ending in January, core submarkets with consistent pipelines still recorded steady gains on top of already high rates: South Boston (5.9% to $3,798), the North End-Charlestown (4.9% to $3,559), Cambridge-South (4.8% to $3,332) and Downtown (3.6% to $3,606).

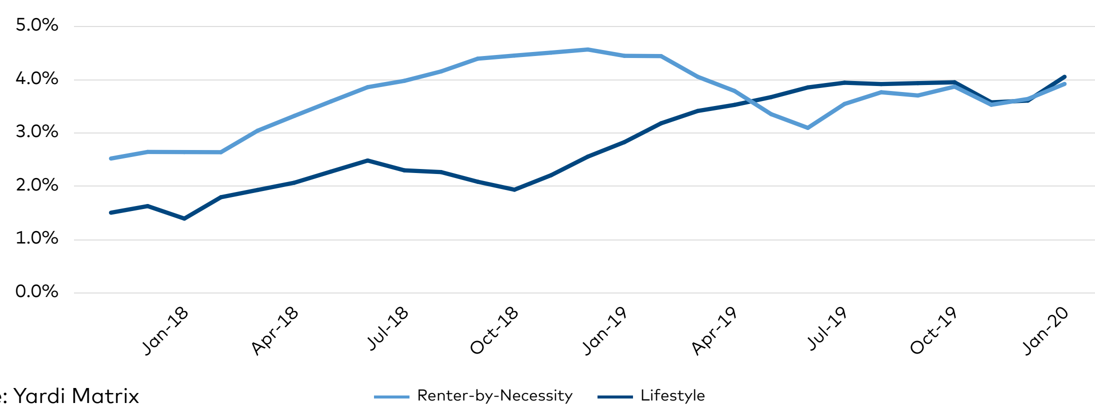
- Backed by a diverse economy, strong academic institutions and a highly educated workforce, Boston's rental market is on a healthy track, with demand surpassing supply across the quality spectrum. Considering the metro's prospects and pipeline, we expect the average Boston rent to advance by 3.5% this year.

Boston vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

Boston Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

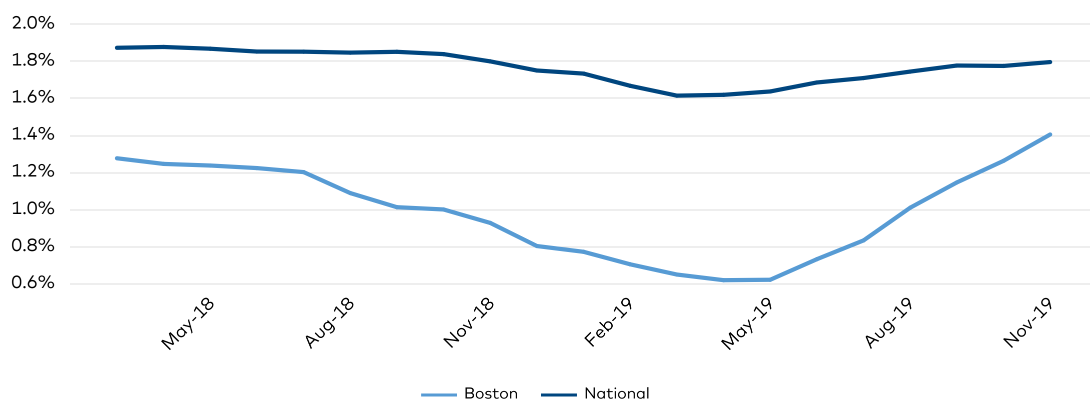
ECONOMIC SNAPSHOT

- Boston job gains picked up in the second half of 2019, with the metro gaining 55,700 positions in the 12 months ending in November. That marked a 1.4% uptick, 40 basis points behind the national average. Meanwhile, the unemployment rate clocked in at just 2.0% during the same period, down 90 basis points since January 2019.

- The two main pillars of the metro's economy—education and health services and professional and business services—accounted for nearly two-thirds of gains, as the area's universities, health-care institutions and tech and biotech clusters continued to grow. And as the metro is recording new lows in office vacancy, developers are busier than ever. According to Yardi Matrix data, Boston had nearly 13.5 million square feet of office space underway as of mid-February. This suggests that many of the housing market's tailwinds are slated to further boost rental demand in 2020, especially at the upper end of the quality spectrum.

- Looking beyond the handful of multibillion-dollar private-sector projects, Boston is taking steps to alleviate congestion issues brought on by rapid economic growth. The $2.3 billion Green Line extension is moving forward, while Logan International Airport is slated for a $2 billion overhaul over a five-year period.

Boston vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, Bureau of Labor Statistics (not seasonally adjusted)

Boston Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	766	21.5%	21,700	2.9%
60	Professional and Business Services	617	17.3%	12,500	2.1%
70	Leisure and Hospitality	359	10.1%	7,900	2.2%
15	Mining, Logging and Construction	156	4.4%	5,100	3.4%
50	Information	97	2.7%	3,200	3.4%
55	Financial Activities	235	6.6%	2,900	1.3%
90	Government	415	11.6%	2,000	0.5%
80	Other Services	130	3.6%	600	0.5%
40	Trade, Transportation and Utilities	555	15.6%	600	0.1%
30	Manufacturing	239	6.7%	-800	-0.3%

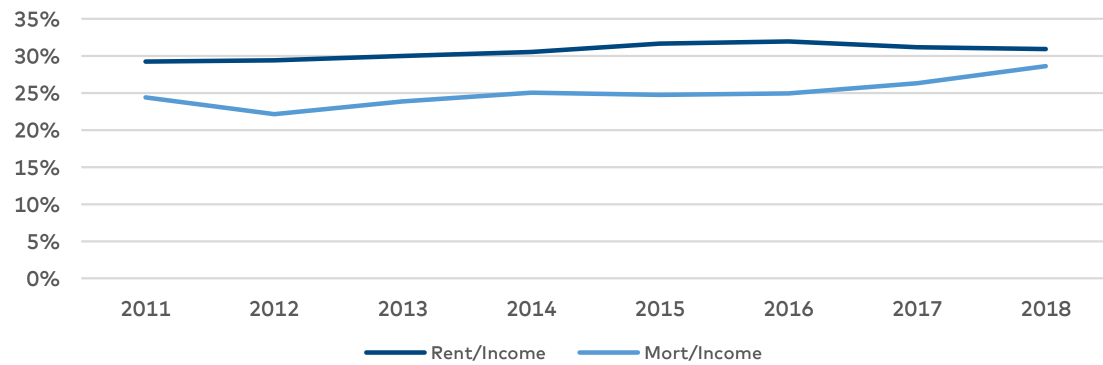
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

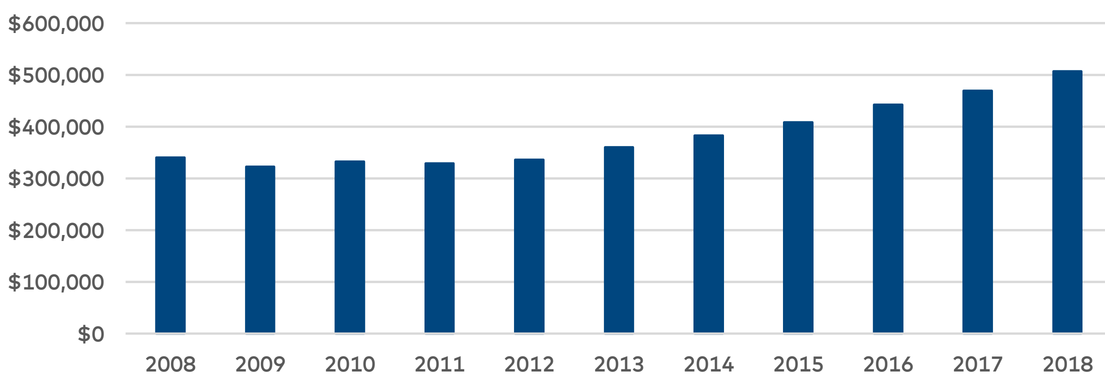
- After seven years of consistent upticks, Boston's median home price surpassed the $500,000 threshold in 2018. That marked a 54% hike from 2011, when the market bottomed out. There is little difference between renting and owning in Boston when it comes to affordability. The average mortgage payment accounted for 29% of the area median income, while the average rent equated to 31%.
- The healthy addition of high-paying jobs, coupled with low levels of new workforce housing, continued to fuel deepening affordability issues. As of January, Boston's average rent of $2,312 was the fourth-highest in the nation, trailing only New York City, San Jose and San Francisco.

Boston Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Boston Median Home Price



Source: Moody's Analytics

Population

- Boston gained 136,000 new residents between 2010 and 2018 for a 7.2% hike, above the 5.8% national figure.
- Like other large coastal metros, Boston's population growth during this cycle was almost exclusively driven by immigration.

Boston vs. National Population

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

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

SUPPLY

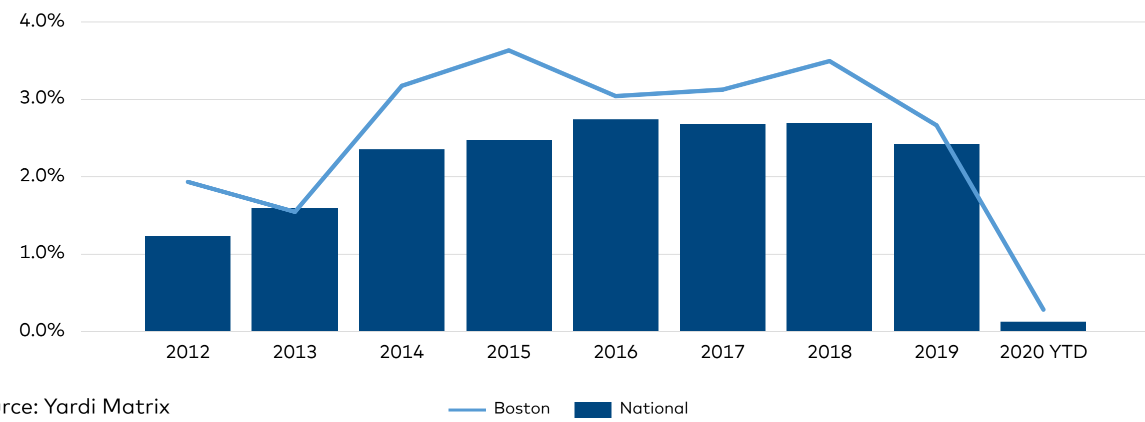
- Boston had 24,718 units under construction as of January, nearly 7,000 of which are expected to come online by the end of the year. In line with nationwide trends that have been evident throughout the cycle, most units in the pipeline are in upscale projects.

- Multifamily developers added 6,005 apartments to Boston's stock last year, coming in below the metro's 6,752-unit five-year average. The number of units delivered in 2019 accounted for 2.7% of total stock, just 30 basis points above the national figure in the context of accelerating job gains and a compressing occupancy rate.

- Submarkets within or close to the city's core continued to dominate the pipeline, led by the North End-Charlestown (3,774 units underway), East Boston-Chelsea (2,153), South Boston (1,590) and Cambridge-South (1,148).

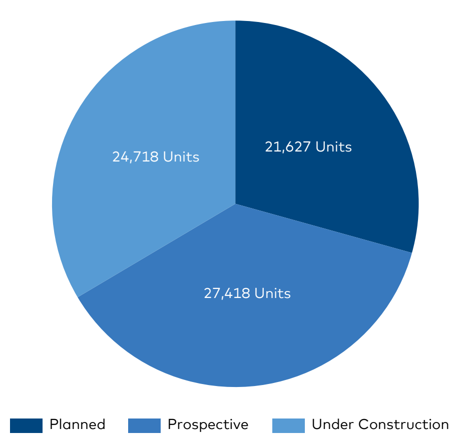
- DivcoWest's 2,400-unit residential component of the massive Cambridge Crossing master-planned development was the metro's largest upcoming project at the start of the year. The multi-phase, mixed-use development is slated to add a total of 4.5 million square feet upon full buildout, including 2.1 million square feet of life sciences and tech space. The project's second office building landed a $434 million construction loan at the beginning of this year.

Boston vs. National Completions as a Percentage of Total Stock (as of January 2020)



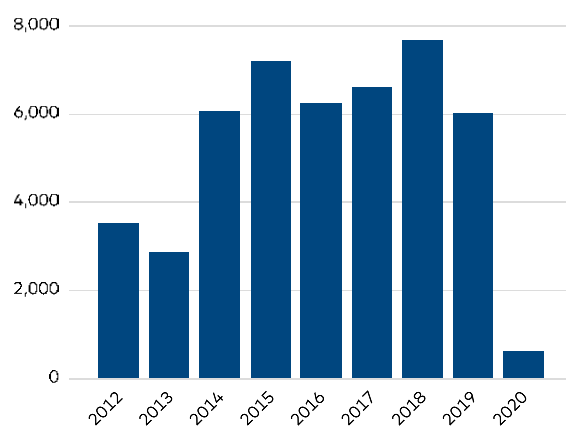
Source: Yardi Matrix

Development Pipeline (as of January 2020)



Source: Yardi Matrix

Boston Completions (as of January 2020)



Source: Yardi Matrix

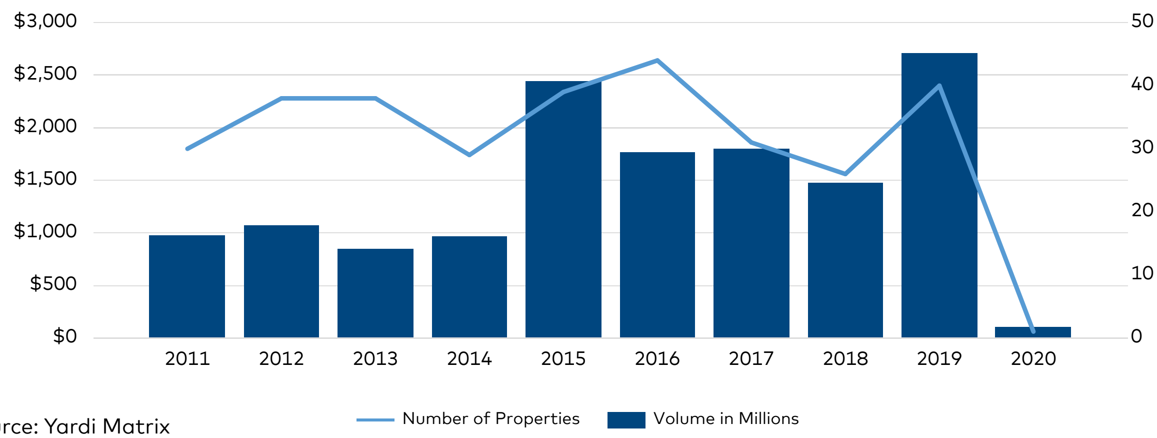
TRANSACTIONS

- A total of $2.7 billion in multifamily assets traded across Boston last year, a new cycle peak and nearly double the 2018 figure. At $295,073, the 2019 average per-unit price saw a slight drop, sliding by 5.6% since 2018, but remaining well above the $168,177 national figure.

- Late bloomers in the Southwest and Southeast have outperformed gateway markets over the past few years, but stable coastal metros such as Boston remained on the radar of large investors. As an example, the top 10 single-asset deals that closed in the 12 months ending in January totaled nearly $1.7 billion, with each individual deal exceeding the $100 million threshold.

- Suburban assets remained in high demand: In the 12 months ending in January, seven of the top 10 submarkets by transaction volume were in the suburbs.

Boston Sales Volume and Number of Properties Sold (as of January 2020)



Source: Yardi Matrix

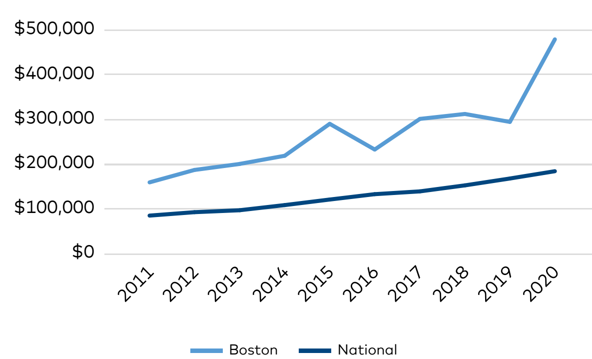
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Westwood	325
Fenway Kenmore	315
Framingham	292
East Boston-Chelsea	260
Malden	254
Manchester	168
Waltham	161

Source: Yardi Matrix

[1] From February 2019 to January 2020

Boston vs. National Sales Price per Unit



Source: Yardi Matrix

Co-Living Development: What to Know About This Emerging Sector

By Adina Marcut

In an interview with ***Multi-Housing News***, National Development Managing Partner Ted Tye talks about the company's co-living development, 7INK, located at 217 Albany St. in Boston—the seventh and final building of Ink Block. Despite a consistent pipeline in the past several years, demand for rental housing has kept up the pace. Tye explains how co-living provides an alternative for renters in a tight market like Boston.

According to Yardi Matrix data, National Development owns roughly 3,220 units in Boston. What attracted you to the area?

We have always liked Boston's foundation of educational and medical institutions that has provided the city with a strong employment base. Boston is a compact, walkable city with historic character and a strong sense of neighborhood. Today, the region's economy is robust, based primarily on a combination of new and developing businesses focused on technology and science.

Tell us about your most recent project, 7INK. What makes it stand out in today's competitive market?

7INK is the seventh and final building at our award-winning Ink Block development, built on a full city block in the South End that was previously the home of the *Boston Herald* newspaper. Ink Block has become one of Boston's hottest neighborhoods and includes apartments, condos, a hotel, dining and shopping and a Whole Foods Market. 7INK will be a 14-story, 180-unit co-living building—the first major co-living project in Boston. We researched co-living around the country and think that it is a great addition to our residential mix at Ink Block. We have leaned on Ollie, a New York-based innovator in co-living, for assistance in developing the concept and programming for 7INK.

How will the project impact Boston's multifamily market?

7INK will not be a major disruptor in the multifamily market. What it will do is provide another alternative for renters in a tight market that has experienced increased rents. Boston's mayor has set a goal of adding 69,000 new housing units to the city's supply. Additional housing of all types—including co-living, dormitories for Boston's many college students, apartments, etc.—will help meet demand and stabilize prices.

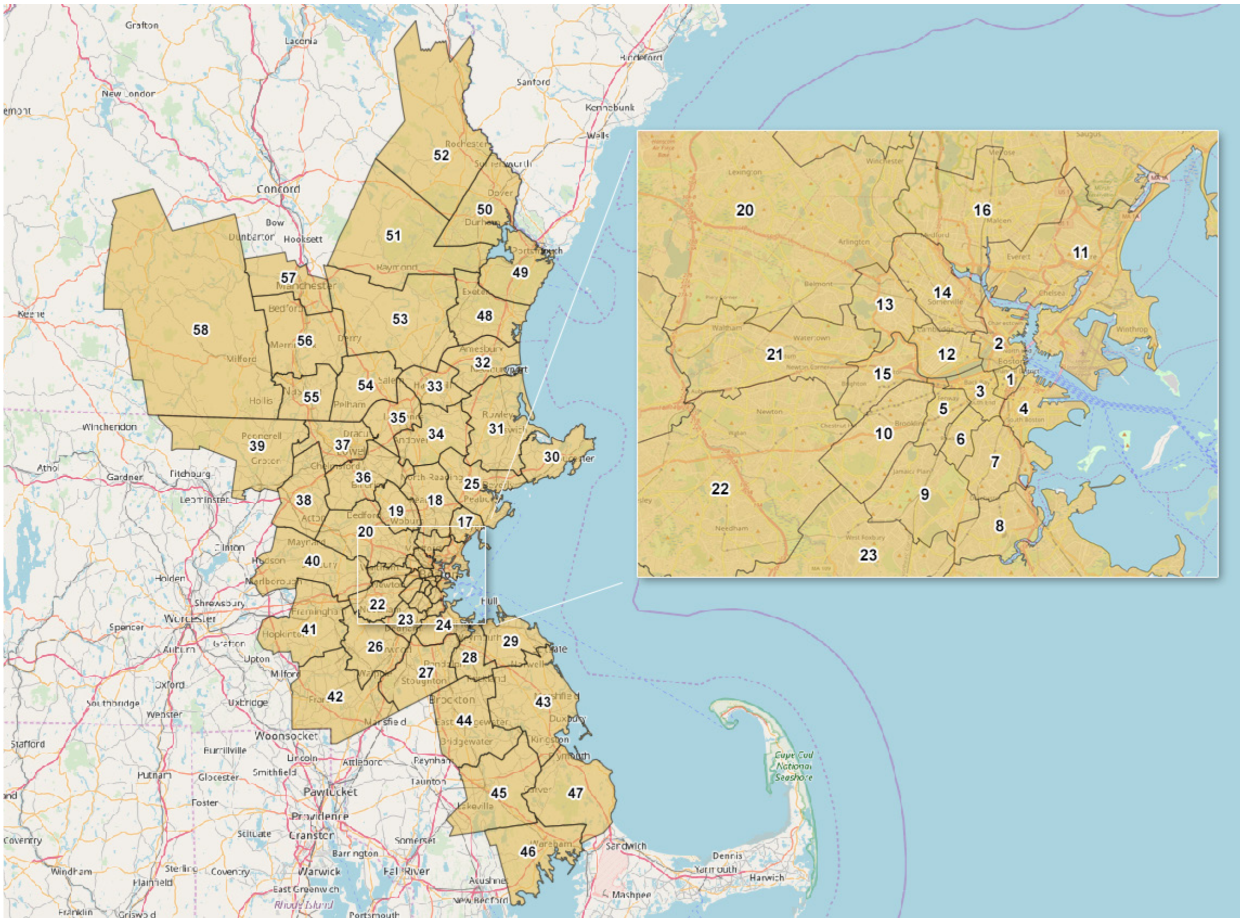
What is the most challenging aspect of developing new co-living projects?

Being the first mover in this area, developing co-living requires providing education to neighbors, regulatory authorities, lenders and potential tenants. From a cost perspective, these projects require a dense building plan with a high percentage of kitchen/bathroom and amenity space compared to overall area, so managing costs is a challenge.

What does the future hold for co-living developments in the metro?

I expect to see more variation of concepts within co-living. This will include projects of various sizes providing different levels of service to a wider range of demographics.

BOSTON SUBMARKETS



Area No.	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 No.	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 No.	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.

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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