



Yardi® Matrix

The Hub's Winning Streak

Multifamily Report Winter 2018

Job Growth Accelerates

Investor Interest Softens

Rent Growth Picks Up

Market Analysis

Winter 2018

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Rents Rebound, Building Boom Continues

Fueled by a growing economy and consistent job growth, Boston remains one of the country's most stable and reliable multifamily markets. After decelerating to 1.2% in spring 2017 due to heavy supply, year-over-year rent growth picked up in the second half of the year, reaching 2.3% in November.

Education and health services continued to lead growth, having generated 23,500 positions. Anchored by large academic institutions, health-care providers and firms involved in high-tech research and financial activities, the metro's economy remains on sound footing, generating high-paying jobs at a fast rate and pushing up demand for upscale housing. With several large-scale developments under construction, the city also has a spate of substantial mixed-use projects clearing legal hurdles and inching closer to breaking ground. The list includes Boston Properties' 7.6 million-square-foot Seaport Square, which recently got the green light for a denser master plan; the \$1 billion Winthrop Square high-rise, reduced from 775 to 702 feet high to meet MassPort standards; and the massive MIT Kendall Square project in Cambridge, which landed rezoning approval in October.

With investors more cautious as prices keep rising, roughly \$1.3 billion in assets traded in 2017 through November, marking a slight deceleration. Boston's development boom is poised to continue: The metro has almost 13,000 units under construction, the majority of which are slated to come online in 2018.

Recent Boston Transactions

The Commons at Windsor Gardens



City: Norwood, Mass.
Buyer: AllianceBernstein
Purchase Price: \$199 MM
Price per Unit: \$217,724

Harborview at the Navy Yard



City: Charlestown, Mass.
Buyer: John Hancock Mutual
Purchase Price: \$149 MM
Price per Unit: \$666,295

Bell Olmsted Place



City: Jamaica Plain, Mass.
Buyer: Bell Partners
Purchase Price: \$103 MM
Price per Unit: \$524,112

Villas at Old Concord



City: Billerica, Mass.
Buyer: Barings
Purchase Price: \$87 MM
Price per Unit: \$266,975

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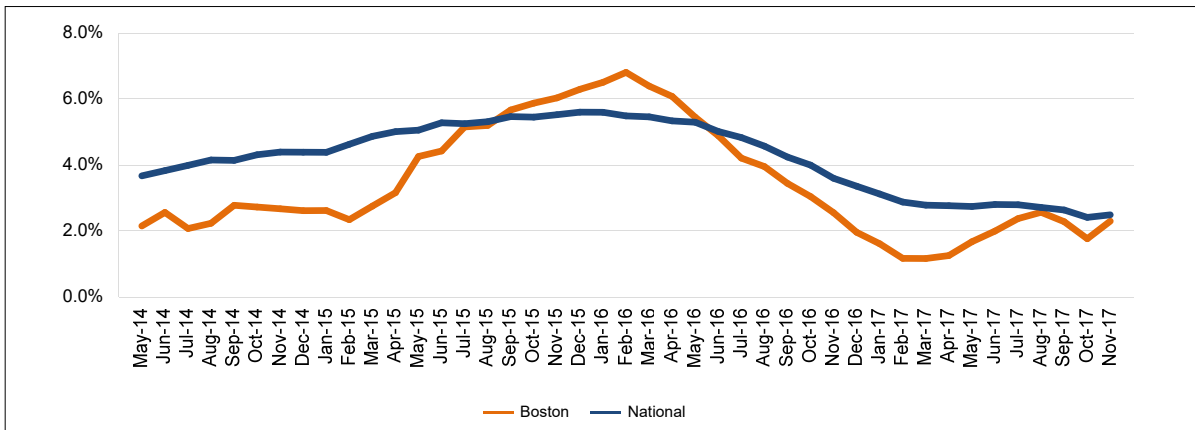
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Rent Trends

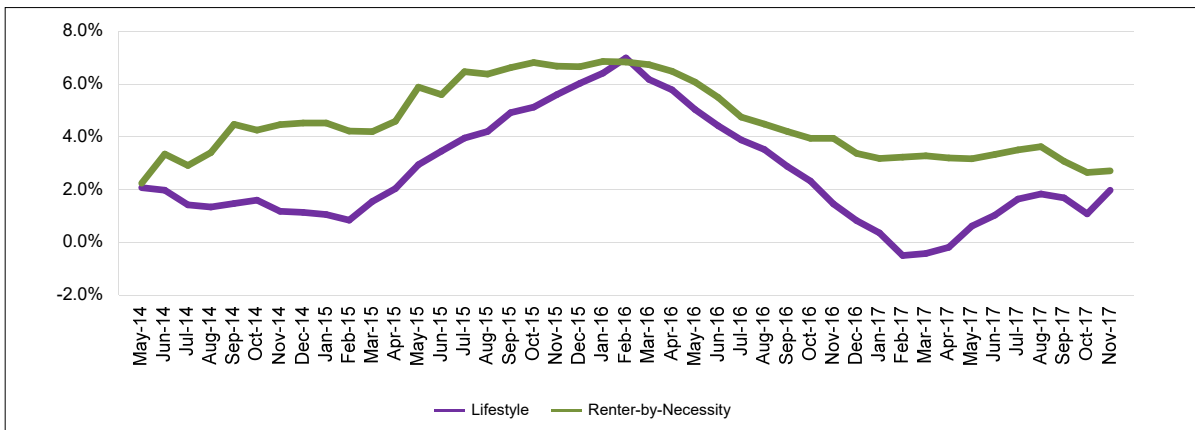
- Boston rents were up 2.3% year-over-year through November, 20 basis points below the U.S. rate. After peaking at 6.8% in February 2016, the metro’s rent growth rate steadily decelerated, underperforming against the U.S. average for the past six quarters due to heavy development. However, the rate picked up in the second half of 2017, as the spate of new upscale units was relatively quickly absorbed.
- The working-class Renter-by-Necessity segment continued to lead growth, up 2.7% to \$1,706, the dominant trend throughout the cycle. Meanwhile, Lifestyle rents grew by 2.0% to \$2,634, rebounding after a quarter of moderation in spring 2017.
- Distant suburbs registered the largest gains, led by Amesbury (6.4%), West Concord (6.0%), Marshfield–Pembroke (5.7%) and Rochester (5.4%). Rent growth was negative or tepid in most central, more expensive submarkets, among them Boston–Downtown (-1.9%, \$3,542), North End–Charleston (-0.4%, \$3,296), Cambridge–North (-0.1%, \$2,755) and South End (1.1%, \$3,841).
- The metro is in the midst of a development surge, but occupancy was 96.6% as of October, down just 10 basis points in one year. This suggests rent growth is bound to continue as Boston’s population keeps expanding.

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)

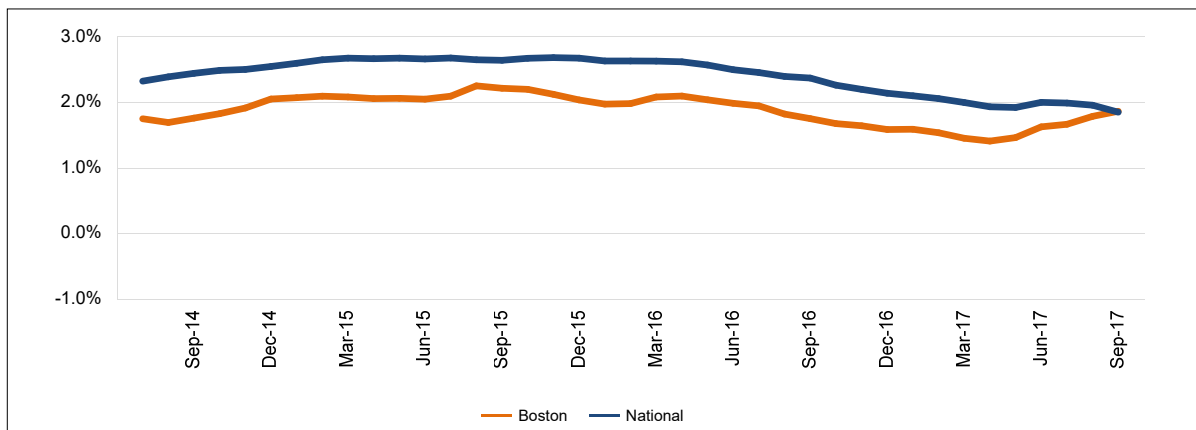


Source: YardiMatrix

Economic Snapshot

- Boston added 62,400 jobs in the 12 months ending in September. This marks a 1.9% expansion, on par with the national growth rate for the first time in this cycle. The shift is mainly due to education and health services—the city’s largest and still rapidly growing employment sector—which added 23,500 positions. Due to the metro’s large and prestigious academic institutions, concentration of research laboratories and thriving biotechnology scene, the sector remains a local anchor and constant source of highly paid positions.
- Also benefiting from the area’s deep talent pool, professional and business services and financial activities added 14,200 positions, further fueling demand for upscale rentals. The office pipeline also reflects the addition of highly skilled workers. According to Yardi Matrix data, there were 4.7 million square feet of office space under construction in December, roughly half of which is located in Cambridge and the Seaport District.
- As the city’s development surge continued, construction added 5,900 jobs. Several large mixed-use projects are underway, including the 700-foot-tall One Dalton in Back Bay, the 1.9 million-square-foot Hub on Causeway and the 2.9 million-square-foot Bulfinch Crossing. At the same time, other massive projects are clearing hurdles and getting closer to breaking ground, including Boston Development’s 7.6 million-square-foot Seaport Square, which recently got the green light for a new master plan and is slated to become the city’s largest project.

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	716	21.2%	23,500	3.4%
60	Professional and Business Services	563	16.7%	9,500	1.7%
70	Leisure and Hospitality	353	10.4%	6,500	1.9%
80	Other Services	134	4.0%	6,100	4.8%
15	Mining, Logging and Construction	143	4.2%	5,900	4.3%
55	Financial Activities	235	7.0%	4,700	2.0%
40	Trade, Transportation and Utilities	522	15.4%	3,400	0.7%
90	Government	390	11.5%	3,100	0.8%
30	Manufacturing	235	7.0%	600	0.3%
50	Information	89	2.6%	-900	-1.0%

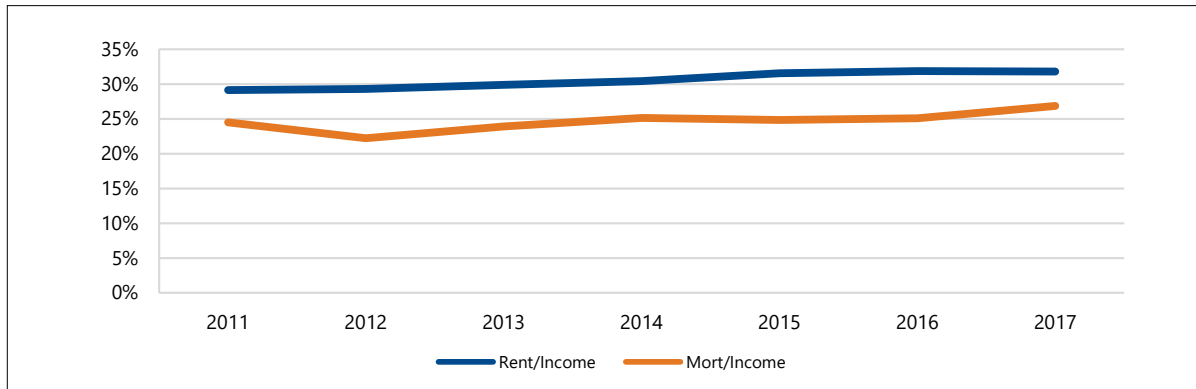
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

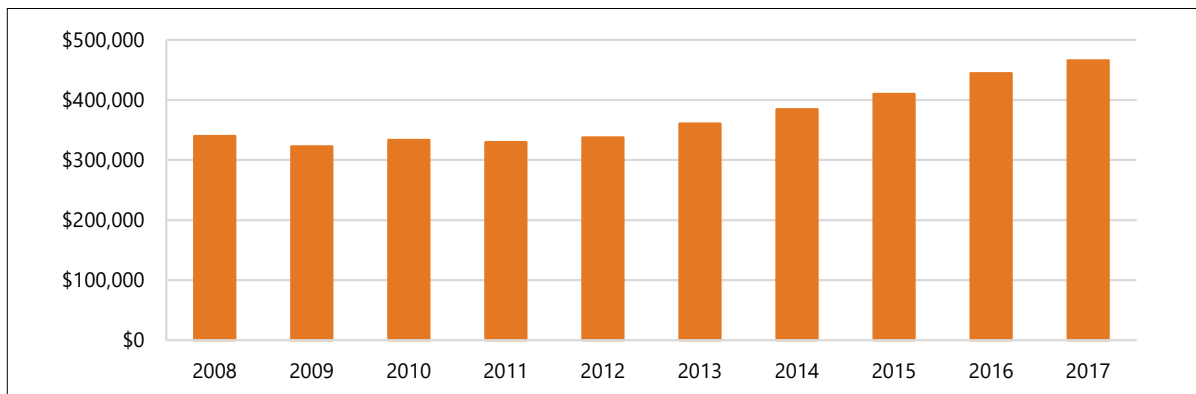
- The Boston median home price climbed to \$466,000 in 2017, more than doubling the U.S. average. Values have surged by 44% since 2009, elevating the barrier to entry for first-time buyers and boosting household creation in rentals. Even so, owning continues to be more affordable than renting, as the average mortgage payment accounts for 27% of the area's median income, while the average rent of \$2,137 takes up as much as 32%.
- In an effort to curb the metro's deep affordability issues, the city continues to work toward the housing targets set by its Boston 2030 plan. The initiative calls for 53,000 new housing units by 2030, 4,000 which are meant to stabilize rents, while another 5,000 are to be reserved for senior citizens.

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's population grew by 13,500 in 2016, a 0.7% uptick.
- The metro added more than 62,000 residents between 2012 and 2016, marking a 3.2% expansion, 30 basis points above the U.S. rate.

Boston vs. National Population

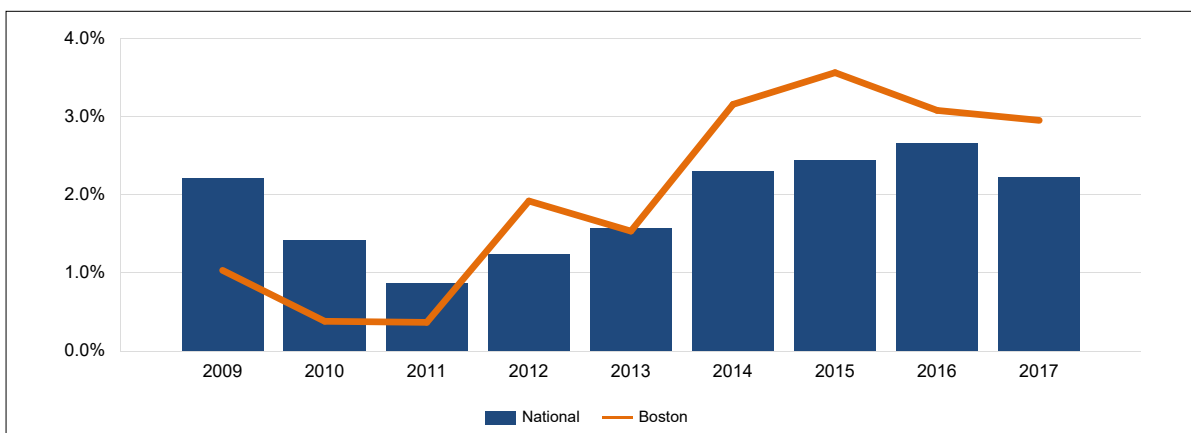
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Boston Metro	1,932,212	1,951,700	1,967,617	1,981,463	1,994,976

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

Supply

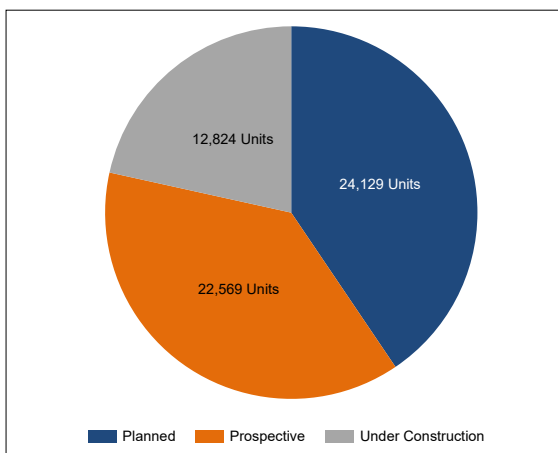
- The construction surge continued, with some 6,300 units coming online in 2017 through November, keeping the metro on track to match the 2015 cycle high of 7,129 units. Almost 26,000 apartments were completed in Boston since the start of 2014, roughly a third of which are within two miles of downtown.
- With developers focusing on high-end properties, more than 90% of the units delivered in the past four years are upscale, and less than 5% are in fully affordable communities. However, due to local regulations and incentives, 85 of the 123 market-rate communities completed since 2014 include some affordable units.
- Boston's construction pipeline remains solid, fueled by strong economic and demographic expansion. There were 13,000 units under construction as of November 2017, the majority of which are slated for completion in 2018. The metro has an additional 46,700 units in the planning and permitting stages.
- Development is spread out across the map, but submarkets within or close to the urban core continue to dominate the pipeline. The list is headed by East Boston–Chelsea (1,190 units), South Boston (1,177) and North End–Charleston (1,123). Development is also strong in several suburban submarkets, including Quincy (1,015), Reading (554) and Weymouth (437).

Boston vs. National Completions as a Percentage of Total Stock (as of November 2017)



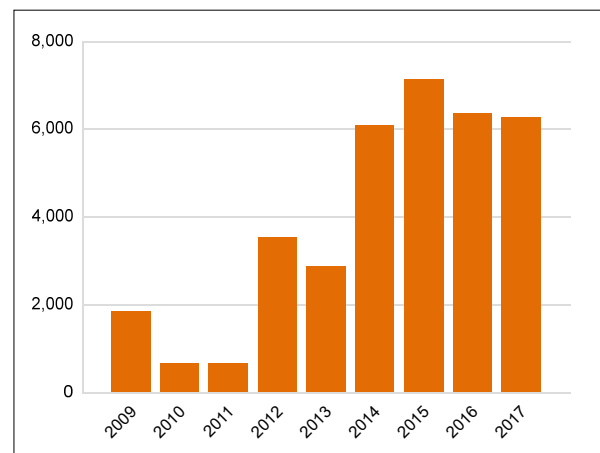
Source: YardiMatrix

Development Pipeline (as of November 2017)



Source: YardiMatrix

Boston Completions (as of November 2017)

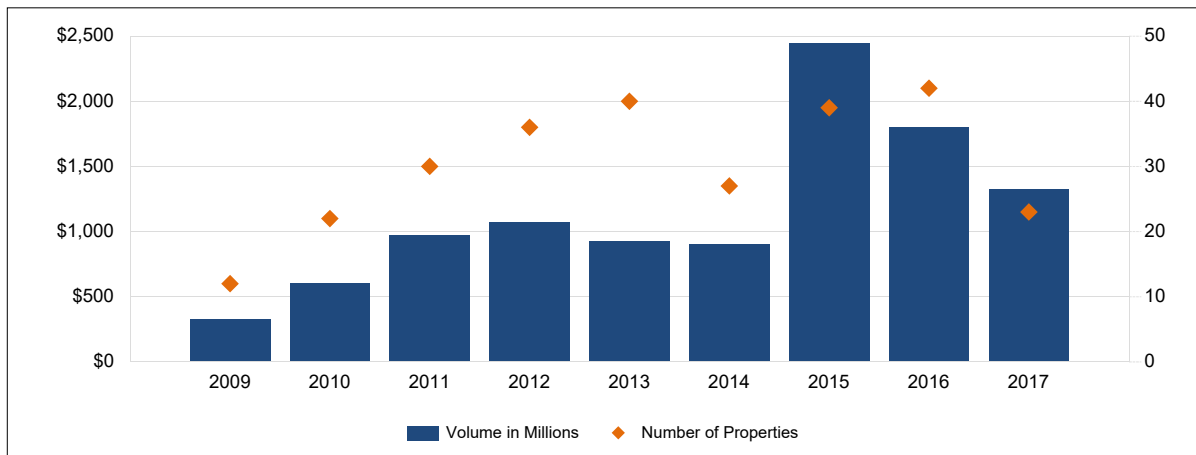


Source: YardiMatrix

Transactions

- Roughly \$1.3 billion in multifamily assets traded in 2017 through November. After reaching \$2.4 billion in 2015, transaction volume slowly tempered amid fears of paying top dollar in a core market during a possible cycle peak.
- Per-unit prices reached \$274,044 in 2017 through November, up 16% since 2016. The increase is mainly due to a shift in investor interest: While value-add plans dominated the market in 2016, several recent transactions involving new high-end assets pushed up per-unit prices over the last two quarters.
- Taurus Investment Holding was one of Boston's most active buyers in the 12 months ending in October 2017. The company acquired the 295-unit Cliffside Commons in Malden, as well as the 190-unit Wellington Parkside in Everett, for a total of roughly \$127 million, or \$261,870 per unit.

Boston Sales Volume and Number of Properties Sold (as of October 2017)



Source: YardiMatrix

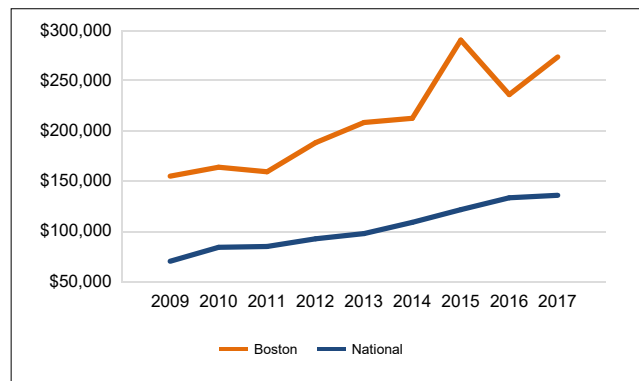
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Westwood	367
South End	150
North End–Charleston	149
Quincy	140
Fenway Kenmore	118
East Boston–Chelsea	116
Foxborough	116
Malden	111

Source: YardiMatrix

¹ From November 2016 to October 2017

Boston vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



 Boston Seaport Development
Lands \$49M

 Fairfield Residential Sells
133-Unit Boston Asset

 Waterton Debuts \$2M
Sheraton Framingham Revamp

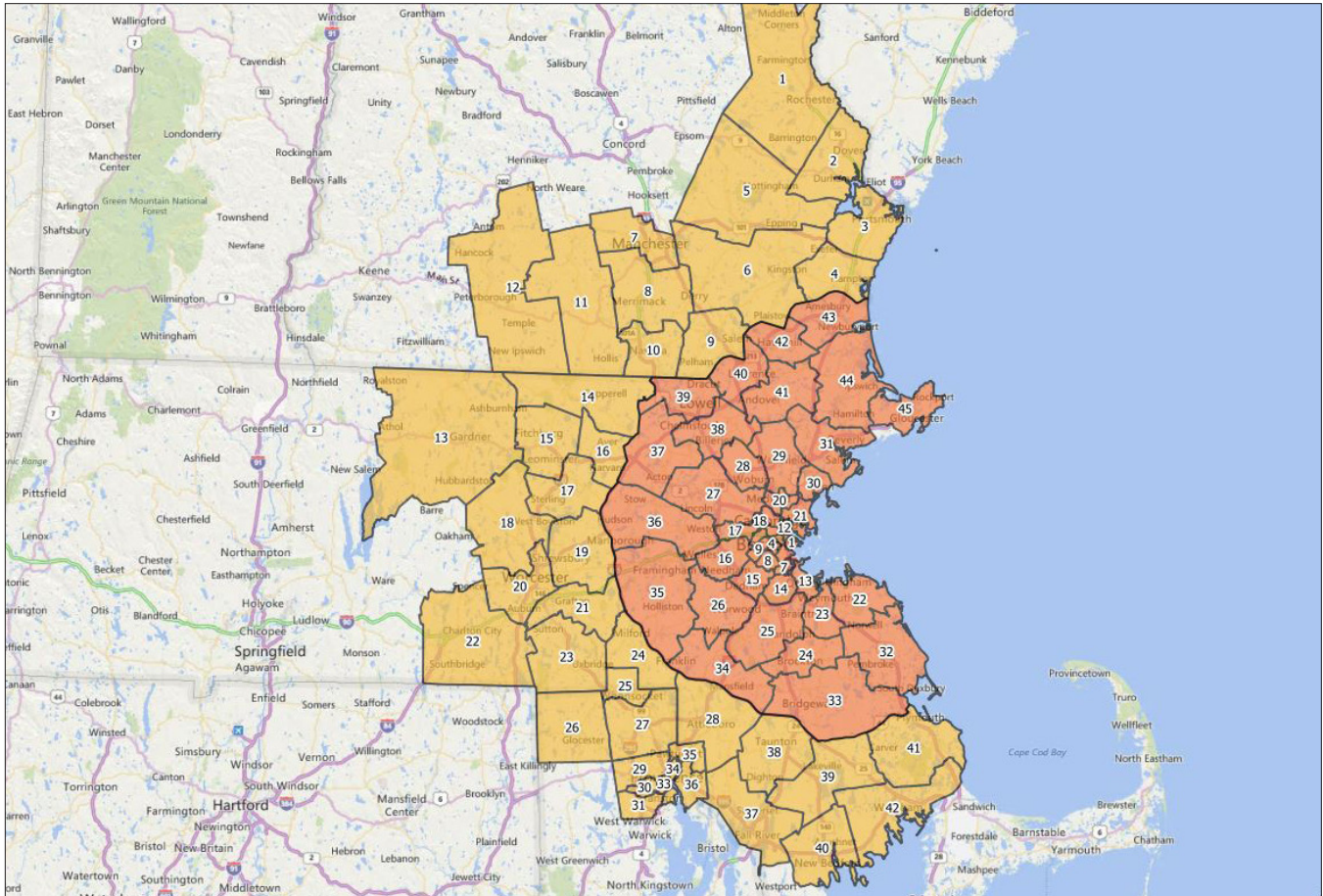
 Boston Community Commands
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Boston Submarkets



Area #	Submarket
1	Rochester
2	Dover
3	Portsmouth
4	Hampton
5	Raymond–Newmarket
6	Derry
7	Manchester–North
8	Manchester–South
9	Salem
10	Nashua
11	Amherst
12	West Hillsborough
13	Westminster
14	Townsend
15	Fitchburg–Leominster
16	Ayer
17	Clinton
18	Worcester–North
19	Shrewsbury–Westborough
20	Worcester–South
21	Grafton

Area #	Submarket
22	Southbridge–Webster
23	Northbridge
24	Milford
25	Woonsocket
26	Northwest Rhode Island
27	Cumberland
28	Attleboro
29	Providence–Northwest
30	Providence–West
31	Cranston
32	Providence–South
33	Providence–Central
34	Providence–Northeast
35	Pawtucket
36	Providence–East
37	Fall River
38	Taunton
39	Middleborough
40	New Bedford
41	Plymouth
42	Wareham

Area #	Submarket
1	South Boston
2	Mid Dorchester
3	Roxbury
4	Fenway Kenmore
5	South End
6	Downtown Boston
7	Dorchester
8	Roslindale
9	Brookline
10	Brighton
11	Cambridge–South
12	North End–Charlestown
13	Quincy
14	Milton
15	Dedham
16	Newton
17	Waltham
18	Cambridge–North
19	Somerville
20	Malden
21	East Boston–Chelsea
22	Cohasset
23	Weymouth

Area #	Submarket
24	Brockton
25	Stoughton
26	Westwood
27	Lakeview
28	Woburn
29	Reading
30	Lynn
31	Peabody
32	Marshfield–Pembroke
33	Bridgewater
34	Mansfield–Foxborough
35	Framingham
36	Marlborough
37	West Concord
38	Tewksbury
39	Lowell
40	Lawrence
41	Andover
42	Haverhill
43	Amesbury
44	Ipswich
45	Gloucester

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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