

MARKET REPORT

MULTIFAMILY

Boston Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

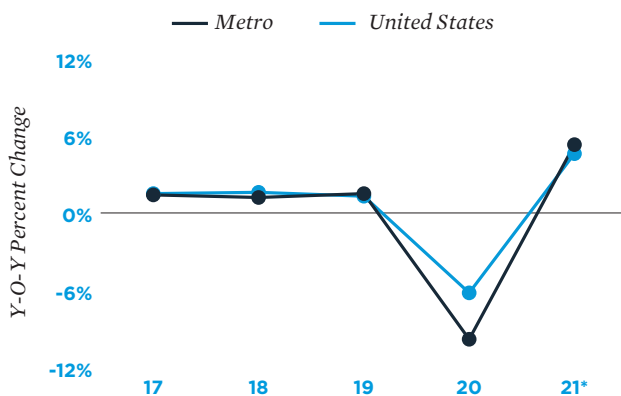
3Q/21

Reopening Process Reignites Renter Demand in the Urban Core as Suburbs Post Standout Performance

Affordable submarkets outperform at midyear. Boston's suburban submarkets rebounded strongly in the second quarter, with vacancy dropping to within 10 basis points of the 2019 level and rents climbing to new highs. Property performance was most positive in Plymouth, Rockingham and Strafford counties, where vacancy contracted by 100 basis points year over year in June to rates under 2 percent. During the health crisis, many households relocated to these less central but comparatively more affordable submarkets. At the start of 2020, the mean rent in Plymouth County was 26 percent below the market average, a difference that has since shrunk to 14 percent. Low availability and minimal construction will likely continue to drive rent gains here and in similar suburban settings through 2021.

Central business district on track for recovery. More than 2,900 apartments were absorbed in the CBD during first half of the year, in sharp contrast to the 1,600 units relinquished in 2020. Renewed leasing activity has lowered vacancy in the urban core by 190 basis points between December 2020 and June of this year, while rents are rising again on a quarterly basis. This is especially true for studio and one-bedroom floor plans, which were hit hardest last year. The reopening of many stores, restaurants and other venues, as well as the ongoing return to offices, has brought renters back into downtown areas. At the same time, upcoming arrivals may temporarily curb some of the current progress.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook



**135,000
JOBS**

will be created

EMPLOYMENT:

The hiring of over 82,000 personnel through the first half of 2021 puts Boston on pace to expand staff counts by 5.3 percent this year. At 4.4 percent as of June, the metro's unemployment rate lies 150 basis points below the national level.



**7,000
UNITS**

will be completed

CONSTRUCTION:

Completions for 2021 will fall about 2,100 units short of last year's total, the largest figure in at least two decades. The most deliveries slated for this year will be in Cambridge-Somerville and the Chelsea-Revere-Charleston area.



**70
BASIS POINT**

decrease in vacancy

VACANCY:

After jumping 150 basis points last year due to health-crisis challenges, metro vacancy will drop to 4.2 percent in 2021. While above the pre-pandemic low of 3.4 percent, the measure is close to the 4.0 percent year-end average recorded from 2010 to 2019.



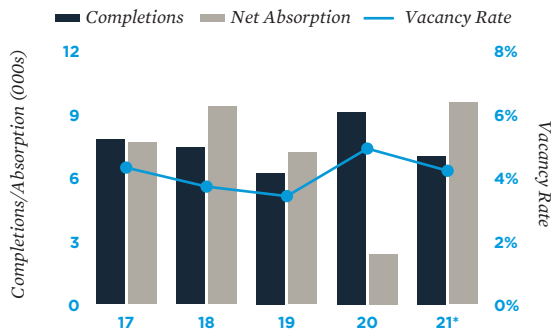
**6.0%
INCREASE**

in effective rent

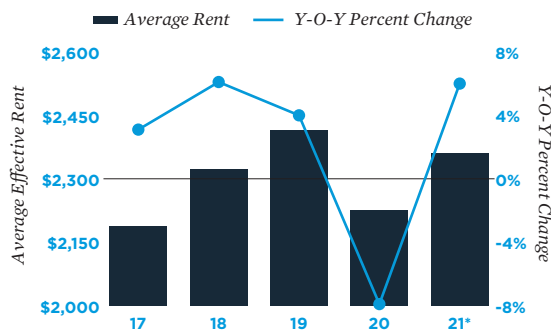
RENT:

Effective rents will nearly rebound in 2021 after the average rate dropped 7.9 percent last year. Led by growth in Class B and C rents, the market average effective rate will climb to \$2,360 per month this year, one of the larger gains of any major East Coast metro.

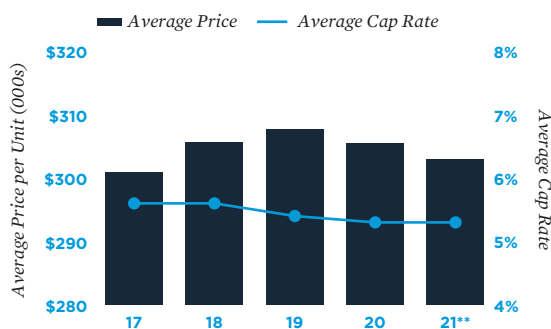
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

2Q21 – 12-Month Period

CONSTRUCTION

8,756 units completed

- Boston’s multifamily inventory expanded by 2.1 percent in the yearlong period ended in June, driven by 5,800 units delivered in the second half of 2020.
- At the start of the third quarter, more than 14,300 rentals were under construction, down from a high of 20,000 in mid-2019.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Vacancy has contracted 90 basis points since the start of 2021 to 4.0 percent in June, undoing nearly half of the jump registered last year.
- Availability fell 50 basis points year over year in the suburbs but rose 60 basis points in the CBD. At 5.1 percent in June, the downtown rate is well below the 7 percent high recorded at the end of 2020.

RENT

2.0% decrease in the average effective rent Y-O-Y

- After dropping to a pandemic-period low of \$2,220 per month at the end of the first quarter, the average effective monthly rent climbed to \$2,330 in June, 4 percent below the measure for 2019.
- The average Class A rent was down 7.8 percent annually, compared to a 0.7 percent Class B uptick and a 2.3 percent gain in the Class C tier.

Investment Highlights

- After the onset of the health crisis curbed sales activity by over 40 percent during the second quarter of last year, transaction velocity nearly tripled in the April-to-June period of 2021. This surge in trades pushed the total for the trailing-12-month period to about 15 percent over the preceding yearlong span.
- Among property tiers, trading activity shifted more toward Class C assets, likely contributing to a dip in sale prices. Over the past year span, properties changed hands at an average of \$303,000 per unit, down about 1 percent from the prior period. At the same time, the mean cap rate declined 10 basis points to 5.3 percent.
- Transactions were most common in Essex County, particularly in the towns of Salem and Beverly. Properties traded here below the marketwide average sale price with cap rates that could exceed 6 percent. Buyers also continued to frequently target assets in Middlesex County. In contrast to a year ago, more investors secured trades in high-cost, well-established neighborhoods such as those surrounding the campuses of Harvard and MIT as well as in the Somerville area.