MARKET REPORT

Multifamily

Boston Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

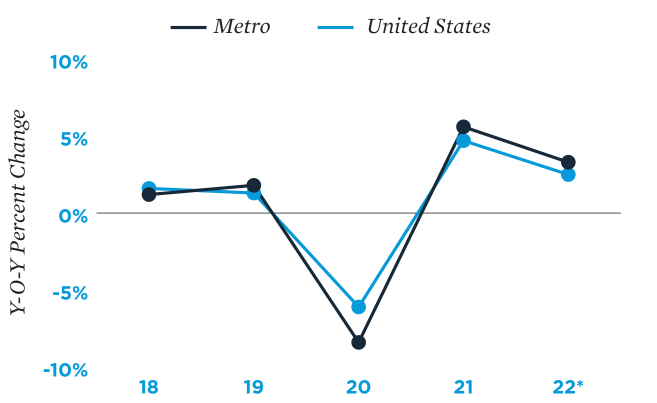
2Q/22

Vacancy Remains Tight; Policy Shifts Should Induce Suburban Supply Gains

Continued housing shortage contributes to revenue gains. While rent growth will ease from double-digit territory this year, rates are expected to rise at a faster pace than the annual decade-long average as vacancy remains tight. The ongoing employment recovery should mitigate upward vacancy pressure, keeping availability hovering near previous record lows. Boston's traditionally light urban pipeline also faces headwinds generated by the life sciences industry. Builders servicing this segment often outbid multifamily projects for prime parcels near the core, complicating development in the CBD; however, legislative shifts targeting suburban zones could alleviate tight vacancy.

Policy changes set to bolster multifamily development. A provision mandating sweeping zoning changes across the Greater Boston Region, signed in January of last year, is set for implementation in 2022. As per the new policy, communities connected to the Massachusetts Bay Transportation Authority system would be mandated to create zoning for high-density multifamily housing within walking distance of public transit. In some smaller towns, the new regulations may expand housing stock by up to 25 percent; however, the expansion of new stock will extend over several years and will ultimately be decided by developer sentiment. Some caveats to how zoning is implemented could also translate to substantial numbers of existing units being counted toward housing goals in heavily developed areas.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

90,000 JOBS
will be created

EMPLOYMENT:

After last year's hiring surge, an unemployment rate above previous cyclical lows allows room for further growth during 2022. Boston's employment base will expand by 3.3 percent, though full job recovery could extend into 2023.

8,500 UNITS
will be completed

CONSTRUCTION:

Inventory expansion, once again, moves above a 2 percent annual pace, despite supply chain headwinds. Recently implemented state legislation may also signal a period of elevated development on the horizon.

10 BASIS POINT
increase in vacancy

VACANCY:

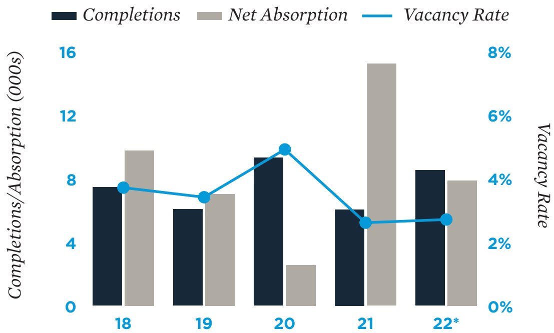
Availability ticks up to 2.6 percent, following a 240-basis-point compression in 2021. Despite this, vacancy reduction may be observed in some Intown-adjacent zones, as higher-density submarkets continue to regain renter appeal.

7.1% INCREASE
in effective rent

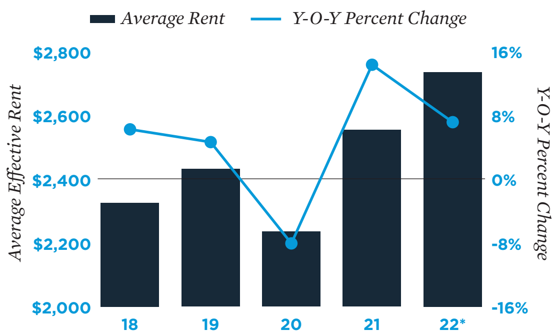
RENT:

Rent gains moderate, following a 14.3 percent jump in 2021. Still, growth should remain robust as effective rents reach an average of $2,728 per month in 2022, as tight conditions discourage concessionary activity.

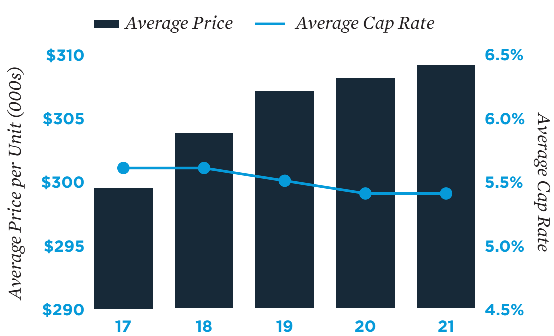
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

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

1Q 2022 - 12-Month Period

CONSTRUCTION

5,951 units completed

- Inventory growth was thinner over the 12-month period ending in March, declining from 8,600 units finalized in the previous span.
- Roughly 70 percent of all doors finalized in the trailing yearlong span were concentrated in Boston's suburbs. Here, all projects that came online were located south of the Yankee Division Highway.

VACANCY

230 basis point decrease in vacancy Y-O-Y

- As lockdown procedures abated, surging demand has pushed availability down to 2.5 percent — a low last observed in 2001.
- Vacancy is tightest in North Essex County and southern New Hampshire, where development has lagged burgeoning demand for exurban multifamily units. Availability here is in the low-1 percent range.

RENT

17.3% increase in the average effective rent Y-O-Y

- Multidecade vacancy lows drove effective rents to an average of $2,616 per month in March, after recouping all pandemic losses last year.
- As health conditions ameliorated and more firms recalled employees into area offices, expiring concessions led to effective rents surging in the CBD. Here, year-over-year rent gains exceeded 19 percent.

Investment Highlights

- Transaction velocity accelerated to new highs in 2021, after holding comparatively stable through health crisis nadirs, with deal flow ending last year more than 40 percent above the 2019 equivalent. Investor enthusiasm can be traced to fundamentals outperforming some nearby metros, despite stringent regional lockdowns.
- Despite elevated sales activity, the average sale price has moved nominally, as Class C trades take up a larger share of deal flow. Vacancy rates in properties of this type have fallen under previous cyclical lows, attracting buyers seeking stable revenue streams, in addition to yield-conscious investors.
- Trades of Class C assets in Essex County continued to climb, as the predominantly local buyer pool was met with a slight uptick in out-of-state capital and investors operating in the above $10 million range. Higher returns than the market average of 5.4 percent, in tandem with lower price points, could draw a greater amount of yield-focused investors and out-of-state buyers to the county that are being priced out of the core.

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Price: $250