MARKET REPORT

Multifamily

Boston Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

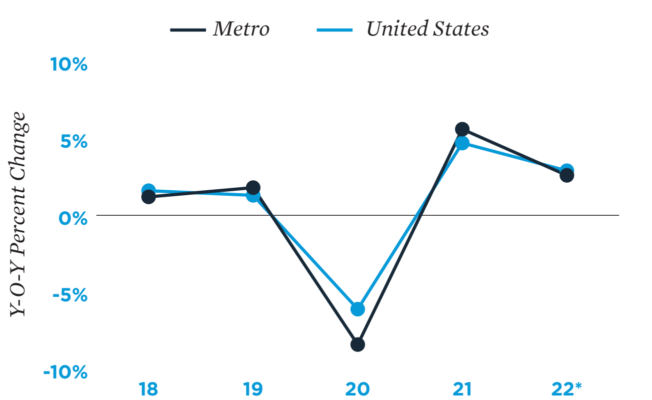
3Q/22

Rent Growth to Moderate After a Hot Stretch; City of Boston Mulls Rent Regulations

Rent surge slows as Bostonians react to rising costs. After the most rapid vacancy contraction seen in multiple decades, Boston reported a period of negative net absorption during the second quarter as metro vacancy rose to 2.9 percent. Class C units led the decompression in this metric, indicating a large portion of this movement stems from household consolidation. As vacancy approaches previous cyclical norms, an uptick in concessionary activity may occur, resulting in effective rents stagnating in the latter half of this year. Additionally, rent growth returning to pre-pandemic levels may temper calls for rent control in Boston proper, which have intensified in reaction to the acute rent increases recently.

Rent stabilization discussion may dramatically impact pipeline. In March of this year, Mayor Michelle Wu convened a panel with the stated purpose of exploring rent control options in the city of Boston. While deliberations are ongoing and proposed controls will likely face intense scrutiny at the legislative stage, the prospect of rent stabilization could influence developers' preferences in selecting locations in the market. Recent state legislation has overhauled zoning in many suburban locales, opening up parcels for exclusive multifamily development across the metro. If rent controls are enacted in Boston proper, these factors, in tandem with the difficulty multifamily developers face when competing for prime CBD-adjacent locations, would likely spark a substantial outward shift in development.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

70,000 JOBS
will be created

EMPLOYMENT:

Though hiring is projected to slow down during the latter half of 2022, payroll counts are expected to grow by 2.6 percent in 2022. Boston-area employers will end this year 37,000 positions shy of pre-pandemic staffing.

8,500 UNITS
will be completed

CONSTRUCTION:

The rate of stock expansion exceeds 2 percent for the second time in three years. This comes as builders finalize the second-highest annual number of units in two decades. Roughly 70 percent of rentals are set to come online in the suburbs.

70 BASIS POINT
increase in vacancy

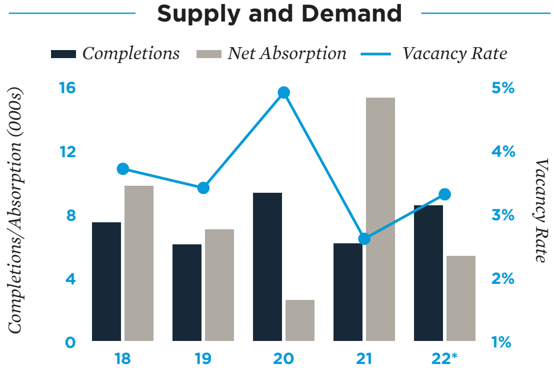
VACANCY:

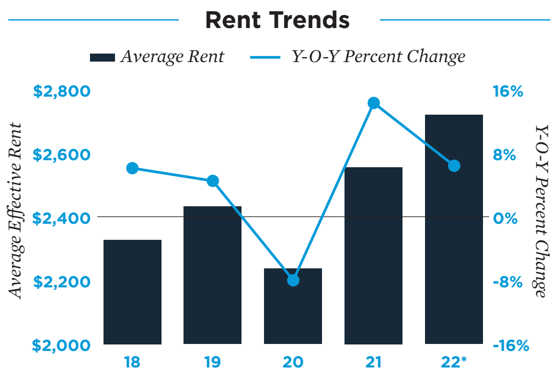
Five consecutive quarters of declining vacancy culminated in the second quarter, when the metric reported a 40-basis-point jump. Availability will climb back to 3.3 percent, roughly equivalent to the months preceding the pandemic.

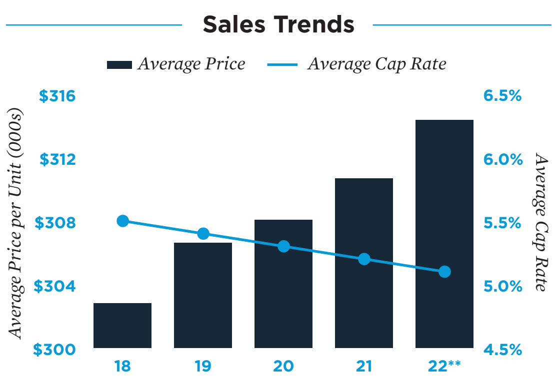
6.4% INCREASE
in effective rent

RENT:

Robust rent growth has continued through the second quarter of 2022, but concessions could hinder rent gains in the year's second half. The average annual rate is still set to end 2022 at $2,720 per month, marking a second period of annual rent growth.







* Forecast ** Through 2Q

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

2Q 2022 - 12-Month Period

CONSTRUCTION

5,820 units completed

- Finalizations during the 12-month period ended in June slowed dramatically from the 8,633 units completed during the previous span.
- Chelsea-Revere-Charlestown led all submarkets in completions this period. With 1,130 units added to the market during the second quarter, development here comprised roughly 20 percent of the pipeline.

VACANCY

110 basis point decrease in vacancy Y-O-Y

- While availability increased 30 basis points so far in 2022, an overall compression over the yearlong span ended in June left vacancy at 2.9 percent.
- Class A and B vacancy entered July at 3.6 and 3.0 percent, respectively. Availability in both segments declined by 120 basis points year-over-year, while the Class C moderation was slightly smaller at 100 basis points.

RENT

16.6% increase in the average effective rent Y-O-Y

- Effective rents have seen consistent double-digit annual increases since the fourth quarter of 2021, ending June at $2,730 per month on average.
- First-ring suburbs captured the largest rent gains during this span, with Chelsea-Revere-Charlestown, Marlborough-Framingham and Southwest Boston observing year-over-year rent increases of no less than 19 percent.

Investment Highlights

- Transaction velocity during the 12-month span ended in June set a market record for trades occurring over a yearlong period. By midyear 2022, deal flow appears to be proceeding at the elevated rate observed during the previous year, though rising interest rates may create headwinds.
- A favorable investment climate brought price growth above a 1 percent clip for the first time since the onset of the pandemic, bringing the average price per unit of trades occurring in this span to $314,400. The average yield also declined modestly, remaining in the low-5 percent tranche.
- Sweeping changes to zoning coming into effect early this year mandated a district of high-density multifamily housing in any municipality connected to the MBTA system. This could expand the metro's zoning capacity by hundreds of thousands of units, prompting multifamily developers to pursue parcels in many of Western Massachusetts' suburban locales.
- Institutions honed in on the areas with the strongest Class A rent gains will target Fenway-Brookline-Brighton and Rockingham-Stafford Counties, as well as East Middlesex County and South Essex County. The average effective Class A rents in these submarkets grew by at least 20 percent annually.

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