MARKET REPORT

Multifamily

Boston Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

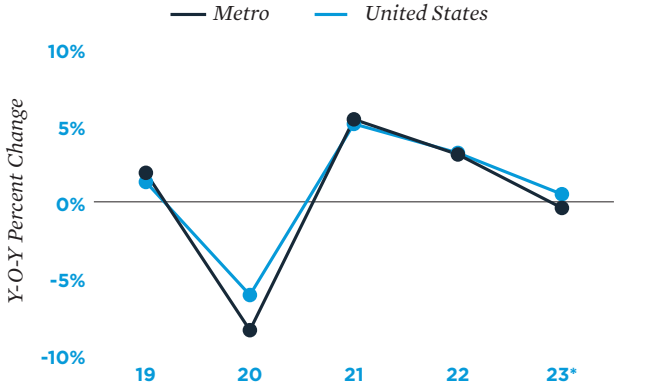
2Q/23

Supply Lags Long-Term Resident Growth; Probability of Rent Control Remains Slim

Near-term speed bumps contrast solid picture farther out. Boston's multifamily sector entered 2023 with a mixed outlook. The region's concentration of highly-skilled labor may create renter demand headwinds, as finance and tech firms look to slim payrolls this year. Longer-term, however, supply additions are expected to run well short of demand. In 2018, the Metro Mayors Coalition, a group of 15 Boston-area governments, agreed to facilitate the construction of 185,000 new units by 2030, or roughly 15,400 rentals annually. Yearly completions have so far remained under this benchmark, and an active pipeline of about 17,000 doors across the region indicates supply growth will remain under this target for the foreseeable future.

Rent stabilization still unlikely, despite recent decisions. In early March, Boston's city council passed a proposal made by Mayor Michelle Wu marking the city's first step toward universal rent control. However, these policies have been illegal at the state level since 1994, and are therefore subject to approval by the state legislature and governor before being put into effect. Even if passed, the policy would cap increases at 6 percent plus inflation, or 10 percent in high-inflation years. Average rent increases only exceeded this benchmark in 2021, when the metric advanced 14.2 percent. A proposal pipeline nearing 6,000 units in Boston proper also indicates that a number of developers consider passage of this measure unlikely. In the event that a rent control policy is adopted, however, development may shift to the first-ring suburbs near Suffolk County.

Employment Trends



** Forecast*

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

Multifamily 2023 Outlook

10,000 JOBS
will be lost

EMPLOYMENT:

After entering the year recording the lowest unemployment rate since the onset of the health crisis, Boston's job base undergoes a slight contraction. In 2022, the market gained nearly 110,000 positions on a net basis.

11,000 UNITS
will be completed

CONSTRUCTION:

Developers achieve a five-figure completion total for the first time since at least 2000. This year's builds expand the Greater Boston region's multifamily inventory by approximately 2.6 percent.

150 BASIS POINT
increase in vacancy

VACANCY:

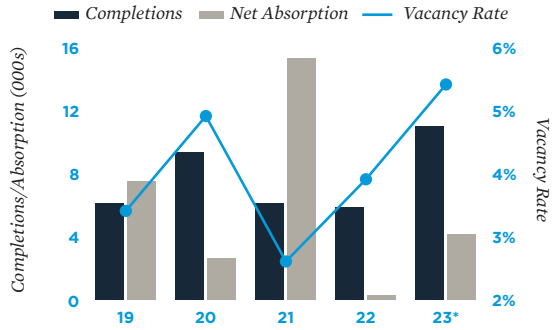
A record construction schedule comes into play amid wavering multifamily demand, translating to rising vacancy. Availability reaches 5.4 percent by the end of this year, the highest level recorded since 2009.

1.6% INCREASE
in effective rent

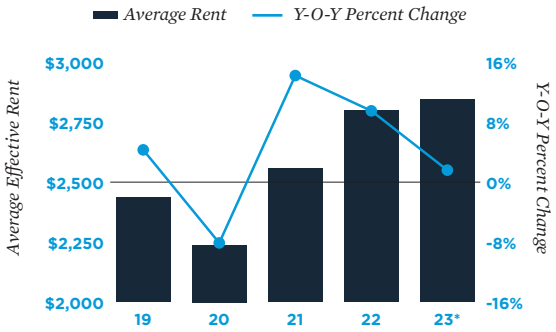
RENT:

Rising vacancy translates to the slowest positive momentum on effective rents since 2001, not counting the early pandemic era. Nevertheless, the average year-end rate of $2,844 per month marks an all-time high.

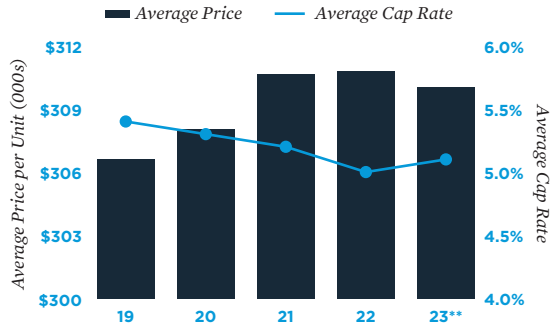
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

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Price: $250

1Q 2023 - 12-Month Period

CONSTRUCTION

6,782 units completed

- Completion activity increased during the 12-month period ending in March as materials and labor shortages eased. A weighty delivery schedule moving forward implies this is the onset of an ongoing supply wave.
- A construction pipeline north of 17,000 units places Boston in the upper third of major markets by total rentals actively underway.

VACANCY

160 basis point increase in vacancy Y-O-Y

- Rising economic uncertainty and inflationary pressure prompted many renters to consolidate households, pushing vacancy to 4.1 percent.
- Class A vacancy rose by 150 basis points over the past four quarters to 4.7 percent, a two-year high. Availability is tighter for mid- and low-tier apartments, although the Class C measure climbed by a wider margin.

RENT

7.4% increase in the average effective rent Y-O-Y

- Rising vacancy has translated to slowing rent advances over the past four quarters. Since midyear 2022, the average effective rent has hovered around $2,800 per month.
- Despite a high volume of Class A stock delivered, rent growth in this sector noted a 4.8 percent increase for the year ended in March 2023.

Investment Highlights

- Climbing interest rates translated to declining investor activity during the latter half of 2022 and the early stages of this year. Still, the region's steady long-term growth has kept a number of investors active, with luxury and mid-tier sales observing a less dramatic deceleration. Buyers chasing Class A and more recent Class B builds are typically drawn to Boston proper and close-in suburbs in Middlesex, Essex and Norfolk counties, where the renter pool trends are more affluent.
- Rising availability could drive certain investors to seek out low-vacancy assets or submarkets with higher renter demand as they look to minimize risk. The metro's northern reaches, including Northern Essex and Rockingham-Strafford Counties, could prove appealing as both locales typically boast some of the lowest availability and entry costs among submarkets.
- Boston's solid underlying fundamentals have clashed with near-term uncertainty since 2020, a trend that may continue as macroeconomic outlooks remain in flux. Bidder behavior reflects this, with the metro noting moderate price growth since the onset of the health crisis — placing the average at roughly $310,000 for the year ended in March. The mean yield has also adjusted nominally, but faces more upward pressure moving forward.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for $1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.
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