INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

Multifamily

Boston

2020

Larger Projects Test Pent-Up Demand; Construction Key to Transaction Activity

Elevated homeownership costs underpin apartment demand in Boston. Healthy tenant demand, coupled with a declining construction pipeline, will support heightened multifamily performance in the metro this year. Vacancy remains one of the lowest among the major markets, creating a shortage of housing as downpayments and high mortgage costs make homeownership difficult for many. Class C vacancy, in particular, is hovering in the mid-2 percent band. Average effective rent in these units are $700 less than Class B spaces metrowide, making it difficult for many individuals to transition to newer apartments. Declining construction this year, together with the already-low vacancy rate, will make finding quality housing difficult, particularly as job growth attracts new residents and supports household formation metrowide. Some renters may look to outer-ring suburbs, where lower rents persist. Vacancy rates in these neighborhoods can typically rest below 3 percent, supporting strong rental increases.

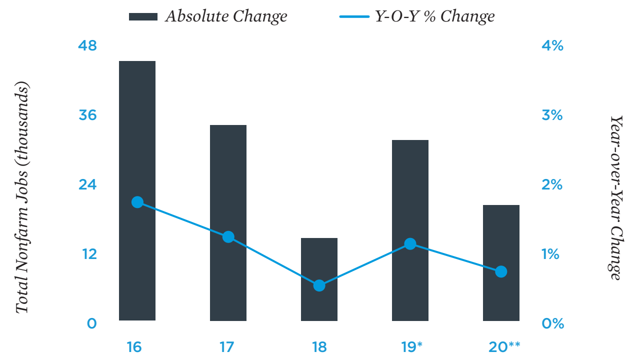
Newly developed core assets the key to advancing transaction market. Aggressive sales activity and pricing for newly developed assets during 2019 hold the key for Boston maintaining its transaction momentum for the coming year. Almost a third of all transactions above $20 million that traded in 2019 were recently completed properties with cap rates typically in the mid-4 percent range. Due to Boston's difficult permitting and approval process for new construction, many institutional investors highly covet acquisitions in the market, yet demand frequently far outstrips the supply of available properties for sale. Furthermore, because of the difficult building situation, most developers build for long-term holds. However, over the past couple of years, a handful of developers have taken advantage of the high institutional demand for core assets and listed recently completed properties for sale instead of holding them. This change has propelled transaction volume over the last three years, and for this momentum to continue, developers must contribute more assets to the disposition pipeline. The highly attractive pricing from last year may give some owners the justification to pocket their return and pursue disposition now.

22.4% *2019 share of local population between 20 and 34 years old*

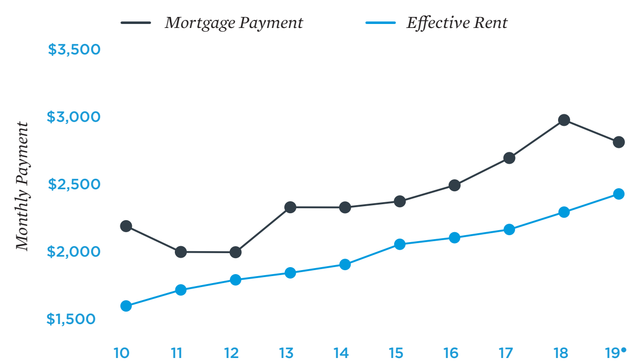
45.6% *of local population hold bachelor's degree or higher*❖

$500,802 *2019 median home price*

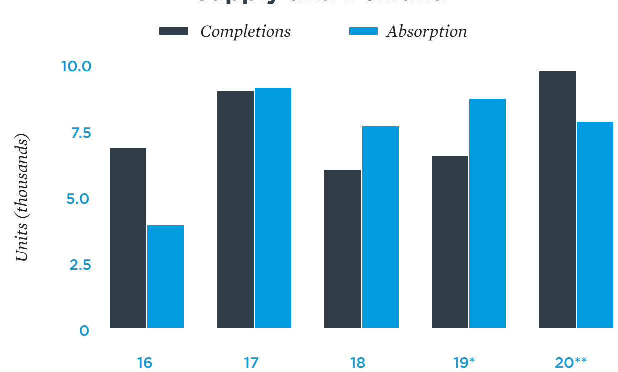
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast • Through 3Q

❖ 2019: 25+ years old

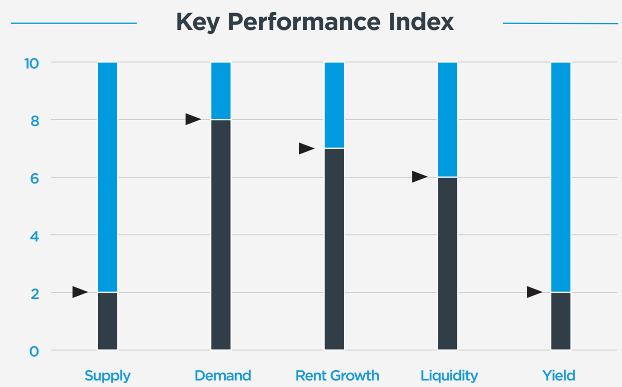
Sources: Marcus & Millichap Research Services; RealPage, Inc.

2020 Investment Outlook

Both demand and rent growth saw one-point declines since the midyear numbers, yet their level at 8 and 7, respectively, are strong positions for Boston's Key Performance Index. Supply held steady at 2 as the deliveries remain elevated over their historical average.

Limited properties available for sale keep liquidity at the same level as six months earlier despite robust investor demand for assets. However, yield did see a two-point decline as a high number of newly developed properties traded hands in the second half of the year, pushing down the average cap rate.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2020 Market Forecast

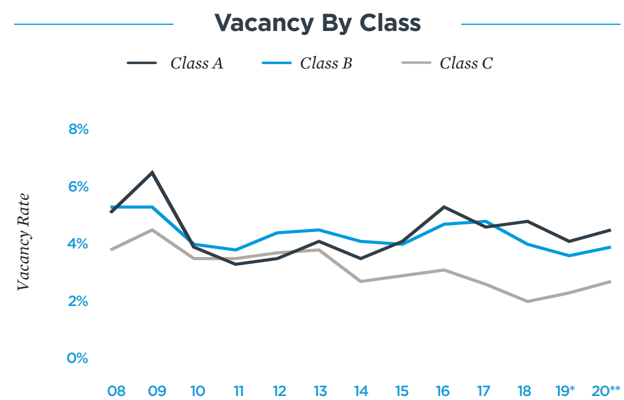
Employment
20,000 jobs
Metro **0.7%**
U.S. **1.0%**

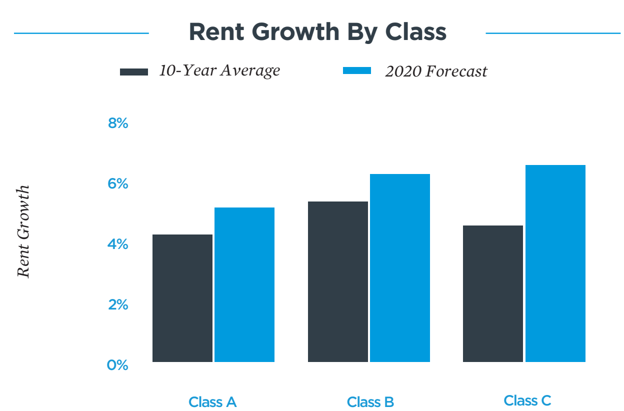
Construction
as % of inventory❖
Metro **2.4%**
U.S. **1.7%**

Class A Vacancy
Up 40 bps
Metro **4.4%**
U.S. **5.3%**

Class A Rent
$3,557 per month
Metro **5.1%**
U.S. **3.3%**

Investment
3-yr. avg. activity
$20+ million
Deals: **28**
Volume: **$2.3 billion**





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** Estimate ** Forecast*
❖ Arrow reflects completions trend compared with 2019
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics