Colliers

Boston, MA

Multifamily

23Q2

Accelerating success.

Boston, MA

Multifamily 23Q2

Key Takeaways

- Occupanices are healthy.
- Absorption is solid and is concentrated in Class A product.
- A lot of units are underway, but the pipeline will likely shrink.
- Eventual compliance with the MBTA Communities legislation should create new development opportunities.

		YOY	FORECAST
Vacancy Rate	5.4%	▲	▬
Under Construction	16,780 SF	▼	▼
Asking Rent Per SF	$3.09	▲	▲

Boston Metro Multifamily Summary

Vacancies ticked down in the second quarter as absorption outweighed deliveries. At 5.4%, the overall vacancy rate, slightly below the 10-year historical average, continues to provide a foundation for landlords to push rents. (Excluding assets in lease-up, the vacancy rate is about 4%.) The supply pipeline still has an above-average number of units underway — 16,000-plus, about 7% of the inventory. Nearly all new institutional-quality construction is focused on Class A product, and even without properties still in lease-up, the vacancy rate in top-end product (5.2%) is higher than in either mid- or lower-quality assets. Class C assets have the tightest vacancy rate, at about 2%, a near-record low for that segment. These landlords benefit from the households least likely to relocate into higher-cost housing and a lack of new competitive complexes.

In fact, **multifamily demand drivers remain firm.** The number of occupied units has increased by more than 5,000 (2.3%) over the past year. Positive labor market conditions (job growth, low unemployment rates, and rising wages), alongside higher barriers to homeownership (elevated prices and borrowing costs), are both helping sustain apartment demand. Given the large construction pipeline, if the economy dips and absorption stalls, vacancies could quickly rise.

Market Indicators

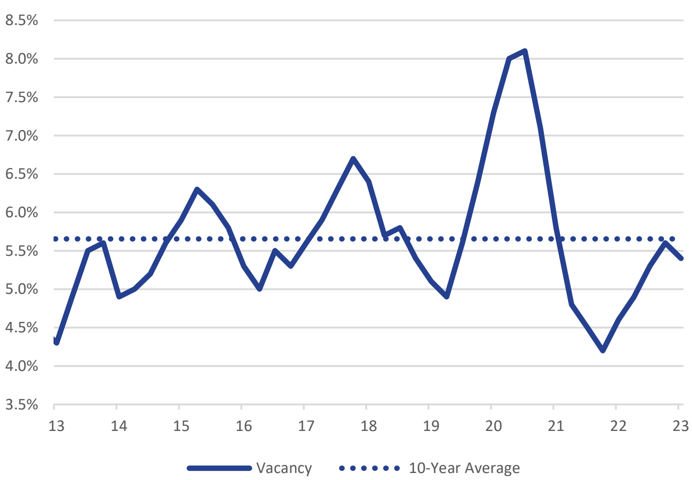
2.91%
Unemployment Rate

3.46%
GDP - Quarterly % change yr/yr

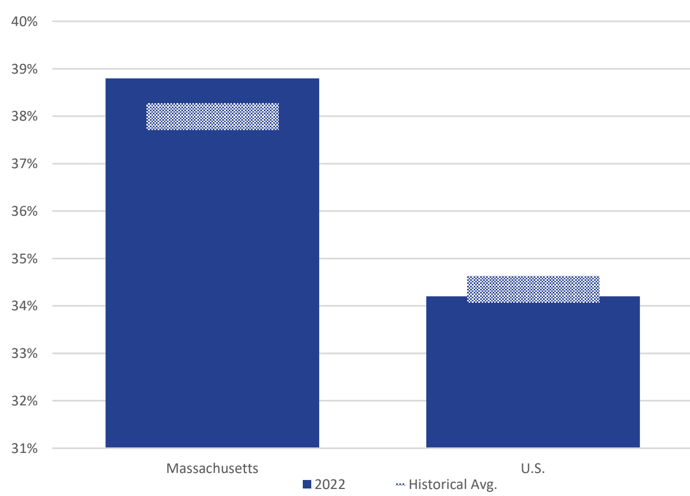
3.858%
U.S. 10 Year Treasury Note

Source: Oxford Economics, As of 23Q2

Vacancy Rate



Share Of Households That Rent



Source: Colliers; U.S. Census Bureau

The Laurent
Image Source: livethelaurent.com

The structurally high share of renting households bodes well for multifamily demand.

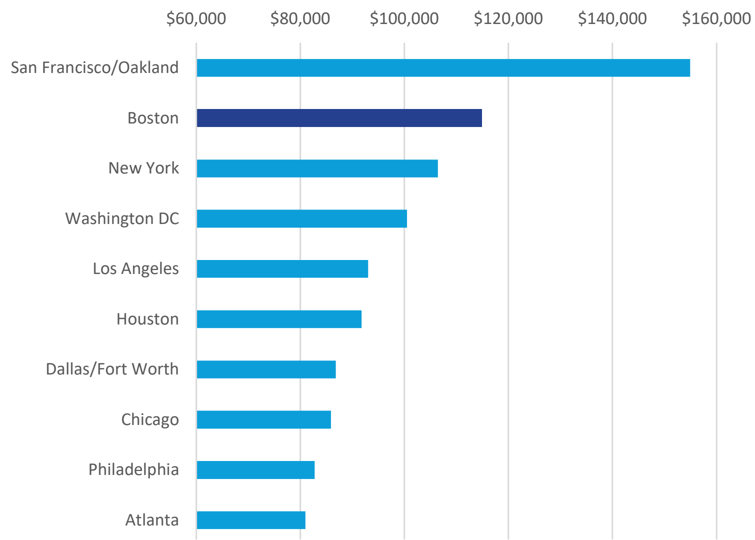
Economy

The Boston metro is adding jobs at an above-average pace. The 3.1% year-over-year increase (as of May) in local job numbers is stronger than the national benchmark and is also healthier than the metro's peak growth rates during recoveries from the dot-com and GFC recessions. With more than 84,000 new jobs added over the past year, many employment sectors have more workers now than before COVID. Low unemployment and the large number of unfilled jobs have led to rising wages, helping consumer expenditures to remain buoyant.

There is positive news on the macroeconomic front. After 10 consecutive interest rate increases, the Federal Reserve held rates steady at its June meeting. The 4.1% initial read on year-over-year U.S. inflation in May was the first time it registered below 5% in about two years. And the stock market has climbed about 20% since bottoming out in the fall of 2022. If these metrics continue to move in the right direction, it could go a long way toward improving firms' confidence and ability to expand their CRE footprints at a time of increasingly favorable leasing conditions.

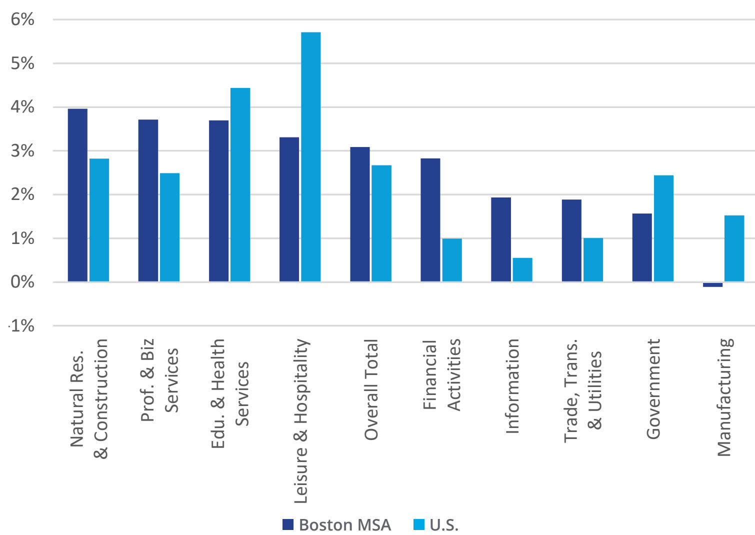
The economy is not out of the woods yet. Corporate profits have shrunk and venture capital flows have come back to earth, forcing some Massachusetts firms to lay off workers and shelve growth plans. ISM indices show that future orders for service goods are not as robust as they had been and that orders for manufacturing goods have dropped. (Locally, manufacturing was the only job sector that shrank over the past year.) The most recent Wall Street Journal Economic Forecasting Survey consensus results still indicate a significant likelihood of recession. Banks are tightening commercial real estate lending standards, as property owners are trying to navigate rising cap rates, elevated vacancies, and weakened rent prospects.

GDP Per Capita of 10 Largest U.S. Metro Economies



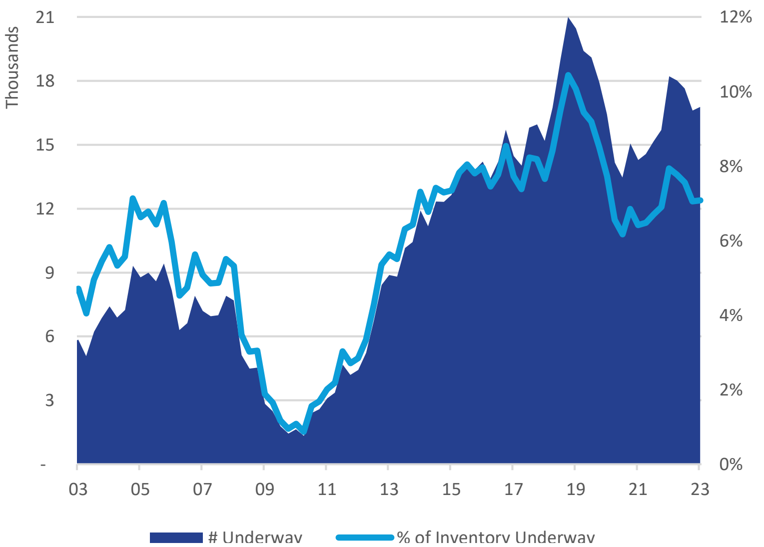
Sources: *Colliers; BEA; Census; Lightcast*

Y/Y Boston Metro Job Change



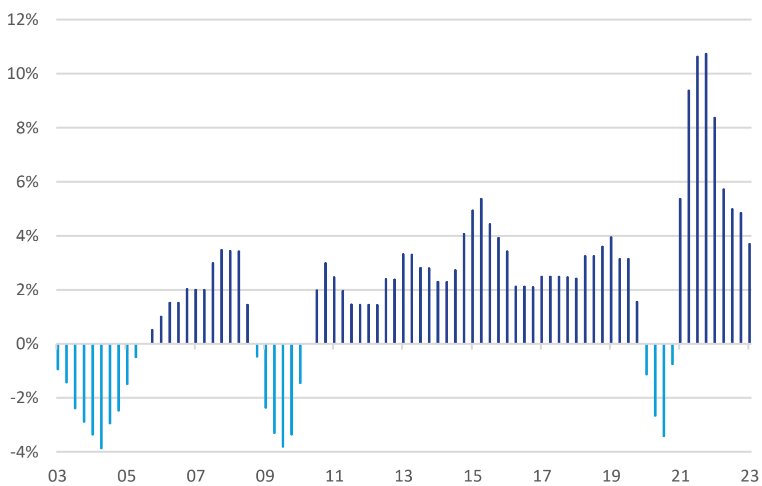
Sources: *Colliers; BLS*

Apartment Units Underway

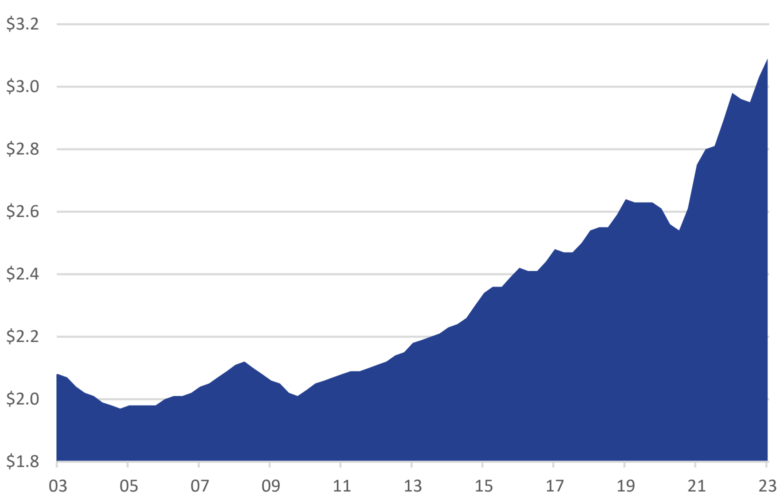


Sources: *Colliers; U.S. Census*

Y/Y Rent Change



Asking Rent/Square Foot



Market Insights

Units are getting smaller and pricier. The average size of units delivered over the past year was just shy of 850 square feet — 8% smaller than the 2018 average and 11% smaller since 2013. One factor is the shift in favor of studios. Almost a fifth of recently delivered units are studios, up from only about 12% a decade ago. Projects that took advantage of Boston's Compact Living Pilot Program are also impacting unit size. Average rents in some new studio-heavy buildings exceed $5.00/SF, including new communities such as Zero Athens in South Boston (55% studios, per CoStar) and Park 151 in Cambridge (48%). The average rent per square foot in the newest complexes is 20% higher than asking rent in 2018-vintage buildings.

The MBTA Communities legislation, which requires the creation of by-right multifamily zoning districts, should create widespread development opportunities. The overwhelming majority (98%) of the 177 jurisdictions that must comply with the law have state-approved action plans in place, a potential sign of widespread advancement toward eventual compliance. The dozen designated rapid-transit communities have until the end 2023 to comply with the legislation, and (assuming they do so on time) will increase their multifamily capacity by more than 83,000 units. Subsequent 2024–25 deadlines for other communities, including those with commuter rail access, should designate land for another 200,000 units.

Multifamily starts don't appear poised to keep pace with completions. Increased interest rates have brought more hurdles for developers such as higher borrowing costs and downward pressure on asset values. These factors, along with stricter lending standards and elevated construction costs, are making it harder for projects to pencil out — even with demand in the marketplace for units. Given the ongoing housing crunch, any construction slowdown could benefit existing assets.

Recent Sales Transactions

Church Park Apartments |
221 Massachusetts Avenue |Boston

Brookfield Properties

$439,000,000 | $864,000/Unit

**Includes parking garage and retail space*

Revolution at Assembly Row |
290 Revolution Drive | Somerville

Mesirow Financial

$188,000,000 | $571,000/Unit

The Prescott | 1 Nathan Place | Concord

BlackRock

$156,000,000 | $446,000/Unit

Legacy Park Apartments |
112-114 Marston Street | Lawrence

Legacy Park NBM LLC

$21,500,000 | $207,000/Unit

Willard Park Apartments | 134-140 &
148 Willard Street | Lowell

SMG Inc.

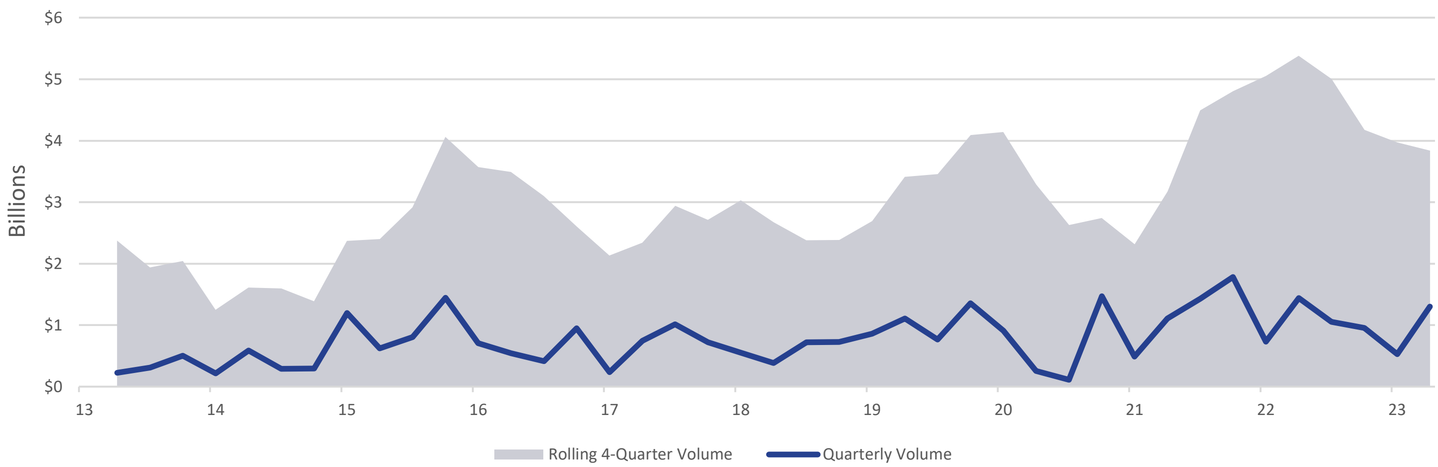
$12,850,000 | $178,000/Unit

2-Property Portfolio | 169 Aiken &
144-148 Stevens | Lowell

SMG Inc.

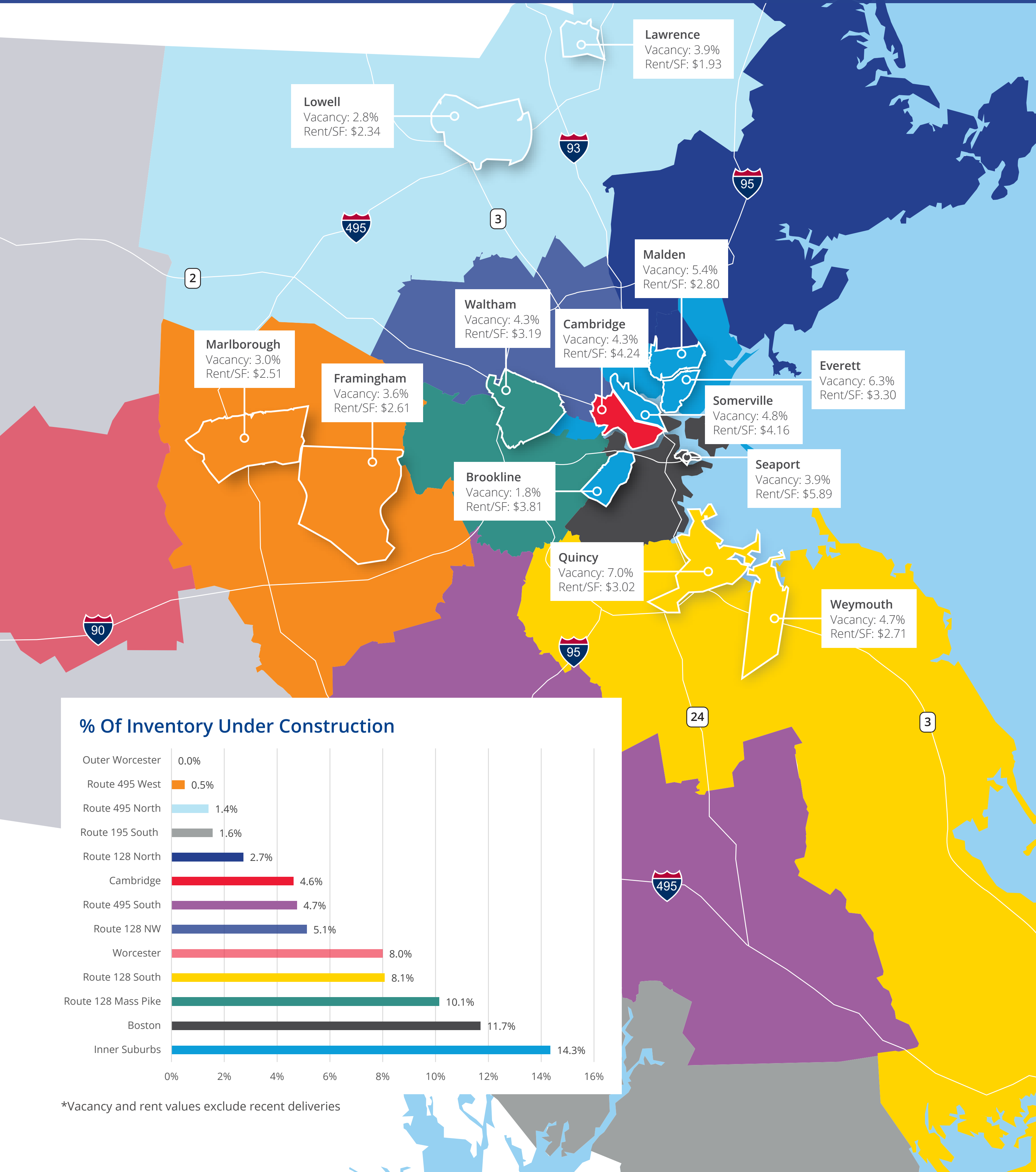
$11,000,000 | $183,000/Unit

Investment Trends



Sources: *Colliers; RCA*

Boston Metro
Multifamily Submarkets



*Vacancy and rent values exclude recent deliveries

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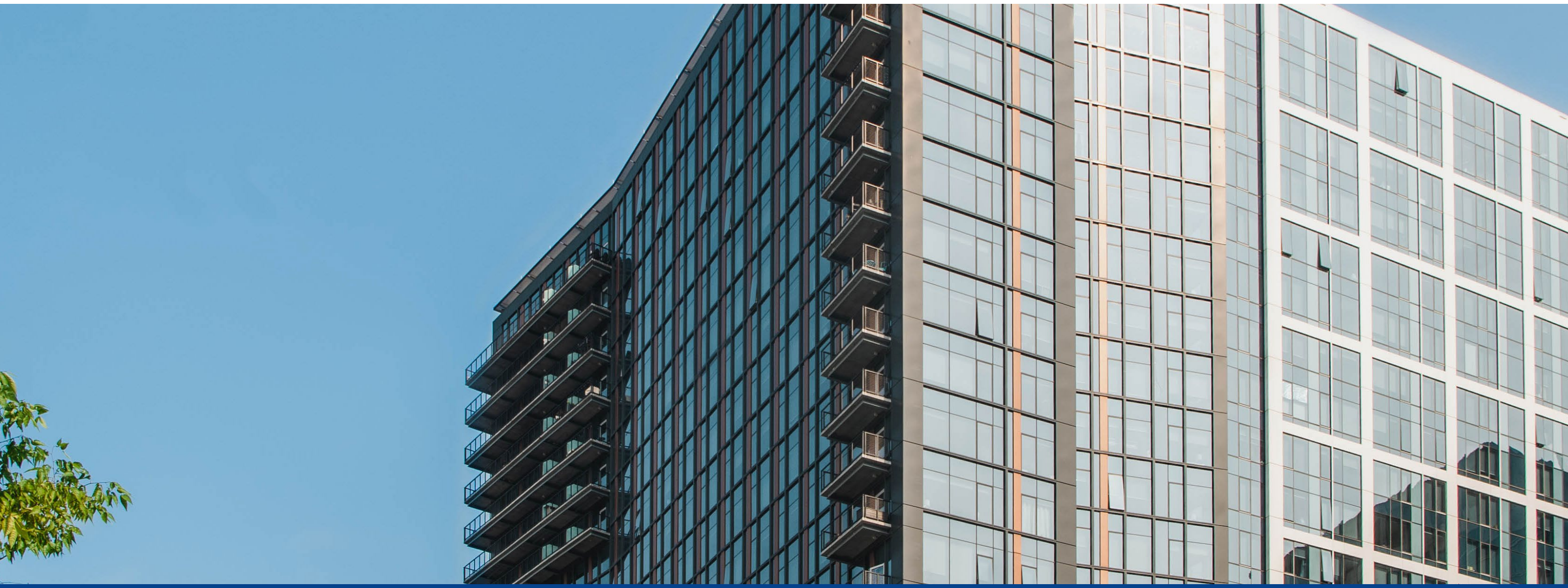
Submarket	Inventory	Overall Vacancy	Vacancy (Excluding Recent Deliveries)	Asking Rent/ Unit	Asking Rent/SF	Under Construction	% Of Inventory Under Construction
Boston	51,981	5.2%	4.2%	$3,511	$4.37	6,061	11.7%
Allston/ Brighton	*8,174*	*5.8%*	*4.8%*	*$2,832*	*$3.83*	*2,134*	*26.1%*
Back Bay/ South End	*7,481*	*3.7%*	*2.5%*	*$4,127*	*$5.02*	*50*	*0.7%*
Downtown	*8,706*	*4.5%*	*4.1%*	*$4,091*	*$4.80*	*-*	*0.0%*
Fenway/ Mission Hill	*8,953*	*5.6%*	*3.3%*	*$3,571*	*$4.79*	*976*	*10.9%*
South Boston/ Seaport	*5,263*	*4.6%*	*4.2%*	*$4,442*	*$5.37*	*417*	*7.9%*
Route 128 South	31,396	6.0%	4.6%	$2,567	$2.76	2,536	8.1%
Inner Suburbs	26,343	8.2%	5.8%	$2,882	$3.34	3,780	14.3%
Route 495 North	24,236	4.1%	3.7%	$2,241	$2.38	328	1.4%
Route 495 West	17,422	6.6%	3.5%	$2,402	$2.59	84	0.5%
Route 128 North	16,844	3.9%	3.3%	$2,439	$2.73	459	2.7%
Route 495 South	12,474	4.1%	2.9%	$2,263	$2.41	592	4.7%
Cambridge	12,448	6.3%	4.3%	$3,649	$4.43	575	4.6%
Worcester	11,326	3.0%	2.1%	$1,926	$2.19	906	8.0%
Route 128 NW	10,535	5.7%	3.5%	$2,876	$2.94	540	5.1%
Route 128 Mass Pike	8,077	7.0%	4.1%	$3,317	$3.30	819	10.1%
Route 195 South	6,415	1.6%	1.5%	$1,713	$1.77	100	1.6%
Outer Worcester	5,116	3.8%	3.9%	$1,568	$1.61	-	0.0%
Total	234,613	5.4%	4.0%	$2,765	$3.09	16,780	7.2%

Unless otherwise noted, apartment market data is from CoStar. The data set includes rental properties with at least 25 units and excludes affordable communities as well as senior, student and other specialized multifamily subtypes.



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