

Multifamily Metro Outlook:

Boston - Q2 2023

Overview:

- The second quarter of 2023 has seen Boston slowly recovering from its deceleration throughout 2022. While the metro's economy is returning to more normal patterns of performance, Boston still slightly lags some national averages. Boston's underlying economy is theoretically positioned for an expansion, as education and healthcare, as well as tech and financial services, are important blocks in its foundation, but the prospects of a national recession are still negatively impacting economic activity in the metro.
- The apartment development pipeline was quite active prior to the pandemic, with a continued high level of new units expected into 2023. However, Boston was among a limited set of metros that did not include construction as an essential activity, and development slowed. This could prove beneficial for the market should developers decide to shrink or abandon projects, although the level was not going to be disruptive to the market, slower rent growth was just enough to put slight upward pressure on vacancies.

Market Strengths:

- Boston has enjoyed a historically stable rental market, with vacancy rates below 5% due to its position as the financial and academic capital of New England. While the population is not growing rapidly, it remains fairly wealthy (median income per household is 44% above national average according to CoStar) due to job concentration in higher paying industries such as Education and Health Services.
- Boston's constrained geography and time-consuming development approval process creates an environment where existing housing stock and approved projects are likely to be well received by the market. The metro's above average land and home prices, as well as above average rent levels, are strong indicators of ample demand for new supply in the overall market for both for-rent and for-sale development.
- Boston has an attractive demographic profile for multifamily demand. The large number of universities in the metro contribute to the above average share of young people in the metro: 22.4% of the local population is in the age 20-34, cohort, well above the 20.6% national average.

Market Weaknesses:

- Boston was among the earlier metros to recover all the jobs it lost in the Great Recession, however that did not mean that it has had one of the most robust recoveries – just that it was one of the first. In the second quarter of 2023, annual employment growth was only +0.7%, an increase from the decline of -0.2% last quarter, but significantly lower than the national average of +2.3%. However, Boston's diverse knowledge-based economy is generally low risk and stable. The metro's economy should perform predictably, however just slightly below national average rates.
- Boston's current governor has recently passed legislation that inhibits future rent increases. While this is being done in support of improving housing affordability for the metro, this will likely introduce stronger rent control that will cap rent growth in the near future.

Development:

- Around 67,500 apartment units have been completed since the beginning of 2017, and an additional 22,800 apartment units are currently underway. Boston's high incomes, low housing affordability, and job and population growth rates, make this level of development reasonable, but the volume of new supply will ease the market.

Outlook:

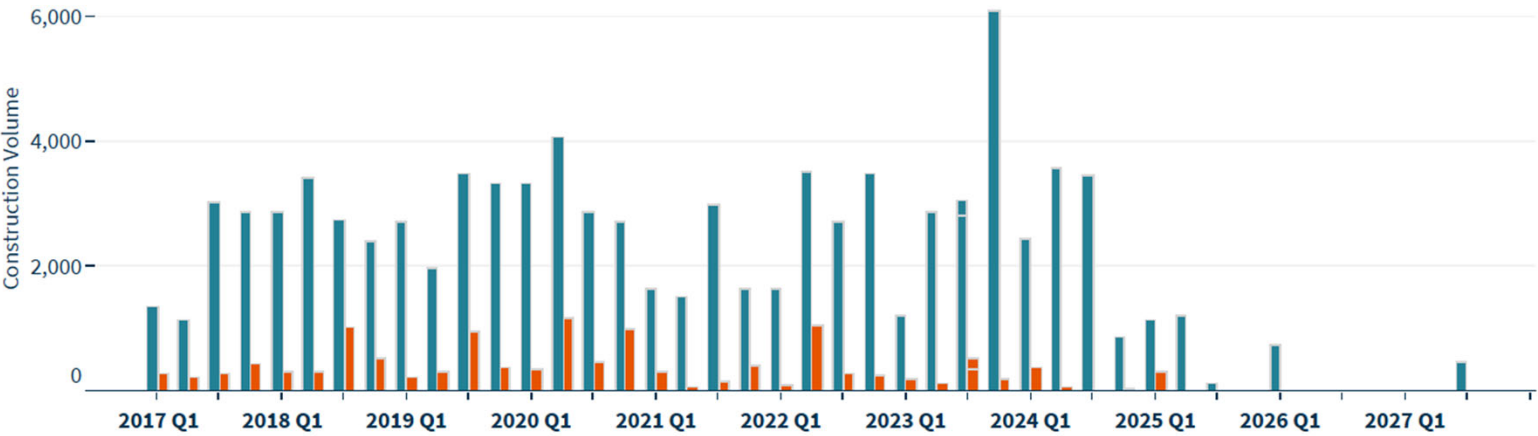
- Though still recovering from the recent recession, Boston remains a top multifamily market in the US. Absorption rates have rebounded, the current pace of development seems stable, and vacancy rates remain low. The recovery has been moderate throughout the first half of 2023, but a silver lining of the situation could be the pause of development, which was due to put negative pressure on fundamentals. With a moderately generally healthy job market, the local multifamily market should be supported in the near-term and see continued, though slowed, positive improvement.
- While economic and demographic growth is expected to be below average over the next several years, the impact of this on Boston's multifamily market is mitigated by the difficulty of obtaining new land and development rights. The metro's economy remains a strong one, with its foundational industries of healthcare, education, tech, and financial services, particularly compared to its Northeast neighbors.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

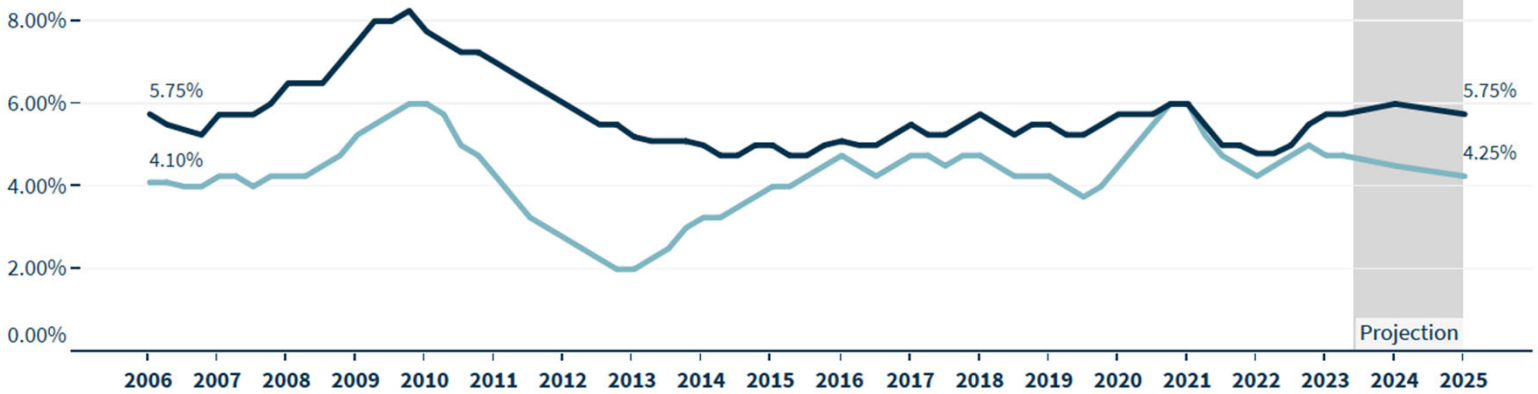
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Boston | National

Q2 2023 Vacancy Rate:

4.75%



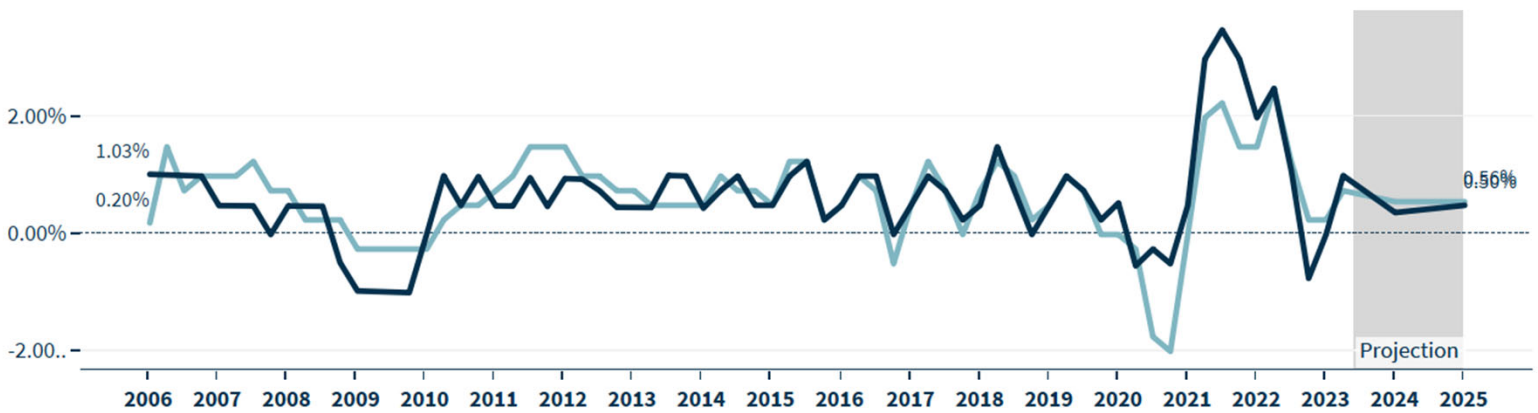
Projection

Asking Rent Growth

Boston | National

Q2 2023 Asking Rent:

\$2,730

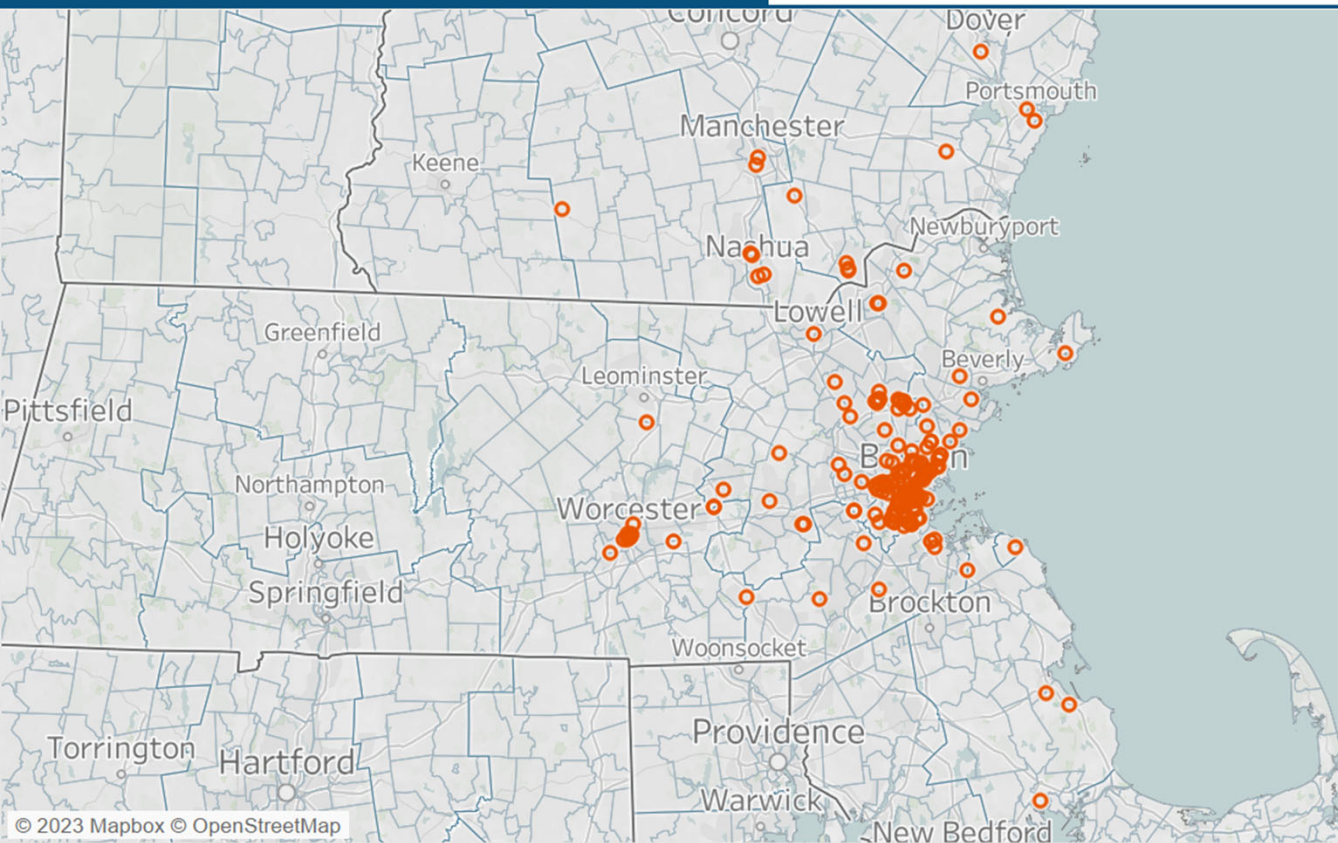


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Cambridge/Somerville	10	1,933
Chelsea/Revere/Charlestown	21	3,028
East Middlesex County	21	3,481
Fenway/Brookline/Brighton	15	2,279
Intown Boston	17	968
Lowell	3	284
Manchester	2	410
Marlborough/Framingham	5	510
Nashua	5	471
North Essex County	3	416
North Worcester County	1	72
Plymouth County	3	699
Quincy	5	1,033
Rockingham/Strafford Counties	8	1,071
Shrewsbury/South Worcester County	4	953
South Essex County	6	651
Southwest Boston	29	2,078
Waltham/Newton/Lexington	6	1,120
West Norfolk County	3	106
Worcester	10	1,255
Grand Total	177	22,818

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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