Overview

Boston’s apartment market saw remarkable strength as the area recovered from the Great Recession, but those conditions have now moderated, and the rental market has moved from exceptional to simply healthy. Aside from the local economy slowing slightly, the apartment development pipeline has been quite active, with a continued high level of new units to be added to inventory into 2019, likely resulting in softness for these new projects.

Boston was among the earlier metros to recover the jobs it lost in the Great Recession, though being sooner has not meant that it has had one of the most robust recoveries. In the year ending Q3 2018, the number of jobs grew 1.8 percent, just above the national average of 1.7 percent. Overall, Boston will likely trail the national averages over the forecast horizon. However, Boston’s diverse knowledge-based economy is low risk and stable. The metro’s economy should perform predictably, but at just below national average rates.

Boston has enjoyed a historically stable rental market, with vacancy rates below 4 percent (according to CoStar) due to its position as the financial and academic capital of New England. While the population is not growing rapidly, it remains fairly wealthy 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.

Development

Approximately 47,800 apartment units have been completed since the beginning of 2013, and an additional 21,300 apartment units are currently underway. Boston’s high incomes, low housing affordability, and job and population growth rates likely make this level of development reasonable, but we expect the volume of new supply to ease the market.

Since the beginning of 2006, approximately 21,700 condo units were completed, and 2,900 are underway and expected to be completed by Q2 2020. This potential oversupply is a concern but also mitigated by the generally high cost of housing in the metro.

Outlook

The recent strength in the job market, coupled with limited supply, allowed for steady vacancy improvements and unusually strong rent increases. A moderating job market and an upcoming surge in new supply are likely to ease conditions in the metro slightly, particularly for high-end projects that are already offering increasing concessions. But Boston is still among the nation’s healthier economies and apartment markets.

Forecasts indicate that Boston should easily absorb significant new supply to its rental markets. While economic and demographic growth is expected to be below average, it is mitigated by the difficulty of obtaining new land and development rights. Developers have started down the road of adding meaningful new inventory to the market, which probably prevents Boston from being a stand-out multifamily growth opportunity. But the local economy remains a strong one, particularly compared to its Northeast neighbors.

Vacancy and Rent Composite Estimates

Source: Fannie Mae Multifamily and Economics Research
Q3 2018 Market Inventory:
- CBRE-EA: 480,000 Units
- REIS: 229,000 Units
- CoStar: 205,000 Units

Annual Rent Growth:
- CBRE-EA
- REIS
- CoStar
Construction Bidding/Underway
(189 projects/22,000 Units/27.0 M Sq. Feet)

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<tr>
<th>CBRE-EA Submarket</th>
<th>Number of Projects</th>
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<th>Total Units</th>
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<tr>
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Source: Dodge Data & Analytics SupplyTrack
Multifamily Metro Outlook: Boston Winter 2018-19

Fannie Mae Multifamily Economics and Market Research

Tim Komosa, Economist

Sources Used

• AxioMetrics
• CBRE-Econometric Advisors
• Bureau of Labor Statistics
• Census Bureau
• CoStar
• Dodge Data & Analytics SupplyTrack
• Moody’s Analytics
• Real Capital Analytics
• Reis, Inc.

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