Multifamily Metro Outlook: Boston Winter 2018-19

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.

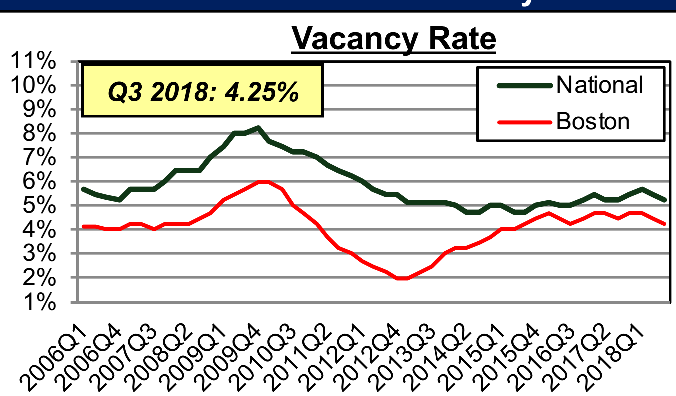
Since the beginning of 2006, approximately 21,700 condo units were completed, and 2,900 are underway and expected to be completed by Q2 2020. This potential oversupply is a concern but also mitigated by the generally high cost of housing in the metro.

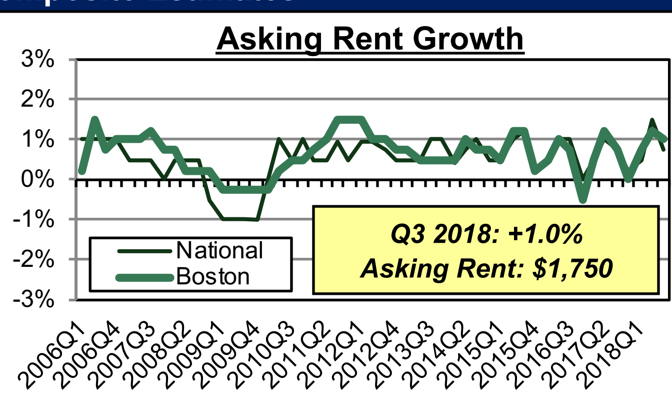
Outlook

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.

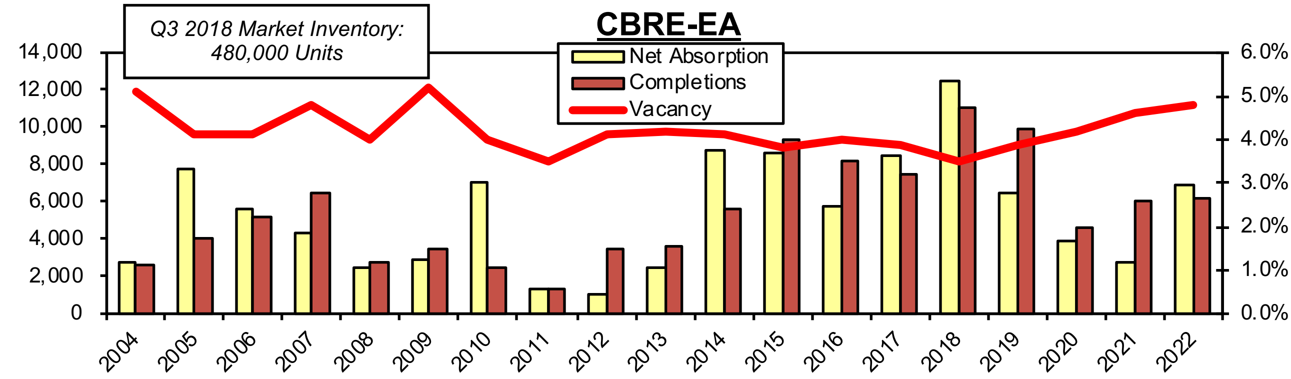
Forecasts indicate that Boston should easily absorb significant new supply to its rental markets. While economic and demographic growth is expected to be below average, it is mitigated by the difficulty of obtaining new land and development rights. Developers have started down the road of adding meaningful 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

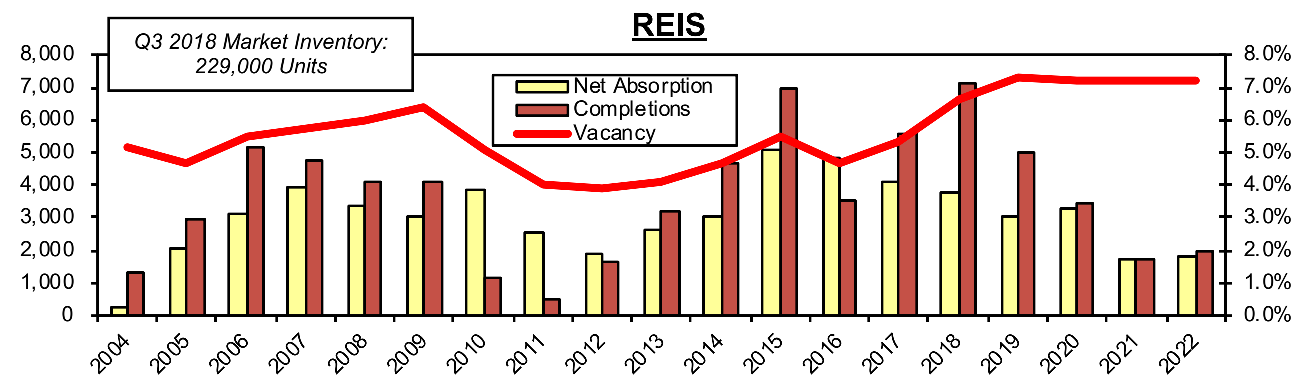
Vacancy and Rent Composite Estimates

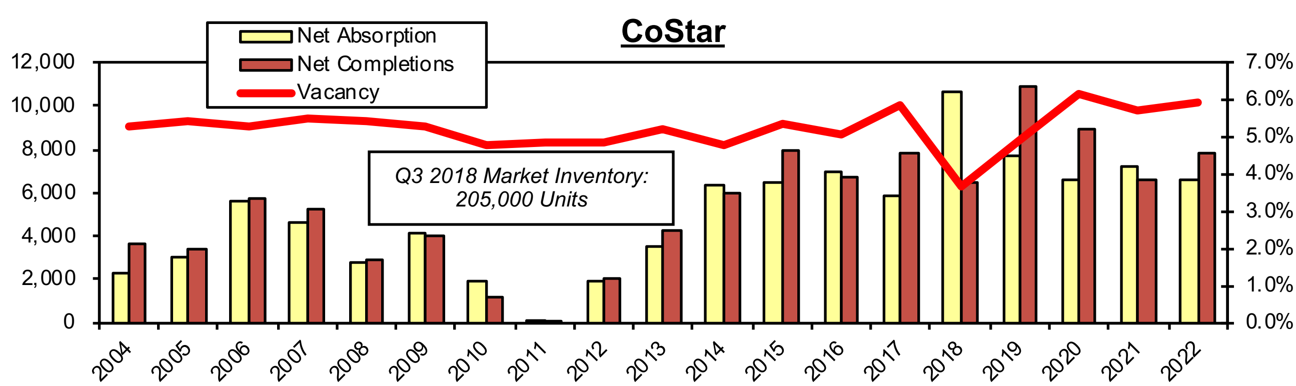


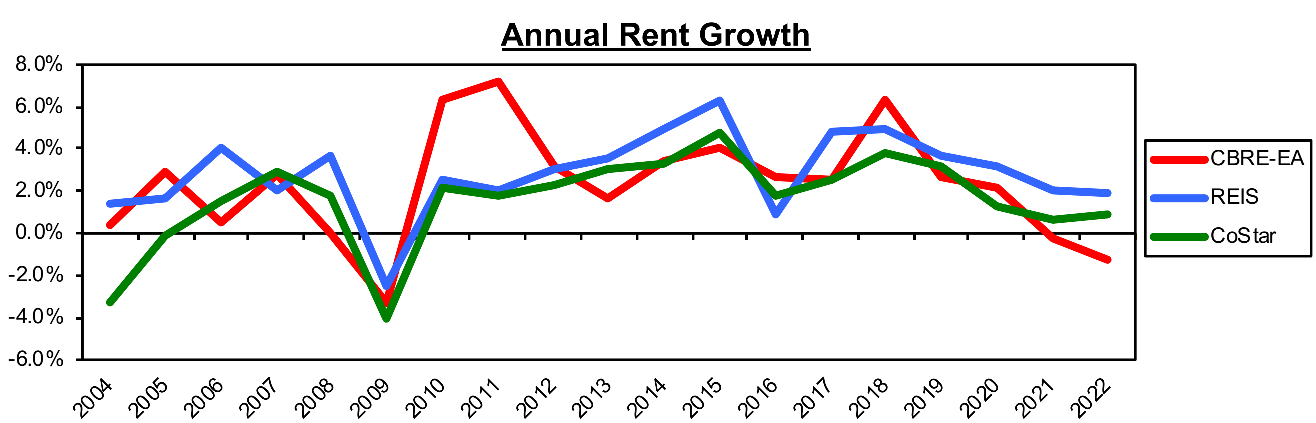


Source: Fannie Mae Multifamily and Economics Research

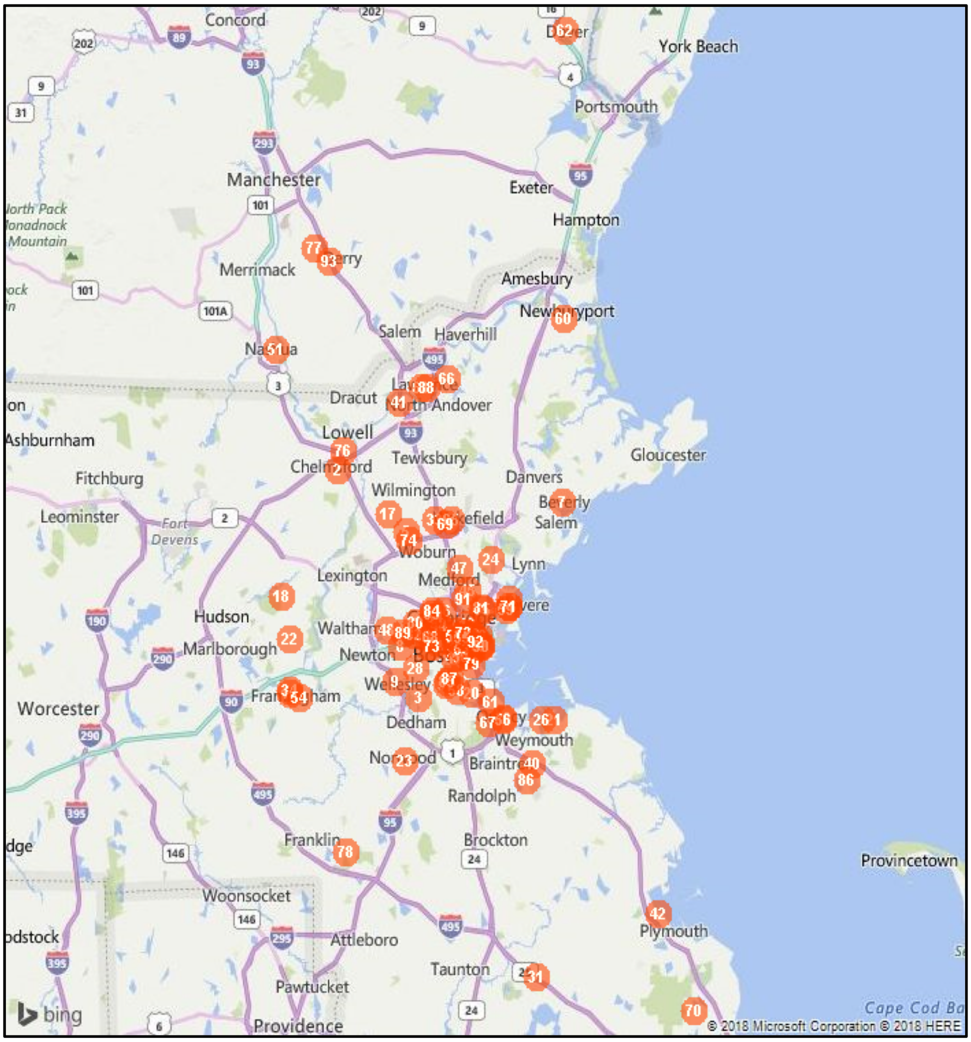

CBRE-EA
Q3 2018 Market Inventory: 480,000 Units
Net Absorption
Completions
Vacancy


REIS
Q3 2018 Market Inventory: 229,000 Units
Net Absorption
Completions
Vacancy


CoStar
Net Absorption
Net Completions
Vacancy
Q3 2018 Market Inventory: 205,000 Units


Annual Rent Growth
CBRE-EA
REIS
CoStar

Construction Bidding/Underway
(189 projects/22,000 Units/27.0 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Boston City	50	3551	2479
Brookline/Brighton/Newton	11	1490	1451
Cambridge/Watertown/Waltham	23	3190	2852
Central City/Back Bay/Beacon Hill	24	6812	4933
Manchester-Nashua, NH	2	123	156
Mystic River North/Route 128	21	3697	3178
North Shore/Merrimack River Valley	15	2193	1904
Plymouth County/Other	2	385	346
Rockingham County-Strafford County, NH	10	709	679
South Shore/Route 128 South	14	2227	1844
South/Southeast Suburban	5	678	590
West/Northwest Suburban	8	1703	1393
Worcester, MA	4	199	153

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Fannie Mae Multifamily Economics and Market Research

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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.

