



Multifamily Metro Outlook: Boston Winter 2018

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 downgraded a bit from exceptional to healthy. Aside from the local economy slightly moderating, the apartment development pipeline has been active, with a continued high level of new units to be added to inventory into 2018, likely resulting in softness for these new projects.

Boston was among the first metros to recover the jobs it lost in the Great Recession, although being faster to recover does not mean that it has had one of the more robust recoveries. In the year ending Q3 2017, the number of jobs grew 1.8 percent, outperforming the national average of 1.4 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 at slightly 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 (median income per household is 46 percent above national average) due to job concentrations in higher paying industries, including Education and Health Services.

Development

Around 39,400 apartment units have been completed since the beginning of 2012, and an additional 19,600 apartment units are underway. Boston’s high incomes, low housing affordability, and moderate job and population growth rates make this level of development reasonable, but the high volume of new supply will probably ease rent growth and vacancy levels.

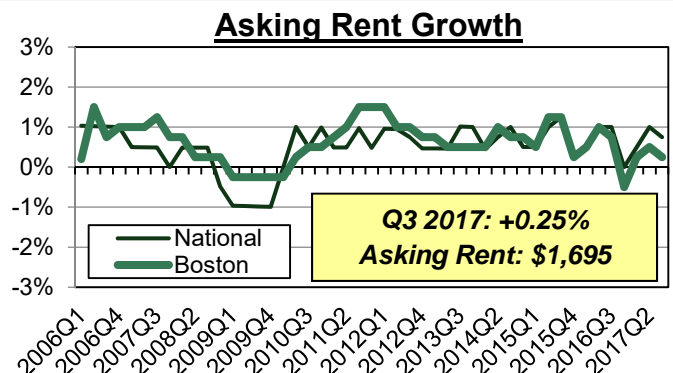
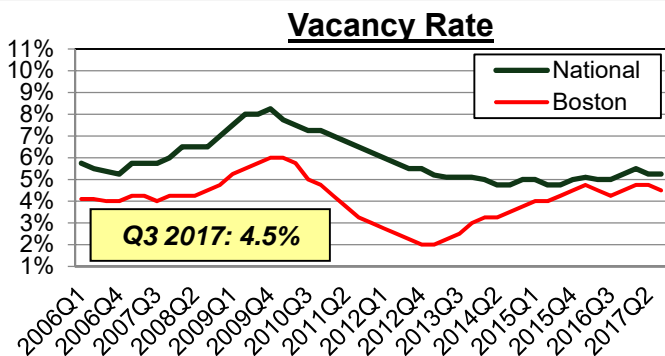
Since the beginning of 2006, around 19,700 condo units were completed, and 2,900 are underway and expected by Q4 2018. Another 4,000 units converted to condo between 2004 and 2006. Unlike other cities in which much of the recent activity has been in the luxury segment, many of these units could potentially enter the rental market in segments that compete with market rate units that are typically financed by Fannie Mae. This potential oversupply is a concern but is mitigated by the generally high cost of housing in the metro.

Outlook

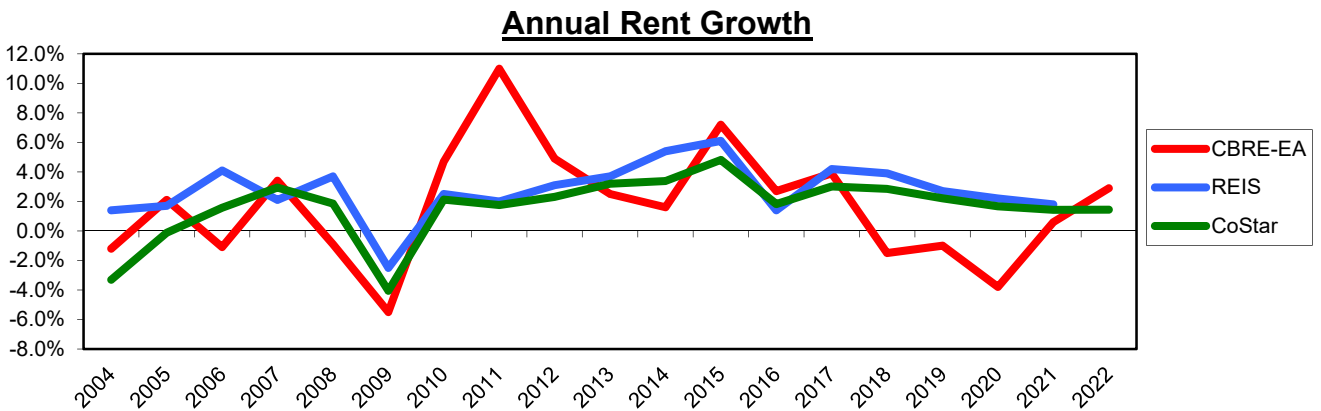
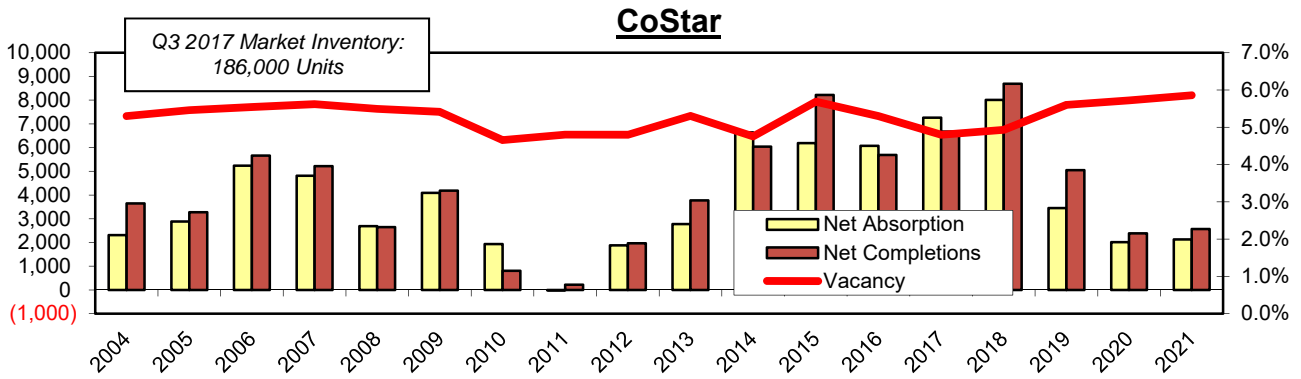
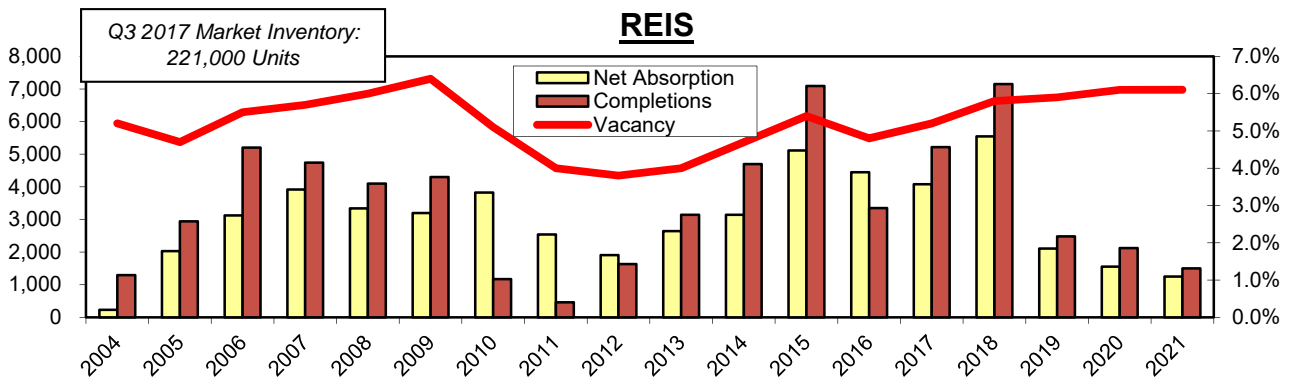
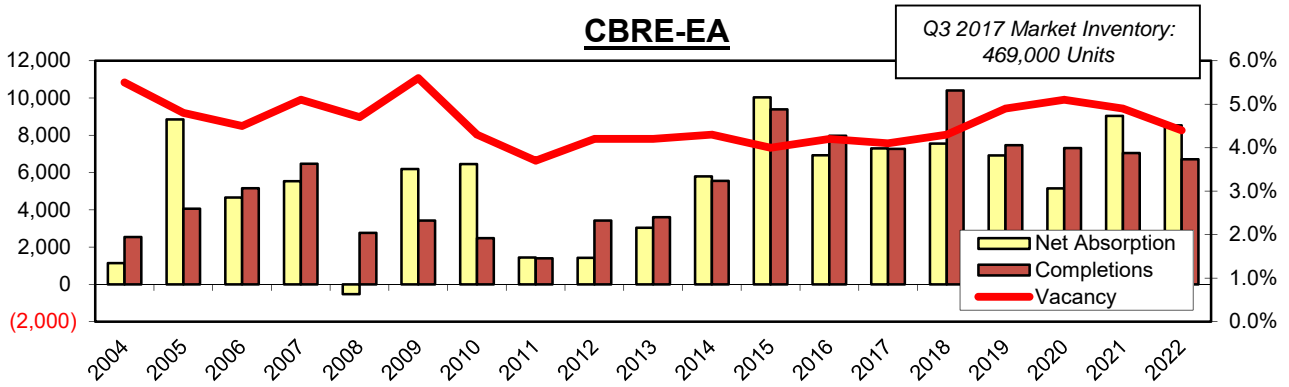
The recent strength in the job market, coupled with limited supply, allowed for steady vacancy improvements and strong rent increases. A moderating job market and an upcoming surge in new supply are likely to ease conditions in the metro slightly, particularly for high-end projects that are already offering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

Forecasts indicate that Boston should easily absorb significant new supply to its rental markets over the long term. While economic and demographic growth is expected to be below national averages, potential concerns about apartment market softening are mitigated by the difficulty of obtaining new land and development rights. Developers have begun adding meaningful new inventory to the market, which will likely prevent Boston from experiencing tightening vacancy levels or improving rent growth rates.

Vacancy and Rent Composite Estimates



Source: Fannie Mae Multifamily and Economics Research



Construction Bidding/Underway
(149 projects/20,000 Units/24.6 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Boston City	38	3337	2499
Brookline/Brighton/New ton	6	767	691
Cambridge/Watertow n/Waltham	23	3812	2987
Central City/Back Bay/Beacon Hill	18	4930	4262
Manchester-Nashua, NH	3	571	441
Mystic River North/Route 128	12	2113	1927
North Shore/Merrimack River Valley	17	2658	1945
Plymouth County/Other	2	123	116
Rockingham County-Strafford County, NH	2	376	238
South Shore/Route 128 South	8	1713	1353
South/Southeast Suburban	8	1480	1391
West/Northw est Suburban	7	1983	1706
Worcester, MA	5	778	525



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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
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

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