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Things Getting Tight Within Rental Sector

Parts of Greater Boston Market See Steady Demand; Area's Rents Expected to Climb by 3.9% Next Year

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THE RENTAL MARKET IS TIGHTENING in some pockets of Greater Boston, with steady demand fueling rent increases and keeping occupancy rates stable.

But in some areas such as the North Shore, where numerous new apartments have flooded the market, rents have flattened or dipped.

Overall, rents in the Boston metro area are expected to climb 3.9 percent next year and another 3.8 percent in 2009, according to the latest forecast by

Property & Portfolio Research, a Boston-based firm. The increases come after rents stagnated and declined from 2002 and 2005.

"Job growth is going to be good, not spectacular," said Mark Hickey, the company's real estate economist. "[The region's] going to have moderate supply and as a result we'll see stable vacancies around the historic average and decent rent growth around the historic average."

Property & Portfolio Research analyzes 54 major metro areas

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New luxury apartment projects have emerged in Boston and the surrounding suburbs in recent years, including Archstone Boston Common near Downtown Crossing. The city's rental market is tightening, with steady demand keeping occupancy rates stable and fueling rent increases.

Things Getting Tight Within Greater Boston Rental Sector

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nationwide, the Boston area among them. The Hub's metro area includes the city and surrounding suburbs and stretches from southern New Hampshire to Rhode Island and west of Worcester.

The firm projects that the average rent for a two-bedroom apartment in the Boston metro area will be \$1,523 this year and reach \$1,582 in 2008. The vacancy rate stands at about 5 percent. Vacancies have ranged between 3 percent and 7 percent over the last 30 years.

Tenants have more choices in and around Boston, according to industry observers. New luxury apartment projects have emerged in Boston and the surrounding suburbs in recent years. In Boston, luxury developments like Archstone Boston Common near Downtown Crossing and Trilogy in the Fenway started leasing in 2006. Adding to the mix are units that owners tried to sell unsuccessfully and are now attempting to rent.

Some submarkets, like the North Shore, have a glut of new apartments.

"As a result, rental rates and lease-ups have suffered," said William M. McLaughlin, senior vice president of development of Virginia-based AvalonBay Communities, which has a regional office in Boston.

Companies like AvalonBay Communities, Roseland Property Co. and Northland Investment Corp. have added thousands of apartments on the North Shore. AvalonBay has built roughly 1,000 apartments in Saugus, Danvers and Peabody.

On the North Shore, property owners are offering concessions to keep units filled. It's not uncommon to see two months' free rent offered at some locations, according to McLaughlin.

McLaughlin said there are about 7,500 apartments in different stages of development in and around Interstate 495. "You get a lot of good-quality product at the top

and it has an impact on rents all the way through the market," he said.

Immigration, which helped fuel Boston's growth, slowed after the 9/11 terrorist attacks. That has affected apartment demand.

"Overall, demand is not as robust as it was in the mid-1990s but it's strong enough. What has changed has been supply," said McLaughlin.

Some markets, such as the South Shore and MetroWest – an area that is growing – have fared better, according to McLaughlin.

Avalon's highest occupancy rates can be found at its properties on the South Shore. "The South Shore has held up. That was the most challenging market two or three years ago. Now there's not a lot of new supply in places like Quincy, Braintree and Weymouth," he said.

'Harder and Harder'

One factor that will continue to affect market conditions is supply.

"Boston is a supply-constrained market for apartments. A lot of people like Boston because supply is predictable and it's difficult to build," said Hickey, noting that it can take years to get a project through the approval process.

While some industry observers have talked about condo projects being converted to apartments because of the softer condo market, Hickey said that trend won't affect Greater Boston as much as the southeastern and southwestern regions of the country.

"Boston did not have the level of ground-up condo construction that happened in the Southwest and Southeast," he said. And in the Boston area, condos tend to be much larger than apartments, making conversion difficult.

High construction costs have slowed the pace of new apartment development, which is further squeezing supply. "It's getting harder and harder to make economic

sense of development," McLaughlin said.

Al Norton, rental director of Prudential Unlimited in Brookline, said Brookline and Jamaica Plain experienced strong demand from tenants. Demand was so consistent this year that property owners were no longer offering to pay the full broker's fees as they had in prior years.

"April through the end of August was very busy. It was the strongest we've had in several years," Norton said.

Some quality rentals were leasing quickly. In April, Norton had a two-bedroom, two-bath rental with garage parking that was available for \$2,800 a month that rented within 24 hours.

Norton said Brookline's apartment supply has declined with the condo conversion of properties like Longwood Towers, The Warwick and Washington on the Square. "That's almost 600 apartments in the last two-and-a-half years that were lost to condos," he said. Meanwhile, Brookline's proximity to the hospitals and universities offers a steady stream of renters.

In off-season winter months, some of the more upscale properties may offer incentives to get units filled, but they're not likely to discount rents, according to Norton. Trilogy, for example, recently advertised a 13-month lease with one month free for tenants who moved in by Nov. 15, Norton said.

But rents at some Brookline properties such as The Barclay on Beacon, where a one-bedroom apartment can rent for as much as \$2,200 a month, are expected to rise in January, according to Norton.

Still, some real estate agents say tenants have been able to negotiate good deals.

Paul Odelson, rental division manager of ERA Boston Real Estate Group, said there is plenty of inventory and that has pushed larger property owners to offer move-in rebates and pay full broker's fees.

"The larger owners have definitely been

keeping their finger on the pulse of the market and have been offering incentives to get quality tenants," he said.

Odelson recently helped a tenant negotiate the monthly rent on a one-bedroom apartment down to \$1,900 from \$2,100. The tenant moved in mid-September and the owner provided a two-week rebate and paid the broker's fee.

Larger property owners also are being very aggressive in promoting their available apartments. Equity Residential has been hosting broker open houses and lunches. "They're treating their rentals more like sales units to entice all of us [brokers] to go look at them," said Odelson, who added, "It's almost a renter's market right now. There's quite a bit of inventory out there."

Still, others insist they are seeing robust market conditions. "We've actually noticed that the market is tightening in the last six months. Our vacancy rates have gone from about 3 percent to about 1 percent across the board or less," said Curtis R. Kemeny, president of Boston Residential Group.

Boston Residential Group owns 1,100 upscale apartments in Boston, Weston, Wellesley, Lexington and Cambridge.

"I think in the areas in which we compete, the supply of our type of product is limited. We are very well-located in the towns in which we compete," he said.

Kemeny said his company has not offered any free rent incentives but has been paying the full broker's commission. "I think that is fairly standard in the market," he noted.

Kemeny added that he anticipates rents at the Boston Residential Group's properties will increase between 1 percent and 2 percent in 2008. "There's competing product that's newer and it constrains what we can achieve on the revenue side," he said. "We balance trying the rental increases that we want to achieve with maintaining an appropriate level of vacancies." ■