MULTI-HOUSING NEWS

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Market Report: Boston Leads New England Development

New England combines historical traditions with academic pursuits, leavened by an interest in exploring new options. Its conservative nature manifests itself in the fact that much of the area's condominium development tends to be purchased by people who plan on living in the units, rather than absentee investors. This, observers agree, helped stabilize the market as it experienced the recent downturn shared by the rest of the U.S. and keeps most units from entering the "shadow" rental pool.

However, in a university town like Boston, debate is a daily part of life so it's only fitting that people take differing positions on the town's multifamily outlook.

While area single-family housing costs have often been among the 10 highest in the U.S., rent growth in the past year has been among the lowest, according to a report by Witten Advisors, Dallas. As in most markets, condo absorption declined last fall. Still, large-scale multifamily projects are underway and/or in the planning stages, while a number of existing properties are also trading hands.

In its "2007 Emerging Trends in Real Estate," The Urban Land Institute (ULI) predicted that Boston is "about to come out of the woods." The report noted the substantial post-2001 employment declines are reversing but, on the other hand, "condo converters overshot here, too." ULI expected to see further declines in housing prices "in a definite correction." On the up side, the report concluded: "Apartments rate a solid 'buy.' "

While Boston has good apartment fundamentals, YieldStar graded it a C market this year because it also has a lot of inventory in its pipeline. Furthermore, "Too much of that is top-end product,"says Greg Willett, vice president, research & analysis for M|PF YieldStar, Carrollton, Texas. "Total demand is not keeping up with completions."

For the year ending June 2007, he points out, 6,136 units were completed in metro Boston (which includes Providence, R.I. and southern New Hampshire).

Willett reports that occupancy rates in Boston are down from 96.9 percent in June 2006 to 94.8 percent in June 2007. And in units built since 2000, he adds, occupancy is 88.5 percent in metro Boston (and 87.4 percent in nearby Providence).

Plus, Willett notes, the fact that condo conversions have generally stopped is keeping occupancy rates from dropping further.

On the other hand, a solid pace of job growth, a large college student population and a low rate of single-family home affordability will sustain a strong apartment market in Boston during 2007, predicts Marcus & Millichap

Real Estate Investment Brokerage Co.'s 2007 National Apartment Report. Demand will hold the market-wide vacancy rate in the low-5 percent range, predicts the real estate firm.

"Apartment owners in many Boston submarkets are taking advantage of strong tenant demand and tight vacancies to raise rents and reduce concessions," says Gary Lucas, a managing director of Marcus & Millichap and regional manager of the firm's Boston office.

However, Boston did drop five places this year to No. 21 on the firm's annual National Apartment Index (NAI), a snapshot analysis that ranks 42 apartment markets based on a series of 12-month forward-looking supply and demand indicators. In the previous year, it had also dropped nine places on the list to No. 16 in 2006.

Major national and local multifamily players are also investing in Beantown. Chicago-based developer Equity Residential is building 310 one- and two-bedroom luxury rental apartments in a five-building community at Emerson Place. Slated for completion in Spring 2008, this development is the first addition of new housing to the West End neighborhood in 20 years.

Downtown, Archstone Boston Common is reportedly the first new, large-scale rental residence to be built there in the last 30 years. Designed by ADD Inc, this new high-rise from Archstone-Smith, based in Englewood, Colo., boasts amenities including an indoor pool and sports club, and provides a catalyst for the revitalization of Boston's Chinatown.

Across town, sections of South Boston, served by the city's new Silver Line transit system, are now being targeted for new development. Land that stood fallow as parking lots for years is now ready to continue the transformation of the South Boston waterfront, explains Curtis R. Kemeny, CEO and president of Boston Residential Group LLC, a privately held real estate development and management company. "South Boston is an area of tremendous opportunity over the next 10 years."

Kemeny owns both apartments and condos in local urban and suburban locations. "We like having urban and suburban exposure as part of our brand to catch people through the whole cycle of their needs." Kemeny comes from a real estate family so he knows first hand how cyclical the business is. "You have to plan for the down side and build for the up side," he notes.

Big plans are also in the works just outside the city limits. A few miles northeast in Revere, Mass., Eurovest Development and city leaders signed a master development agreement in June 2007 for Waterfront Square at Revere Beach. This $500-million, transit-oriented development will transform 10.2 underutilized acres into a new urban center directly across from the Atlantic Ocean and next to the MBTA's the Wonderland Blue Line train station that connects downtown Boston and Logan International Airport. Waterfront Square at Revere Beach will be built in four phases over 11 years, starting next year. Eventually, the mixed-use project will include a hotel, office building, 900 units of housing, shops, restaurants and entertainment venues. Still to be determined is whether the housing will be for-sale or for-rent product.

Eurovest Managing Director Joseph R. DiGangi, who was ahead of the curve when he began developing in Boston's North End 25 years ago, says, "The idea of mixed use makes so much sense to us because downturns are usually in one particular sector of the total marketplace."

A high level of new construction will produce a slight bump in vacancy to 5.2 percent by year-end, a 20 basis point increase from year-end 2006, according to Marcus & Millichap research.

Asking rents are forecast to climb 3.5 percent to $1,689 per month, reports Marcus & Millichap, while effective rents are expected to add 3.9 percent to $1,613 per month in 2007.

The ability to quickly reset asking rents, due to the turnover of student renters, and the potential for long-term appreciation will continue to draw investors to apartment assets in Boston's urban submarkets, concludes Marcus & Millichap.

The Executive Office of Labor and Workforce Development reported that the commonwealth of Massachusetts added 4,200 more jobs in July, bringing the total number of jobs to 3,285,100. Jobs in the Bay State are up by 39,000 or 1.2 percent from one year ago, with 12,100 new jobs added over the last two months.

Over the past seven months, Massachusetts has added 27,100 jobs, a pace of job creation that exceeds the number of jobs created over the same period last year. Additionally, jobs are up by 106,200 since December 2003, as the state gained back over half the jobs lost in the last downturn.

Sectors posting the most job gains include education and health services, which generated over half of the monthly job gains, as well as financial activities, leisure and hospitality, trade, transportation and utilities, and manufacturing.

However, the Massachusetts unemployment rate increased from 4.9 percent in June to 5.1 percent in July. The unemployment rate averaged 5 percent year through the first seven months of 2007, slightly higher than the 4.9 percent rate recorded for the comparable period in 2006 and also higher than the national unemployment rate of 4.6 percent in July 2007.

Demographics Support Growth in Providence's Apartment Market

Another college town, Providence is also Rhode Island's state capital. Home to the Ivy League's Brown University, the school's 7,700 students create an ongoing boost to the local rental market, and attracts young adults and recent graduates to the area as well. For instance, the 25- to 29-year-old age group is expected to expand 10 percent by 2011. Growth within this age sector is significant due to their higher likelihood of renting apartments.

Providence's current metro population totals approximately 1.2 million residents.

Marcus & Millichap reports that a surge in retirement-age individuals will create more healthcare and leisure and hospitality jobs, with corresponding wages typically not conducive to homeownership, thus further expanding the local renter pool. Additionally, senior citizens are trending toward downsizing and maintenance-free housing, often looking to rental housing for retirement or second-home needs.

At approximately $50,000 per year, the area's median household income further supports the demand for local apartments. House prices preclude a substantial portion of the metro from homeownership.

Willett reports that like Boston, Providence is also struggling as well with "fairly aggressive housing deliveries."

Proof of that can be found, Willett adds, in the fact that occupancy rates in

Providence are down from 95.6 percent in June 2006 to 93.2 percent in June 2007.

The unemployment rate for metro Providence fell from 6.1 percent at the beginning of the year to 4.8 percent in May.

Increased development was the primary driver behind rising vacancy rates and slower rent growth in 2006, with apartment vacancy climbing to 10.3 percent. While no rental units are scheduled for delivery this year, condo construction spiked during the first half. Additionally, first quarter, for-sale multifamily permit totals were higher than the last three quarters of 2006 combined.

After recording negative rent growth in the first quarter of 2006, asking rents increased 1.2 percent in the first quarter of 2007 to $1,221 per month.

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