New Heights

New England, spearheaded by Boston metro, adds to post-recession gains

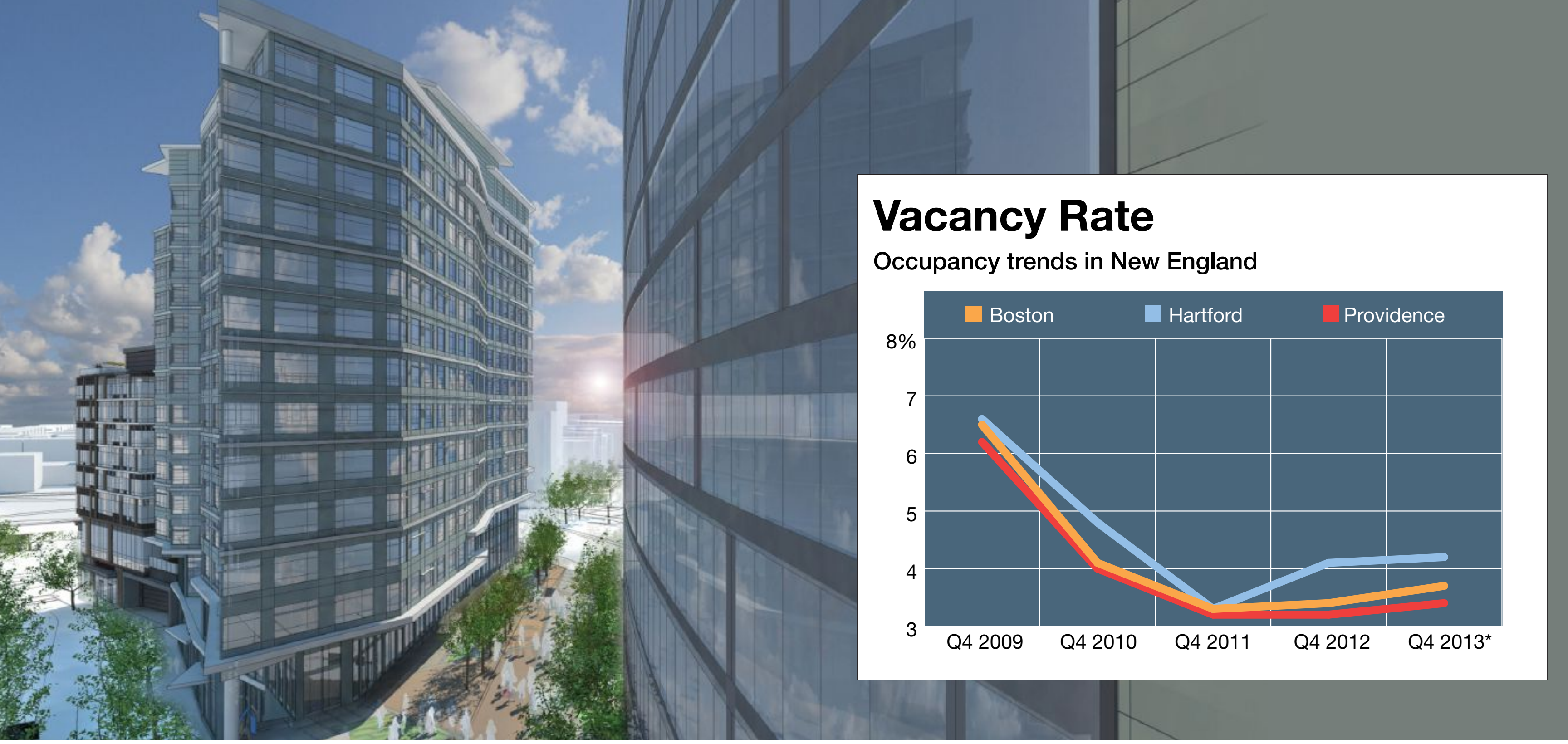
By Philip Shea, Associate Editor

Even while many primary markets begin to take a breather from their post-recession gains, the Boston metro and surrounding New England markets are reaching for new heights. The region's economy, bolstered by traditional sectors such as healthcare services and education, remains highly favorable to multifamily—and all indications point to a solidifying of this trend.

"Economic recoveries continue to gain momentum in the Boston, Hartford and Providence metros, thus generating demand for rental housing and underpinning solid performance in each metro's apartment sector," says Thomas Gorman, regional manager at Marcus & Millichap's Boston office.

Gorman adds that retail sales, a key driver

Boston Fenway Center rendering viewed from east (pg. 31) and west (pg. 32). *Rendering courtesy of The Architectural Team.*



of economic growth, have been rising steadily since the end of the recession and have provided a strong economic backbone for each of the region's key markets. However, not surprisingly, one metro continues to rule them all in terms of performance and economic draw.

"The group's strongest economy remains in Boston," says Gorman. "Employers here started to hire again a full six months before the nationwide job market started to grow in early 2010. In fact, robust expansions in several employment sectors—including professional and business services and education and health services—have lifted employment in the Boston metro above its prerecession peak."

Michael Liu, vice president and principal at The Architectural Team, emphasizes the diversity of the region at large—noting that while most key metros continue to perform well relative to their own histories, specific submarkets are considerably diverse with respect to the multifamily sector.

"Rent and vacancy rates vary dramatically depending on location. To the extent they change they tell us something about demographic, transportation and economic trends," says Liu. "Desirable downtown areas in Boston, for example, have seen steady rent rises for the last couple of years and they may be nearing their ceiling, particularly when viewed in relation to rapid construction cost escalation."

According to Liu, the increased occupancy pressure in downtown Boston has pushed much of the demand over to transit-oriented development that easily connects to the area. The appeal of a "car-free lifestyle" remains attractive for many young people who wish to avoid sky-high rents within the urban core.

David Cary, senior managing director at Integra Realty Resources, notes that while supply has been tight in recent years due to a lack of new construction in the downtown area and other markets, this trend is beginning to shift in a big way.

"In Boston, we've done a lot of work in the city recently on a number of these new towers and big projects that are going on, and there's a lot of them—there are thousands of units coming online," according to Cary.

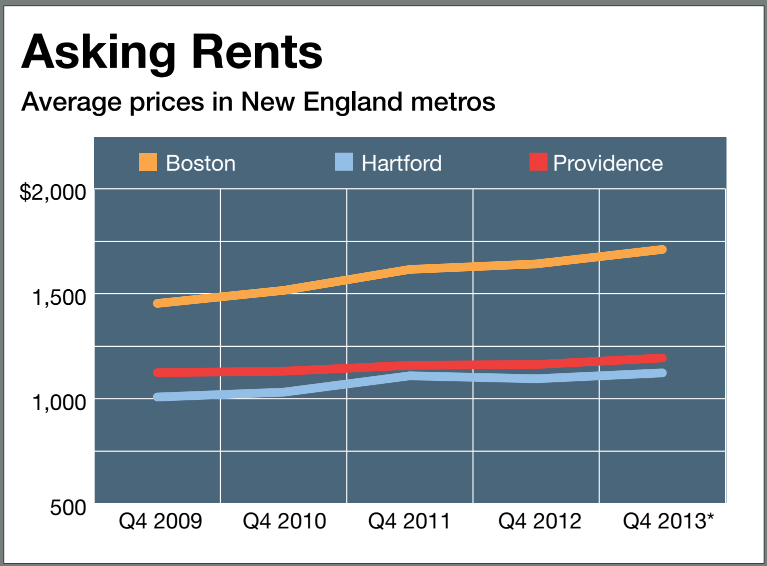
Cary adds that with the influx of younger professionals into these submarkets, high-end amenities will likely follow the new wave of Class A supply. Additionally, with new commercial and entertainment development taking place in tandem with the new high-end apartments downtown, he notes that Boston is likely to become more of a "24/7-type city."

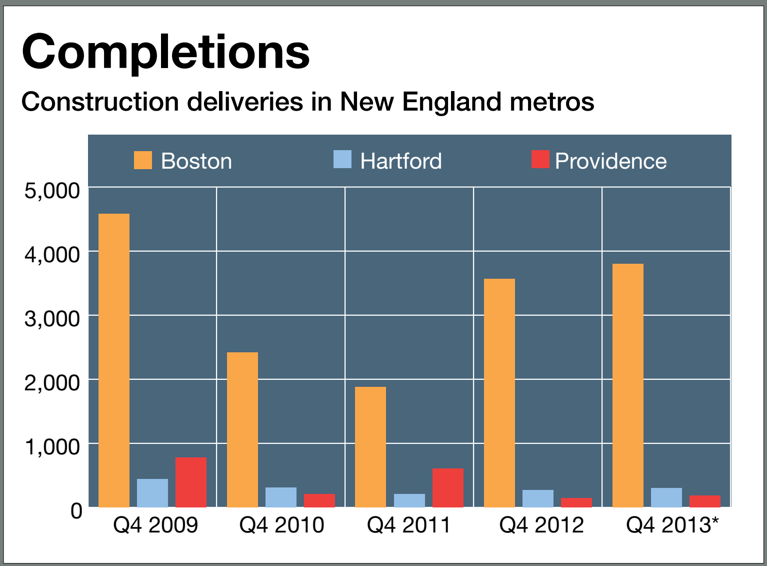
As for metros like Providence and Hartford, Marcus & Millichap has observed basic fundamentals that are in line with many of the top markets in the country.

"In Hartford and Providence, a renewal of hiring by local employers has restored portions of the jobs lost during the economic downturn," says Gorman. "[…] Even [these metros], where the job markets are not nearly as potent as Boston's, require rental stock to fulfill demand from individuals entering the working ranks."

Gorman adds that vacancy in both Hartford and Providence are now within the 3 percent range, a strong improvement from where they stood at the onset of the recession—with Providence posting a 9.4 percent vacancy rate at the end of 2008.

As for the investment climate of the region at large, Liu believes the opportunities are widespread—with areas that have the potential for transit-oriented development and other market niches perhaps holding the most promise.





Sources: Marcus & Millichap Research services, MPF Research

**Q4 2013 numbers are forecast*

"I believe there are many stable but formerly undervalued residential communities with reasonably convenient access to downtown locations which present solid investment opportunities, particularly when served by rail," says Liu. "From a programmatic standpoint, I think senior housing, particularly market-rate supportive and service-rich senior housing, remains an underserved demographic."

Meanwhile, Cary underscores that, with variety of product comes a variety of investors, and that Boston has seen pretty even activity among its product, whether high-end or low-end.

"I think there are definitely different asset classes and definitely different buyers within those classes, but I think the demand for multifamily is across the board," says Cary. "If you're talking metro Boston, whether it's the A, B or C, the demand is there."

He adds, "You've got to remember, you still have all the universities and the student drivers around here, so you've got tremendous student housing product in Allston, Brighton, Cambridge—with a lot of B and C inventory, and we haven't seen any falloff in that."

Echoing this point, Gorman believes that all three metros will likely remain attractive markets for investors going forward as they are all primary destinations for recent graduates from colleges and universities in the Northeast.

"A college graduate's first residence is typically an apartment, and many young households are delaying their initial purchase of a single-family home and pushing back starting a family," says Gorman. "Continuing job growth in the region will bring additional residents into the rental pool."

Reflecting the optimism of many developers and investors in the region, Liu details one of The Architecture Team's most recent projects in the region, noting that the influx of new supply to the downtown Boston market in particular is already having an impact on the infrastructure and dynamics of the area.

"An especially exciting project is our Fenway Center development in the [Kenmore Square] section of Boston," says Liu. "It is a turnpike 'air rights' project, one of several sites in the city designated for development over the existing Massachusetts Turnpike."

Fenway Center will be a mixed-use development including 60,000 square feet of retail space, 140,000 square feet of office space and 550 units of luxury rental housing. Construction is slated to begin this year and will likely be completed by early 2016.

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"It will be transformative on a number of levels, not the least of which is its urban design virtue of knitting back neighborhoods previously divided by the highway," says Liu.

As for whether such projects in the region are bound to be successful, Cary has noticed a trend taking place in Boston and other metros in the country that he believes will likely continue through the foreseeable future, and that this will likely serve as a long-term buoy for investors and developers alike.

"I think there's a move into the city, and that's stronger than maybe it's been in the past," says Cary. "I think that you're seeing, along with the apartments, the retail increasing in the city—there's a lot of new retail and restaurants out in the Seaport [area]. All those things are coming, so the amenities are there for these new residential neighborhoods." MHN

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