

Investors Pouncing On Boston Multifamily, Pushing Rents Up And Small Owners Out

October 21, 2021 | Andrew Martinez, Bisnow Boston (<https://www.bisnow.com/author/andrew-martinez-375026>) (<mailto:andrew.martinez@bisnow.com>)

Investors are amping up their pursuit of Boston's smaller apartment buildings, encouraged by the city's growth projections and favorable lending terms.



But their spending spree is driving rents higher and making it harder for community stakeholders to preserve affordable housing in a metro region already beset with a severe housing shortage.

“Investors, they’re counting on a big profit, or they’re overleveraged and they need the profit,” said Meredith Levy, director of the Boston Neighborhood Community Land Trust (<https://www.bisnow.com/tags/boston-neighborhood-community-land-trust>). “We’re seeing the rents are just climbing, and people are getting displaced. It totally destabilizes the neighborhoods.”

Boston rent rates have risen for nine consecutive months and are 14.3% higher than they were last October, in line with the national average rent rise of 15.1% year-over-year, according to Apartment List (<https://www.apartmentlist.com/ma/boston#rent-report>). The metro is the nation's third-most-expensive rental market, and a one-bedroom apartment today costs an average of \$2,077 a month. The largest rent increases over the last year have come in Class-B and C properties, according to Marcus & Millichap.

Limited supply prevents any immediate rent relief. Boston hasn't been able to (<https://www.bisnow.com/boston/news/affordable-housing/bostons-compact-living-pilot-program-hasnt-delivered-any-relief-to-the-housing-crisis-109233>) effectively address its severe housing shortage (<https://www.bisnow.com/boston/news/affordable-housing/bos-affordable-housing-post-event-109985>); developers have said permitting remains difficult (<https://www.bisnow.com/boston/news/affordable-housing/boston-councilors-delay-vote-on-order-to-nix-parking->

requirements-at-affordable-housing-projects-110456) in Boston and some surrounding suburbs (<https://www.bisnow.com/boston/news/affordable-housing/malden-in-dire-need-of-affordable-housing-passes-inclusionary-zoning-policy-110352>). New construction is also stifled by a nationwide labor shortage (<https://www.bisnow.com/national/news/top-talent/constructions-labor-quandary-is-old-problem-with-new-complications-109150>) and rising material costs, which peaked this summer (<https://www.bisnow.com/national/news/construction-development/lumber-prices-steep-drop-2018-levels-109822>).



Adding to the crunch are declining apartment deliveries. Completions in the Boston metro area this year will fall 2,100 units short of last year's total, the largest drop-off in at least two decades, according to Marcus & Millichap's Q3 multifamily report. The apartment market is more than 96% occupied, dispelling fears of an urban outmigration.

The dynamics are leading small property owners, even those with lower-performing properties, to hold the line on their asking prices, Levy said. Her nonprofit acquires land and buildings to preserve affordability for tenants and targets properties in the three- to six-unit range.

“We have seen sales of small properties and the prices are much higher than they were a couple of years ago,” Levy said. “I think there’s a sense among small property owners that the market is only increasing, so they’re unwilling to lower their [asking price].”

Investors in the past 12 months have poured \$422M into Boston's multifamily market, the second-highest investment amount among the nation's metros behind Orange County, California, according to Lee & Associates research (https://www.lee-associates.com/wp-content/uploads/2021/10/2021.Q3-North-America-Market-Report_Max.pdf). Buyers are getting more bang for their buck in smaller properties than large luxury residential assets, Boston Realty Advisors (<https://www.bisnow.com/tags/boston-realty-advisors>) founder and Senior Partner Jason Weissman (<https://www.bisnow.com/tags/jason-weissman>) said.

“It all comes down to the yield,” he said. “There’s definitely more value for investors in the smaller buildings.”

The average cap rate for multifamily properties in Boston last quarter was 4.5%, below the national average of 5.3%, Lee & Associates reported. The cap rate spread between luxury properties and Class-B apartments is between 75 and 150 basis points, Weissman said, adding that the smaller properties are in vogue amid a relative return to normalcy in office returns and softer pandemic restrictions.



The smaller properties are luring a range of buyers, from 1031 exchange investors to high net worth individuals and equity funds, to international capital, brokers said. Investors from the New York City area are coming north, fleeing local rent restrictions and other government programs that make that market less favorable, Marcus & Millichap First Vice President of Investments Evan Griffith said.

The multifamily market's boom has been powered by Boston's resilient economy, where the tech and life sciences industries are thriving.

"As long as people are moving here for jobs, we're going to see steady, year-over-year rent increases and very strong investor demand for these types [of properties]," Griffith said.

The state's life sciences industry alone is expected to add 40,000 employees in the next three years, and much of the incoming physical footprint for those workers is being built in Boston. The city's numerous universities are back to in-person learning, offices are gearing up for a post-pandemic return, leading renters to return to the urban core.

While there is a voracious appetite to buy, some smaller landlords are being forced to sell their property because of economic hardships stemming from the pandemic, Allison Drescher (<https://www.bisnow.com/tags/allison-drescher>), president of the Boston-based Small Property Owners Association (<https://www.bisnow.com/tags/small-property-owners-association>), said in a hearing in the State House last week.

"SPOA's receiving calls weekly of landlords who are selling their property due to burdensome restrictions and/or because of the eviction situation that we're confronting," she said.

Griffith said some property owners have had bad luck during the pandemic with nonpaying renters but called the distressed sellers a small percentage of the market.

“That smaller percentage that has had some issues with tenants staying current through the past year and a half, couple that with owning the property for several decades, that may cause some motivation to sell,” he said.

The time is ripe for smaller property owners to go to market because of a tepid mid-sized multifamily construction pipeline, Thompson Realty (<https://www.bisnow.com/tags/thompson-realty>) Realtor Jamie Thompson (<https://www.bisnow.com/tags/jamie-thompson>) said.

“You’re going to see that capitalized on by these smaller properties,” he said. “The 10-unit buildings, 20-unit buildings are definitely seeing growth in rent rates as well as demand.”

But the heightened interest in small properties has made it harder for community land trusts and other housing nonprofits to buy even distressed multifamily properties to preserve affordability, Asian Community Development Corp. Executive Director Angie Liou (<https://www.bisnow.com/tags/angie-liou>) said.

“Certainly now the market has bounced back, I think anything for sale out there remains highly competitive,” she said.

*Contact Andrew Martinez at andrew.martinez@bisnow.com
(<mailto:andrew.martinez@bisnow.com>)*

See Also: Boston's New Eviction Moratorium Throws Confusion Into Apartment Market's Busiest Week (</boston/news/multifamily/bostons-eviction-moratorium-throws-market-into-chaos-amid-move-in-cycle-110065>)

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