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Will there be enough apartment demand for all of the ultra-luxury product under construction?

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Nearly all of the new apartment product coming on line in Boston- and there is a lot- is ultra-luxury. Over the past two years, from 2013 through 2015 YTD, over a dozen mid to high rise luxury apartment buildings have been delivered in Boston proper. Furthermore, the apartment development pipeline is robust, also consisting of mainly luxury developments. Thus the question we seek to answer is, "is there sufficient demand for all of this high end product?" The answer is absolutely, "yes."

This article will address the underpinnings of the market and explain why CBRE provides a very positive outlook for the ultra-luxury apartment market.

How Does Boston Size Up?

Boston is recognized as one of the top cities in the world and is one of only five 24-hour cities in the U.S. CB Economic advisors statistics are strong. (see market statistics chart).

Boston has the second largest number of new start-up companies in the U.S. Its labor force is growing. In Cambridge alone, tenants in the market represent 22.1% of the entire office and lab space which took 40 years to create.

Market Happenings

In the 2013 to May 2015 YTD time period, 14 ultra-luxury apartment communities have been delivered in Boston and nine in Cambridge. The 14 communities in Boston represent the addition of 3,196 luxury apartment units to the Boston market, of which 1,289 units were delivered in 2013, 1,214 units in 2014 and 693 units to date in 2015. Among these deliveries were, The Arlington, AVA Back Bay and Avalon Exeter (Back Bay); The Kensington and Radian Boston (Downtown); The Victor (North Station/West End); 315 on A, Waterside Place and Flats on D (Seaport); The Ink Block and TROY Boston (South End); to name a few.

The product delivered in 2013 is over 95% leased. The product delivered in 2014 is 9.37% vacant despite 74% of all apartments built still being in their initial lease up. Reports are that the Ink Block, which recently delivered in Boston's South End, is having strong acceptance.

Overall, the apartment market for new luxury units fits into a unique market niche. Each location has been able to attract occupants that are close to their work place. Discussion with Ted Tye indicated that a number of Ink Block tenants are from Tufts Medical School, just three blocks away. By that same token, the higher education industry has also played a crucial role in attracting demand for these new luxury apartment communities. Foreign students coming to Boston for college and/or graduate school are an important target market for this luxury product.

The Development Pipeline

The pipeline for the balance of 2015 projects an additional 2,196 luxury units to come online. A total of 2,889 units are projected for the year.

2016 has a probability projection rate of 3,671 units, 2017 a probability projection rate of 2,944 units and for 2018 it is too soon to tell with accuracy. CBRE's most recent projections are for 2,116 total units.

Conclusion

The growth of Boston is just astonishing. According to CBRE, between 2015 and 2020, Boston's population is expected to grow by 37,503 people. Apartment renters currently represent 66% of the market. The income level required to support $2,000+ per month studio units, $3,000+ per month one bedroom units and $4,500+ per month two bedroom units are at the $125,000 to $200,000 per year levels; the very high performers who are attracted to our market.

Overall, although a rate of absorption triple that of the past may seem overzealous, the ultra-luxury market is supported by levels of occupancy shown by economic projections and actual market occupancy. Boston's growing employment market coupled with its strong higher education industry will continue to provide sufficient demand to absorb the robust development pipeline of luxury apartments.

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