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COVID-19 its effects on the Greater Boston multi-family market - by Bill Pastuszek

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Just a year ago – was it that long ago? - economic activity was in a deep state of shutdown. Many real estate sectors were experiencing high despair with little signs of vitality in retail, offices, and lodging markets, and looking with some trepidation at multi-family urban markets as everyone hunkered down in a deep suspension of social activities. At the time it felt like an endless wait for a return to someplace. The industrial sector, driven by e-commerce—i.e. Amazon and others delivering to our socially distant bastions—represented a bright light during a dark time.

As the shutdown proceeded, it became apparent that the housing market was behaving counterintuitively. While most everything else was stopped in its tracks or was moving backwards, housing – the rental market mostly excepted - was experiencing positive motion. How long are the legs for housing? It remains to be seen.

The multi-family market was a highly interesting sector to track during the pandemic, and it still is. Let’s see how other market sectors fared over the past year at a macro level without getting down in the weeds.

Rental housing and the multi-family market in Boston have always been a source of strength for investors in the city’s core markets. A constant turnover and resupply of renters – students, young professional, long-terms rents, empty nesterers – have always fueled demand at nearly all levels of the market. In the past decade, significant additions/replacements to the rental housing stock have been made across metropolitan Boston, which have altered the dynamics toward a somewhat more balanced, or perhaps, less skewed, supply/demand relationship.

A year ago, there were widespread predictions of the collapse of urban multi-family markets due to COVID. The intown September 2020 rental season was the worst in decades.

What does it look like today? Reports indicate that apartments for September are being snapped at pre-COVD levels and that there is upward pressure on rents once again. It was noted, however, that landlords are more willing to pay rental commission than during pre-COVID times.

CoStar notes that the Boston multifamily market struggled during the coronavirus pandemic, but a “strong start to 2021 brings hope for a sustained rebound.” After vacancy surged by 300 basis points in 2020, a retreat was noted in the first quarter of this year. One reason for a movement towards more historically consistent vacancy levels was due to “pent-up demand,” and net absorption “topped 2,000 units and roughly doubled supply additions.” Nevertheless, CoStar notes that “vacancies are still near a record high, however, and exceed 10% in 4 & 5 Star (high end) inventory.”

Boston has, according to CoStar, roughly 15,000 units under construction and this supply bulge will continue to strain fundamentals. This pipeline represents ±6.1% of the existing inventory and Boston represents the market with the greatest “supply-side pressure out of any market in the country outside of the Sun Belt.” Infill urban areas - Somerville/Charlestown, East Boston/Chelsea, Quincy/Milton/Randolph, Rte. 1 North, and Allston/Brighton – join the Seaport, Cambridge, and Downtown as “construction hot spots,” according to CoStar. Unfortunately, the outer suburbs show relatively little project activity. Demand in outlying markets saw soaring demand during the the pandemic.

In terms of rent levels, CoStar reports that asking rents declined by about 5% in 2020, ranking among the worst performances of major markets nationally.” Rental levels have recovered somewhat, and rents show increases during the first part of 2021. This is due in part to an improvement in occupancy and a return of traditional demand generators: students, young professionals, medical and high-tech workers. However, the heavy and full pipeline may dilute demand and continue to slow rent growth going forward. High end markets in the urban core experienced the greatest pandemic-related rent decreases, as rents sought lower densities and more affordable rents in suburban locations.

In terms of sales, after a pause, activity resumed cautiously. Buyers appear to be showing more caution and underwriting exhibits a more conservative look than pre-pandemic. Cap rates remain near historic lows.

In summary, multi-family property sales experienced a strong dip during the pandemic. One observer noted, somewhat cynically, that it represented a bit of a wakeup call, i.e., multi-family markets in Boston do not always go up and this pause was somewhat like a bucket of ice water. A year later, the market looks better but is not fully recovered. It will probably take a while for the market to absorb all the new units and that pipeline is likely to keep rents and occupancies in check for a period of time.

We should take another high level look at these markets later this year, after the September rental rush. It may be possible then, in the aftermath of COVID’s largest real estate effects, to better understand the forces affecting housing and see if these trends stick.

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