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HOUSING MATTERS

Don't Fear The Housing Boom

Apartment Buildings Coming Online Just In Time

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SPECIAL TO BANKER & TRADESMAN

It is true that Boston is building apartments like crazy and faster than ever. More than 8,900 new rental apartments will be completed and delivered by the end of 2017, compared to only 3,600 units opened during the last three year cycle in all of Eastern Massachusetts, out as far as Worcester.



SUSAN GITTELMAN

With cranes gracing the skies, steel frames rising and banners heralding "luxury living," it might appear that supply and demand will soon be out of whack.

Some say that we are headed for a housing glut, with lots of empty units and soaring vacancy rates or, alternatively, precipitous drops in rent. I don't buy it.

As of 2012, Eastern Massachusetts (from Worcester to Boston Harbor) had about 717,000 rental units in multi-unit buildings. In the current boom, developers are scheduled to deliver 4,000 new units each year for the next four years. That sounds like a lot, but it's only half a percent per year of what currently exists.

And the need will be great. Household formation traditionally has grown here at half a percent a year during the decade ending in 2012. Now, for multiple reasons, that has more than doubled, and will result in about 7,200 households being formed annually for the next four years.

Compared to most urban areas in the country, the Boston area has traditionally been "under-apartmented." Now we're building.

"We're in one of the strongest markets ever, and the trends are in the right direction," said Travis D'Amato, who is senior vice president of capital markets at the real estate firm Jones

There's a great need for many more places to live in our dynamic and thriving city.

Lang LaSalle. And he's bullish on apartments in and around Boston.

Apartments To Condos

Since the early 1990s, the supply of attractive rental apartments had diminished. One factor that contributed to escalating rents was the conversion of thousands of existing rental apartments to condominium ownership. The quality of our traditional multifamily housing is a factor, too. Almost 50 percent of all the rental units in Boston were built before World War II.

When the real estate bubble popped in 2008, development of all kinds came to a halt, as our region and the rest of the country pulled ourselves out of a deep hole of over-borrowing. A lot of people were closed out of the mortgage market and needed to rent, which compounded the problem.

During the next four years or so, when virtually no other development occurred in Boston, there was only one promising sector – apartments.

So those projects stayed on the drawing boards, and now Boston is making up for lost time. In the last three years, we have begun to see multifamily complexes breaking ground with 100, 200, 300 rental homes.

"There's a pent-up demand from when we were building so little," said D'Amato.

A Softening Of Rents

Demographic shifts are fueling this as well.

The target renter is relatively young, ages 24 to 35. And that's pretty much the only group that's growing in Massachusetts, a result of the so-called echo boomer population, traditional immigration and relocations from out of state.

People are getting married later. More singles, more homes needed.

Now, a lot of these echo boomers have jobs and make good salaries, but they also have more college debt than generations before them. That reduces the chances they'll have the money for a down payment on a home.

And don't forget the baby-boomers, who are beginning to exit their suburban digs and find smaller urban addresses.

The investors in new apartments – REITs, pension funds, life insurance companies – are well informed and have staying power even if sky-high rents soften a bit while the new supply is absorbed. And they will soften a bit, for at least the short or medium term, which isn't such a bad thing, because it will enable more housing mobility.

In the meantime, the rest of us can benefit from these wonderful new iconic buildings going up, and the tax revenues that they generate.

There's a great need for many more places to live in our dynamic and thriving city. And if prices of the shiny new studios and one- and two-beds do subside somewhat, history tells us that a similar effect will occur across all pricing levels, including those more modestly priced. It is a good thing for our city, for our region's housing affordability, and is long overdue. ■

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