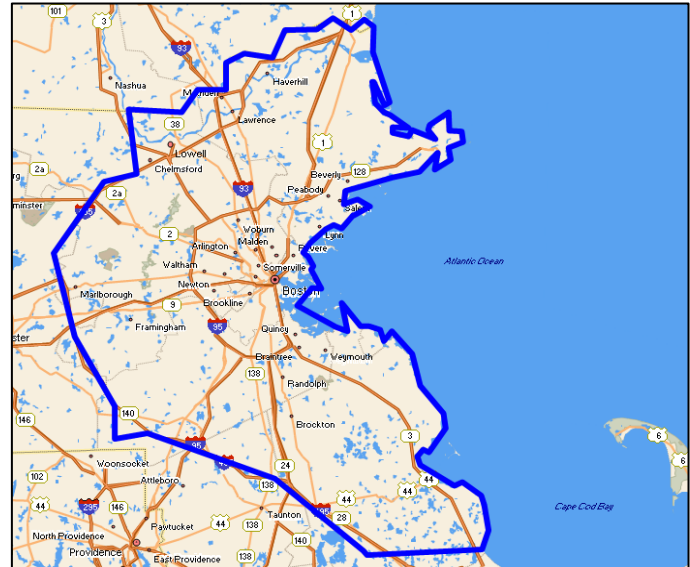


The following outlines The Concord Group's ("TCG") outlook on the Boston metropolitan area ("Metro Boston") housing market. Metro Boston, as defined by TCG, is comprised of the area generally inside I-495 and is home to 4 million people living in 1.5 million households. TCG's conclusions draw from demographic- and employment-driven demand assessments and various tools for evaluating supply levels and absorption velocity. Housing market recovery timing drives immediate acquisition, planning and disposition decisions. Our conclusions are derived within the context of our ongoing analyses in the region for developers, capital sources and public agencies.



## Executive Summary

Metro Boston's housing market was affected by the real estate bubble earlier than and not as severely as other metro areas around the country. Economic factors and market trends suggest that Metro Boston will be among the first areas to recover in terms of both increased home sales volume and home price appreciation. Below are key findings and conclusions from TCG's analysis:

- Metro Boston growth slow, but stable
  - Population growth averaged 0.5% annually since 1990
  - Employment growth averaged 0.4% annually since 1990
- Diversified economy mitigates impact of housing and financial sectors crash
  - Projected to lose 100,000 jobs (5% decline) peak-to-trough (projected trough 2Q2010)
    - Phoenix down 11%
    - Las Vegas down 10%
    - Los Angeles down 7%
    - Chicago down 5%
- Sales volume significantly below long-term annual demand potential; employment, credit market, and consumer confidence recoveries required to underpin sales
  - New: average 2,500 per year 1999-2008; approximately 620 in last 12 months; approximately 3,000 new units available (including standing inventory and available lots/units)
  - Resale: average 47,000 per year 1999-2008; on pace for approximately 18,000 in 2009
- Sales price declines from peak (new homes down 19%, resales down 14%) have brought home prices approximately in line with historical affordability levels
- TCG projects housing market recovery, defined as annualized market absorption of 1,500 or more new homes per year and low single-digit annual home price appreciation, in 3Q 2011 with demand for new finished lots in 3Q2010 and re-entitlement and repositioning opportunities immediately.

## Area Characteristics and Economic Drivers

Metro Boston, as defined by TCG, is comprised of the area generally inside I-495 and is home to 4 million people living in 1.5 million households. During the recession, Metro Boston's 5% decrease from peak employment has been in line with the overall United States (5% decline from peak) and other major metro areas like Chicago (5% decline), and low relative to particularly hard-hit areas like Phoenix (11% decline), Las Vegas (10% decline), and Los Angeles (7% decline). Similarly, while Boston's average new home prices are down 19% from a 2004 peak, many other metropolitan areas have seen new home price decreases of 40% or more.

	<u>2000</u>	<u>Peak</u>	<u>2009</u>	<u>2000-2009</u>	<u>Peak-Current</u>
<b>Employment - Total (in 000s)</b>	2,310	2,310 ('00)	2,191	-5.1%	-5.1%
Education & Health Svcs.	377	448 ('09)	448	18.9%	n/a
Manufacturing	247	247 ('00)	164	-33.5%	-33.5%
Construction, NatRes/Min	88	93 ('06)	75	-15.2%	-19.5%
Financial Activities	182	182 ('07)	164	-9.9%	-9.9%
<b>Population (in 000s)</b>	3,898	3,963 ('09)	3,963	1.7%	n/a
<b>Households (in 000s)</b>	1,495	1,525 ('09)	1,525	2.0%	n/a
<b>Home Sales</b>					
New	2,409	3,114 ('06)	404	-83.2%	-87.0%
Resale	49,158	53,809 ('05)	17,860	-63.7%	-66.8%
<b>Median Home Price</b>					
New	381,000	487,000 ('05)	442,000	16.0%	-9.3%
Resale	289,000	442,000 ('05)	382,000	32.2%	-13.6%

Sources: Global Insight; Bureau of Labor Statistics; First American Core Logic; Claritas

### Diversified Economy

Employment in Metro Boston has been growing slowly at a compound annual growth rate of 0.4% since 1990. The largest employment sector in the region, Education and Health Services, has buoyed Metro Boston through the economic downturn. This sector employs 470,000 workers in Metro Boston (or approx. 20% of the region's non-farm workforce), an increase of more than 75,000 since 2000. Since 2008, Education and Health Services has *added* approximately 9,000 jobs. The biotechnology sector, a strength of the area's economy, has added over 10,000 new jobs since 2000, including 3,000 jobs in the last year.

Job losses in Metro Boston have been spread among various sectors. The sector that has experienced the biggest long-term decline is manufacturing, which has been shedding jobs since the tech crash in the early 2000s and has lost almost 82,000 jobs in the last 9 years (15,000 in the last 2 years). On a percentage basis Construction has had the largest decline, losing nearly 20% (21,000 employees) of its workforce since 2006. Financial Activities is down 7% (14,000 jobs) and Professional & Business Services is down 3% (26,000 jobs).

### Development Constraints

New home supply is limited in Metro Boston due to a set of challenges unique to this area, including: (a) developable land constraints and (b) often provincial political and planning processes. The scarcity of developable land is due to the built out nature of this well-established region as well as physical constraints such as wetlands and protected conservation land. The political and planning processes, in the form of local rule, NIMBYism, and inconsistent and often restrictive zoning, are impediments to the development process. These constraints serve to drive up home values but also limit development opportunities.

### Evolving Development Patterns

A number of large scale, amenitized, transit-oriented master planned communities are in progress in the Metro Boston suburbs, areas traditionally characterized by small subdivisions, one-off construction, large lots, and quiet neighborhoods. Examples include Southfield (South Weymouth), Assembly Square (Somerville), Westwood Station (Westwood), and Station Landing (Medford). The increasing diversity of housing product in the suburbs

is clearly reflected in building permit issuance trends. In suburban Metro Boston (net of Boston and Cambridge), multifamily (including rental and for-sale) building permits comprised only 15% of all permits from 1990 through 2001. This more than tripled to 47% in the period from 2002 through 2006.

Three key demographic segments are driving this demand for mixed-use product in the suburbs. These groups – Baby Boomers wishing to “age in place” in the area, maturing Gen-Xers loathe to sacrifice cosmopolitan amenities, and Millennials priced out of closer-in locations – represent strong demand pools for this emerging development type. Furthermore, the Executive Office of Housing and Economic Development (EOHED) is working to support this development type. EOHED’s “Growth Districts Initiative” (GDI) gives advanced zoning preferences and streamlined permitting to 18 Growth Districts throughout the state to promote smart growth, Brownfield re-use, housing opportunities, job creation, and public transit. GDI will facilitate the advancement of the master planned, transit-oriented development pattern.

## Home Sales and Prices

Metro Boston’s housing market was not as overbuilt as other areas of the country during the housing boom. A resale-dominated market, new home sales have accounted for roughly 5% of total sales since 1990 (vs. 17% nationwide). On a percentage basis, Metro Boston’s decline in sales volume from market peak has been similar to that of the U.S. as a whole. However, peak-to-current home price decline has been significantly less severe in Metro Boston than in other regions of the country.

### Sales Volume

Metro Boston averaged 2,500 new home sales from 1999 through 2008, with a peak of 3,100 in 2006. Current volume is below that of any time in over 15 years, with less than 1,000 new home sales in 2008 and only 620 in the last 12 months. Resale home sales volume followed a similar trend as new home sales volume. Resale volume in Metro Boston averaged 47,000 annually from 1999 through 2008, with resale transactions projected to be 18,000 for 2009 (down 67% from peak of 54,000 in 2005).

### Prices

Median new home price is 19% below the peak of the market. Recently, through summer 2009, new home prices in Metro Boston remained relatively flat. Median resale home price is 14% below peak. These declines have brought average new (\$441K) and resale (\$382K) prices approximately in line with 2002-2003 levels. The recent decrease in home prices has brought affordability approximately back to historical norms. Current income to housing ratio<sup>1</sup> is 35%, compared to the average of 33% (ranging from 24% to 41%) between 1990 and 2006.

In the challenging sales environment, some developers have conducted auctions to sell units in order to increase sales pace and generate cash. The Atlantica in Revere, The Nouvelle at the Natick Collection (auction in early October), and The 1850 and The Bryant (auction in mid October) in Boston are among the properties that have auctioned off units in the last year. Auctioned units were sold for up to 50% off peak asking prices. The potential for additional auctions, and the resulting perception among buyers that future discounting is likely, may put continued downward pressure on pricing and sales volume. However, this downward pressure is mitigated by the fact that even an increase in auction activity will represent a small percentage of the for-sale residential market.

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<sup>1</sup> Income to housing ratio defined as percent of annual income spent on annual mortgage payment. Assumes 30-yr fixed mortgage, historical mortgage rates.

## TCG Market Outlook

TCG analyzed published employment projections, household growth forecasts, household turnover, homeownership data, affordability and financing assumptions, and other factors to quantify new home demand potential by price segment within Metro Boston. TCG projects long-term Metro Boston demand potential for approximately 2,600 new homes annually. In comparison, there were an average of approximately 2,500 new home sales and 48,000 resales annually from 1999 through 2008. Economic struggles and poor consumer sentiment will prevent demand from reaching intrinsic growth levels until 2012. In the interim, some velocity increase is expected in 2010 and 2011, assuming employment projection accuracy and credit market relief.

TCG projects housing market recovery, defined as annualized market absorption of 1,500 or more new homes per year and low single-digit annual home price appreciation, in 3Q 2011. Demand for new finished lots is projected to precede housing recovery by 12 months (3Q 2010). As such, reentitlement and repositioning strategies will need to commence immediately in order to prepare for lot deliveries in late 2010 and home sales in late 2011. When assessing lot acquisitions and/or asset management strategies, rezoning or re-entitlement options should be carefully considered. Based on TCG'S experience, reducing infrastructure costs (on and off-site) and/or home sizes (and therefore nominal cost and sales price) are key strategies to target buyer preferences and to maximize absorption potential in today's market.

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## About The Concord Group

The Concord Group is a leading real estate strategy firm with offices in Newport Beach, Boston, and San Francisco. TCG's consultants complete hundreds of assignments annually in the U.S., Europe, Asia and Latin America. Our services include market and consumer analyses, transaction due diligence and asset valuation. Recent private equity assignments have included multiple analyses of distressed assets of commercial banks and new acquisitions for next-cycle development. We also continue to assist developer and financial clients on value maximization of owned-assets. We cover all property types (commercial, residential and land), in all metro areas and work under tight due diligence deadlines.

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