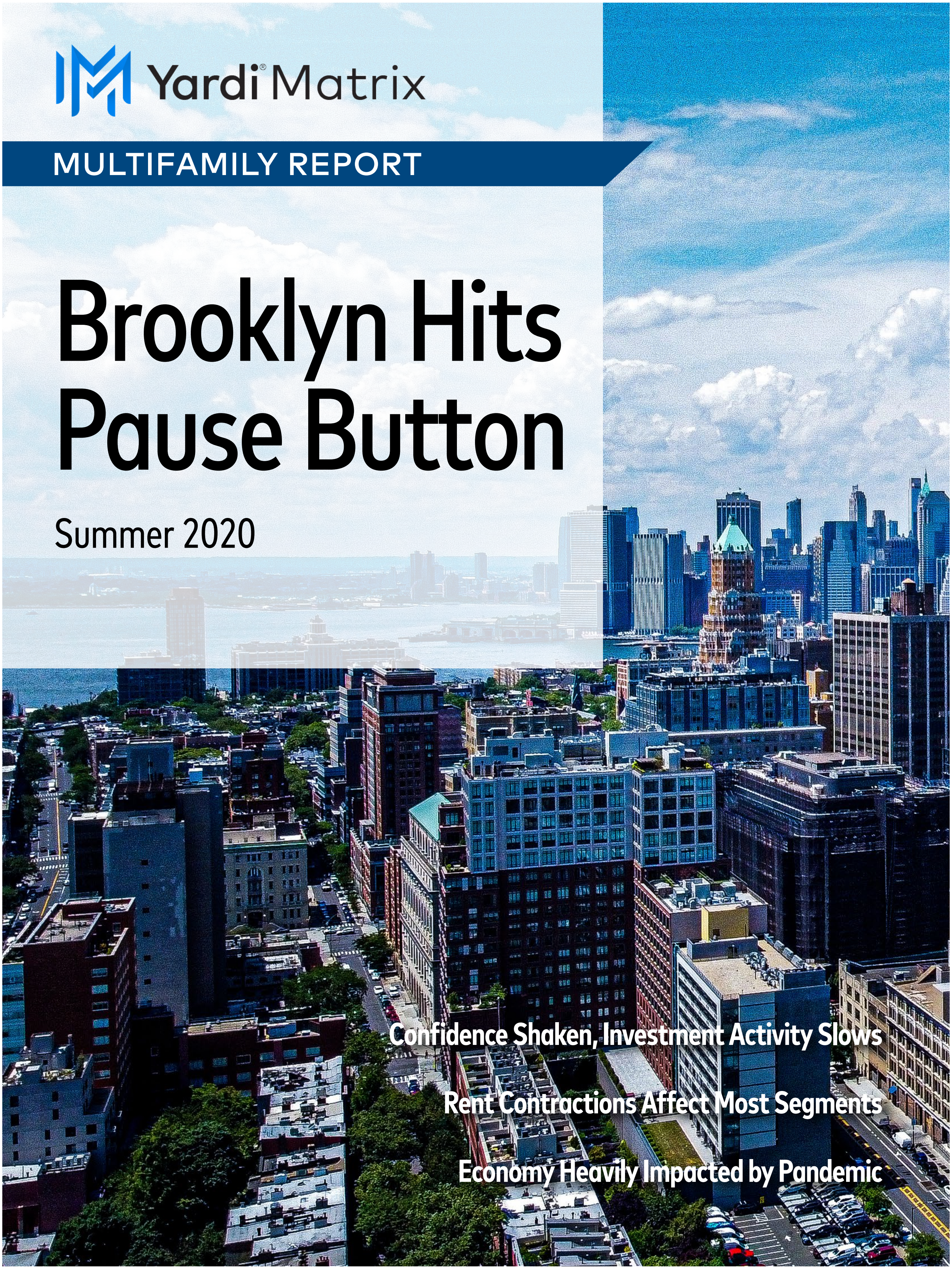
Yardi Matrix

MULTIFAMILY REPORT

Brooklyn Hits Pause Button

Summer 2020



Confidence Shaken, Investment Activity Slows

Rent Contractions Affect Most Segments

Economy Heavily Impacted by Pandemic

BROOKLYN MULTIFAMILY

Yardi Matrix

Kings County's Rental Market Takes Hit

New York City was one of the country's first COVID-19 hot spots, and the pandemic's impact on its multifamily sector was immediate. Economic uncertainty pulled rental rates down, as in-person showings were banned for roughly three months due to lockdown measures. Brooklyn rents contracted by 0.8% to $2,878 on a trailing three-month basis through June, while the national average recorded only a 30-basis point slide to $1,457.

No employment sector was shielded from the coronavirus-induced downturn. Those working in restaurants, malls and the travel industry were the first to feel the effects, but others soon followed suit as stay-at-home orders drastically reduced demand for most services. Even jobs in the public sector are in jeopardy: The city's $10 billion budget deficit could generate layoffs of 22,000 city employees in October. In the meantime, New York City entered Phase 4 of reopening at the end of July. Outdoor arts and entertainment venues, along with professional sports—without fans—were allowed to resume activity.

Only $168 million in multifamily assets changed hands during 2020's first half, and developers added 1,954 units to the borough's inventory. With investor confidence shaken and the pandemic still unfolding, it remains to be seen how the Brooklyn multifamily market is will emerge from the crisis, and, ultimately, bounce back.

Market Analysis | Summer 2020

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Recent Brooklyn Transactions

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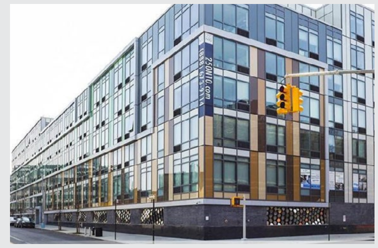
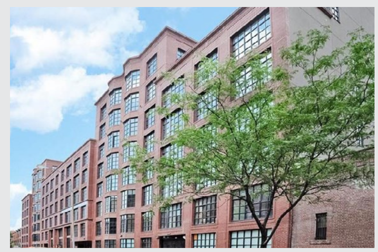


City: New York City
Buyer: TF Cornerstone
Purchase Price: $138 MM
Price per Unit: $588,675

The Olmstead



City: New York City
Buyer: Harbor Group International
Purchase Price: $117 MM
Price per Unit: $606,218

The Chocolate Factory

City: New York City
Buyer: Meadow Partners
Purchase Price: $67 MM
Price per Unit: $546,748

221 Linden Blvd.

City: New York City
Buyer: Camber Property Group
Purchase Price: $31 MM
Price per Unit: $211,340

RENT TRENDS

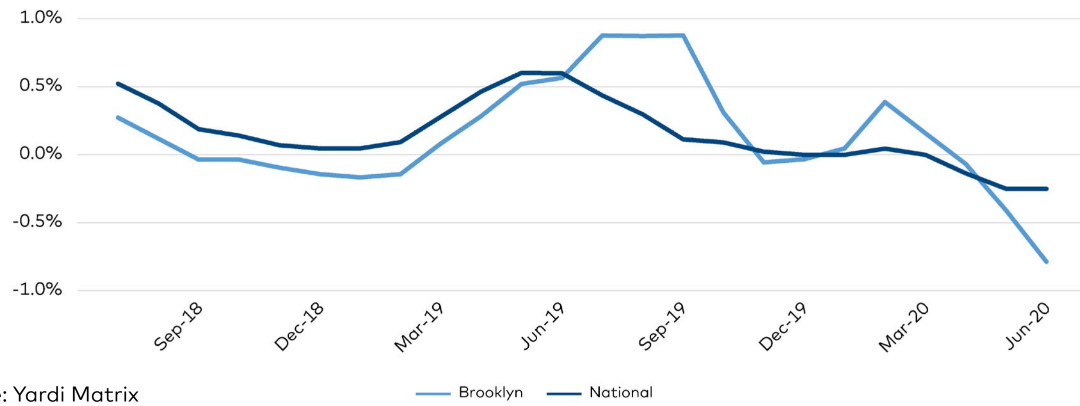
- Brooklyn rents were down 0.8% to $2,878 on a trailing three-month basis through June. Meanwhile, the U.S. average saw a 30-basis-point drop to $1,457. Manhattan still holds the most expensive average rent, at $4,211, despite rates decelerating over the last few months across all boroughs. The average rent in Queens was $2,536.

- Following the rent regulation changes in June 2019, New York City rates began to slowly decelerate. Although rents appeared to be trending back towards long-term averages at the beginning of this year, the coronavirus outbreak has generated significant contractions. The average price in the Lifestyle segment saw the largest decline among all property types—down 1.1% to $3,407 on a T3 basis through June, making move-in incentives commonplace for the high-end market. The borough's working-class Renter-by-Necessity rate grew by 0.2% to $1,971.

- Early indicators pointed to an exodus from many densely populated urban centers such as New York City. It remains to be seen whether this will be a temporary, pandemic-induced trend, or if there will be a long-term decline in demand, and, therefore, a prolonged dip in rents.

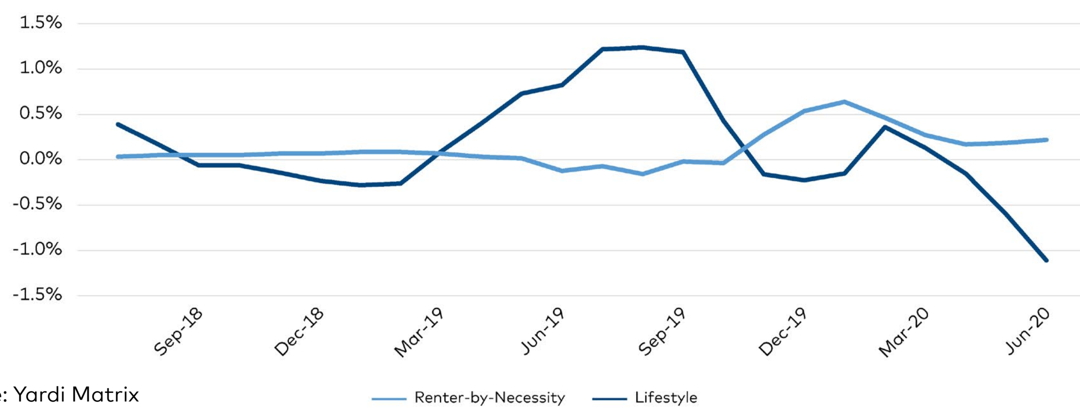
- Expensive submarkets close to Manhattan, such as Dumbo ($4,132), Downtown Brooklyn ($3,420) and Williamsburg ($3,559), recorded rent contractions in the 12 months ending in June: -2,9%, -3,5% and -0.2%, respectively.

Brooklyn vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Brooklyn Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- New York City's unemployment rate rose from 4.1% in March to 15.0% in April. According to preliminary data from the U.S. Bureau of Labor Statistics, the rate hit 18.3% in May, with leisure and hospitality bearing the brunt of it.

- The wide-ranging effects of social distancing and stay-at-home orders have hit New York City's workforce hard. All sectors contracted year-over-year through May, but financial activities and government were more insulated than others. The pandemic brought the city to a virtual halt for three months, which will likely generate long-term economic fallout. The massive budget deficit could prompt layoffs in the public sector as well, despite the city's attempt to kick-start its economy through a phased reopening. This has proved challenging for the decimated tourism industry, for example. The increasing number of coronavirus cases in other parts of the U.S. has prompted state officials to require visitors from other states to self-quarantine.

- Private organizations and the New York State government continued to offer relief to businesses affected by the outbreak. In July, state officials enacted legislation to allow local industrial development agencies to provide loans and grants to small-business owners impacted by the ongoing health crisis.

New York Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
50	Information	240	4.1%
55	Financial Activities	600	10.1%
30	Manufacturing	172	2.9%
90	Government	887	15.0%
15	Mining, Logging and Construction	201	3.4%
80	Other Services	216	3.6%
60	Professional and Business Services	1027	17.3%
65	Education and Health Services	1371	23.1%
40	Trade, Transportation and Utilities	953	16.1%
70	Leisure and Hospitality	257	4.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Last year, Kings County's population contracted by 0.9%, while the U.S. average stood at 0.3%.

- The borough's demographics reflected a downward trend. Between 2016 and 2019, Brooklyn lost 51,326 residents, marking a 2.0% drop, while the U.S. figure rose 1.6%.

Brooklyn vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Brooklyn	2,611,232	2,596,385	2,582,830	2,559,903

Sources: U.S. Census, Moody's Analytics

SUPPLY

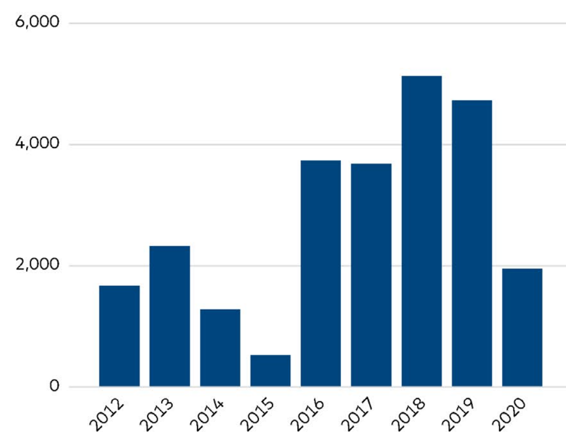
- There were 10,564 units under construction across Brooklyn in June, less than a quarter of which were slated to come online this year. Many projects will likely face delays, as only developments deemed essential, such as affordable housing, could progress during the statewide lockdown.

- Developers added 1,954 units to the borough's rental stock in the first two quarters of 2020, 1.3% of existing inventory and 30 basis points above the national rate. Most properties that came online this year catered to high-income residents, in line with the recent trend. At the same time, when the global health crisis took New York City by storm, pushing unemployment to historic highs, demand for market-rate and workforce product skyrocketed. In Brooklyn, the average occupancy rate in stabilized Renter-by-Necessity properties hit 99.6% as of June, 480 basis points above the national average for the segment.

- Developers were most active in East New York, where 1,495 units were underway, and in downtown Brooklyn, where 1,370 units were under construction across five upscale assets.

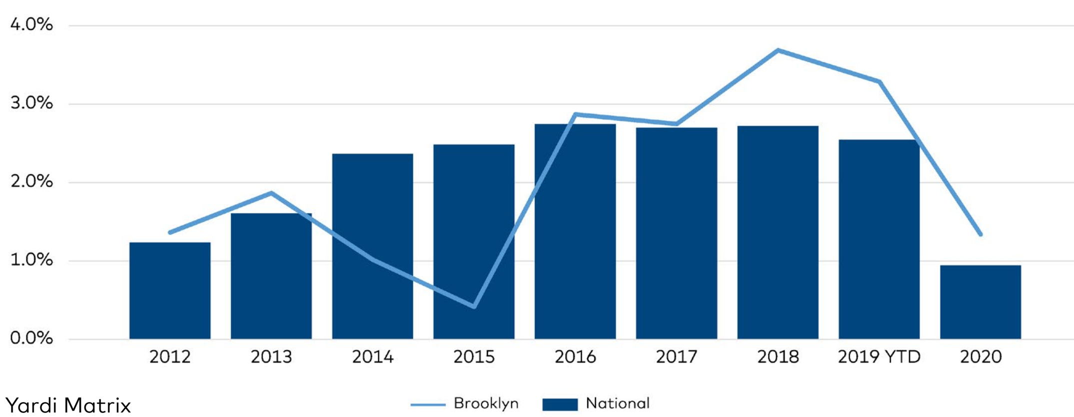
- Brookfield Properties and Park Tower Group are developing Block D, the largest project under construction as of June. The partnership is building two towers on the shores of northern Brooklyn, and will add 745 units to inventory, with 30% of them geared toward low-income residents.

Brooklyn Completions (as of June 2020)



Source: Yardi Matrix

Brooklyn vs. National Completions as a Percentage of Total Stock (as of June 2020)



Source: Yardi Matrix

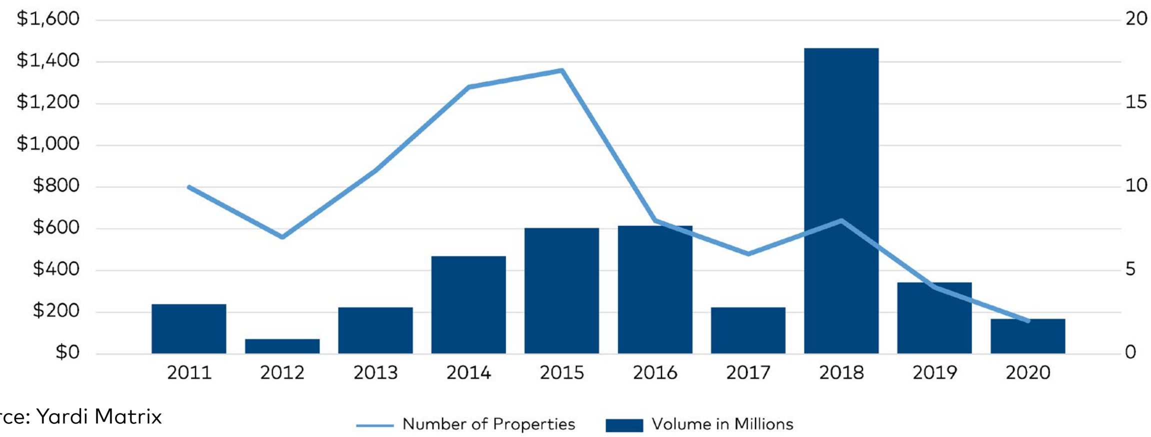
TRANSACTIONS

- Only two multifamily assets with more than 50 units changed hands in Brooklyn in the first half of 2020, for a combined $168 million. Last year's total investment volume reached $343 million, a big step down from the borough's cycle high of $1.5 billion, recorded in 2018.

- Despite a deceleration in deal velocity, the per-unit average in Brooklyn remained significantly above the $163,799 national figure in the first six months of the year—$211,340.

- Investment activity across the metro was mainly impacted by coronavirus-induced restrictions, which followed the pre-pandemic slowdown in transactions caused by rent control regulations imposed in 2019. Between mid-March and late June 2020, buyers were only permitted to conduct business virtually to contain the spread of the virus. Going forward, COVID-19-related uncertainty will likely make potential investors hesitant, as they focus on preserving liquidity.

Brooklyn Sales Volume and Number of Properties Sold (as of June 2020)



Source: Yardi Matrix

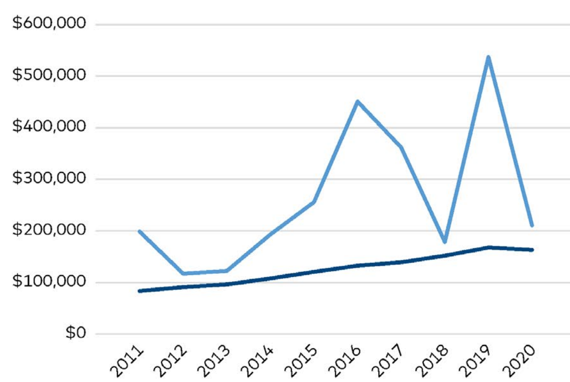
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Williamsburg	138
Crown Heights	117
Navy Yard	67
East Flatbush	31

Source: Yardi Matrix

[1] From July 2019 to June 2020

Brooklyn vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

Multifamily Trends in NYC, New Jersey: Similarities and Differences

By Adina Marcut

Circle Squared Alternative Investments CIO Jeff Sica weighs in on the region's multifamily market and what renters will be drawn to once the health crisis subsides. Sica believes that competition for transit-oriented developments will continue to increase, particularly across smaller markets that are just starting to see revitalization, such as Montclair, Morristown, Summit, Jersey City and the Greater Hudson County.

What are three trends that define multifamily development/redevelopment today in the New York-New Jersey region?

I believe that the COVID-19 pandemic has accelerated some trends in the multifamily market domestically, but especially in Northern New Jersey. I think renters will be forever changed by this experience and amenity packages will become a larger driver in their rental decisions.

I also believe that development will begin to include more smart home features such as automated parcel delivery lockers and keyless entry, as well as being connected through Alexa or Google Home. Lastly, I anticipate that we will see heightened demand for bigger apartments.

How do you see the New York and New Jersey areas transforming in the future?

The New York City market will continue to battle rent control laws, which limit rent increases after owners make major

improvements. We believe these new rent regulations will cap expected revenue gains through the life of a property and will force developers to rethink their investment.

New Jersey and areas like Westchester County, N.Y., will remain an attractive place to live and, in turn, a great place to own multifamily. The live-work-play concept will be prominent in future development in these areas, and communities that on the far end of train lines from major cities will begin to see substantial growth and investment.

Why are transit hub developments in high demand in the area?

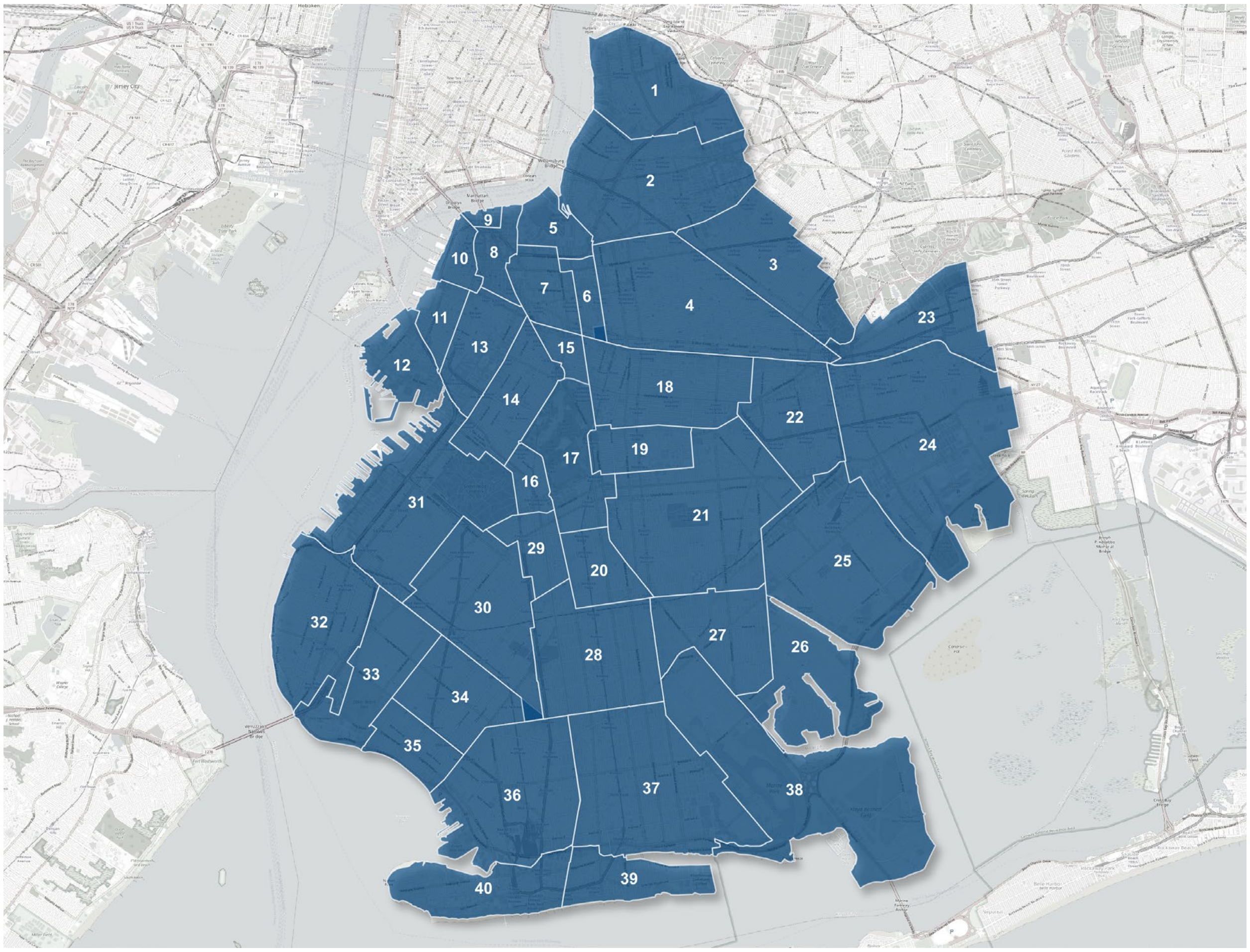
Transit-oriented development has been the flavor of Northern New Jersey multi-development for some time now and for good reason. Communities that offer shopping and dining in a downtown, walkable setting will continue to thrive. These are the most desirable development sites for good reason and the competition continues to increase, which makes strong opportunities harder to uncover.

How do you expect the multifamily market to recover from the crisis?

While the COVID-19 outbreak is very different from the last few recessions, we are seeing, anecdotally, that people now have even stronger respect and appreciation for having a nice place to live. Unemployment levels remain an uncertainty, but, for properties located around major employment centers within transit hubs, we believe these projects should fair better as we enter recovery.

(Read the complete interview on multihousingnews.com.)

BROOKLYN SUBMARKETS



Area No.	Submarket
1	Greenpoint
2	Williamsburg
3	Bushwick
4	Bedford-Stuyvesant
5	Navy Yard
6	Clinton Hill
7	Fort Greene
8	Downtown Brooklyn
9	Dumbo
10	Brooklyn Heights
11	Cobble Hill
12	Red Hook
13	Boerum Hill–Gowanus
14	Park Slope–South Slope

Area No.	Submarket
15	Prospect Heights
16	Windsor Terrace
17	Prospect Park–Prospect Park South
18	Crown Heights
19	Prospect–Lefferts Gardens
20	Flatbush
21	East Flatbush
22	Brownsville
23	Cypress Hills
24	East New York
25	Canarsie
26	Bergen Beach–Mill Basin
27	Flatlands
28	Midwood

Area No.	Submarket
29	Kensington & Parkville
30	Borough Park
31	Sunset Park–Greenwood
32	Bay Ridge
33	Dyker Heights
34	Bensonhurst
35	Bath Beach
36	Gravesend
37	Sheepshead Bay–Gerritsen Beach
38	Marine Park
39	Brighton Beach–Manhattan Beach
40	Coney Island–Sea Gate

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also June span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which June barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, June extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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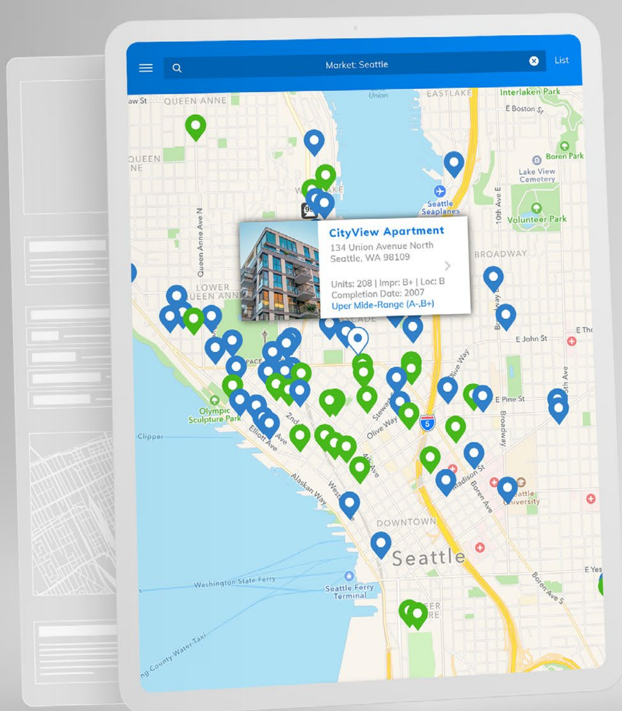

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