Yardi Matrix

MULTIFAMILY REPORT

# Manhattan Fundamentals Still Solid

Summer 2020

Private-Sector Jobs Rebound

Rental Assistance to Ease Hardship

Construction Resumes, Developers Press On

# MANHATTAN MULTIFAMILY

# Methodical March Toward Recovery

Despite being one of the hardest-hit markets amid the COVID-19 pandemic, on July 20 New York City entered Phase 4 of Gov. Andrew Cuomo's reopening plan—the final phase in a meticulous strategy toward recovery. Even though renters fled the city in droves, driving up vacancies, rental rates in Manhattan were down only 0.1% on a trailing three-month basis through June, while national rents slid 0.2%. The overall Manhattan average stood at $4,103, nearly three times the $1,546 U.S. figure. As part of national rental relief efforts, a new $100 million rental assistance program was launched in mid-July, aimed at supporting financially burdened New Yorkers.

As of June, unemployment in New York City stood at 20.4%. Job losses were widespread, with face-to-face sectors hit the hardest as of May—leisure and hospitality (-455,700 jobs) and trade, transportation and utilities (-231,300). According to a Resilient and Vulnerable Cities report by Unison, resilient cities have higher job concentrations in financial services and information technology. New York City ranked third in resilience, after Boston and D.C.

Despite stringent lockdown measures, Manhattan's multifamily market remained sturdy. Developers added more than 1,100 units to inventory in the first months of 2020—94% above the decade's cycle low in 2012—and plan on delivering another 2,700 by year-end, although delays will most likely occur.

## Market Analysis | Summer 2020


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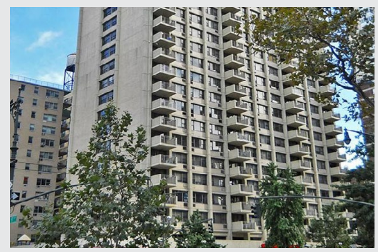
### Recent Manhattan Transactions

Instrata NoMad

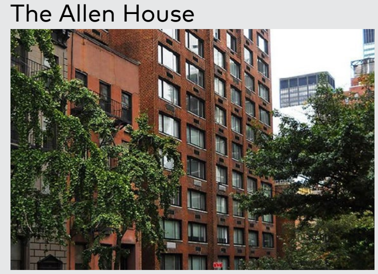
City: New York City
Buyer: Global Holdings Management Group
Purchase Price: $381MM
Price per Unit: $961,111

Tower West



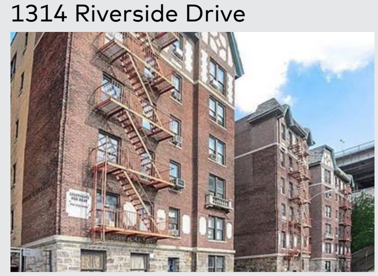
City: New York City
Buyer: Jonathan Rose Cos.
Purchase Price: $94 MM
Price per Unit: $919,965

The Allen House



City: New York City
Buyer: Stonehenge Partners
Purchase Price: $66 MM
Price per Unit: $576,070

1314 Riverside Drive



City: New York City
Buyer: Pragma Investments
Purchase Price: $10 MM
Price per Unit: $158,594

## RENT TRENDS

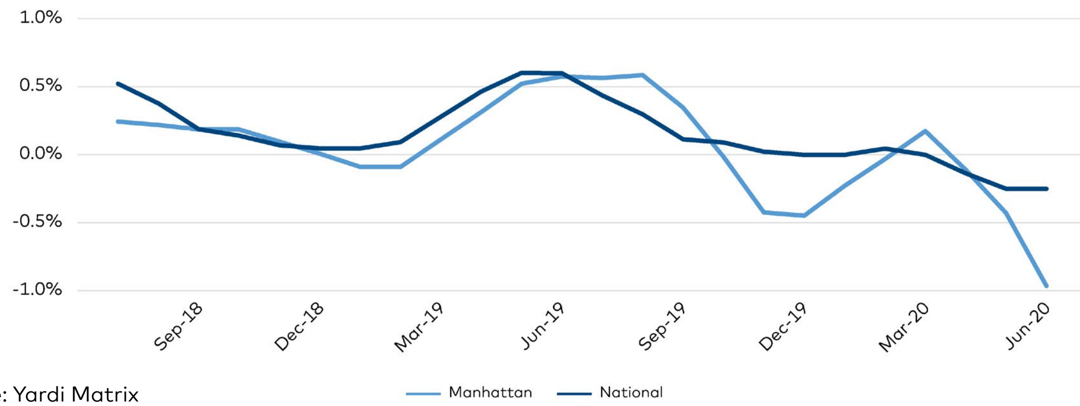
- Manhattan rents were down 0.1% on a trailing three-month basis through June, while national rents contracted by 0.2%. The overall average in the borough was $4,103 as of June, nearly three times the $1,456 national figure. Rents in the Lifestyle segment dipped by 1.3%—the steepest decline in the past 24 months—to $4,466. Rates for Renter-by-Necessity assets remained flat as of June, at $3,385.

- A new $100 million rental assistance program launched in mid-July—part of the $2 trillion coronavirus rescue package—provides subsidies to financially burdened, eligible New Yorkers who have suffered income loss due to COVID-19. The one-time subsidy for low-income households will be directly sent to landlords. The payment covers the difference between a household's rent burden on March 1, and the increase in rent burden for up to four months.

- As renters fled New York City in droves, more than 10,000 apartments were listed on the market in June, according to a report from Miller Samuel and Douglas Elliman. The lockdown prevented brokers from showing apartments until June 22, and fewer new renters arrived to fill vacancies. As of June, nearly half of new leases have included discounts or concessions.

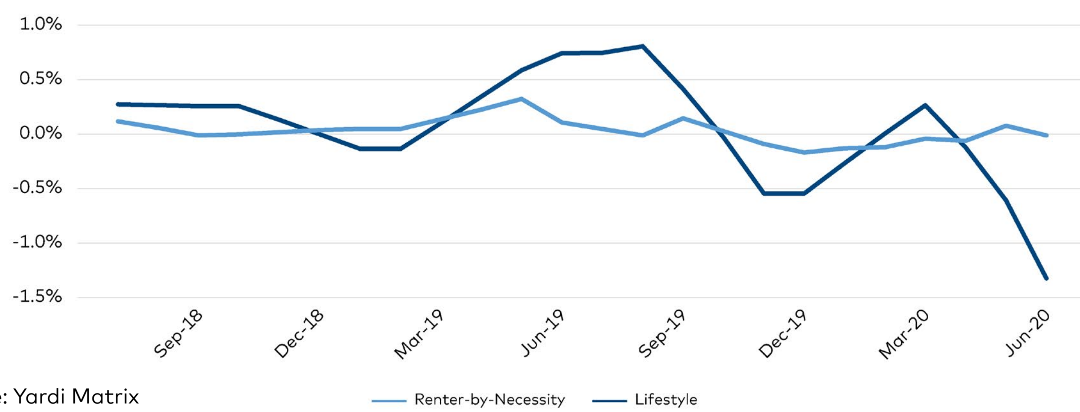
- East Harlem (up 3.3%, to $3,041) and Yorkville (up 2%, to $4,510) led rent growth in the 12 months ending in June. Rents in Tribeca—the priciest submarket—declined 3.4%, to $5,934.

**Manhattan vs. National Rent Growth** (Trailing 3 Months)




Source: Yardi Matrix

**Manhattan Rent Growth by Asset Class** (Trailing 3 Months)




Source: Yardi Matrix

## ECONOMIC SNAPSHOT

- As of June, the national unemployment rate was 11.1%, down 220 basis points since May. New York State's unemployment stood at 15.7%, while New York City's rate was 20.4% in June—up from 3.4% historic low in February—according to the NYS Department of Labor.
- Despite New York State adding 296,400 private sector jobs for a 4.5% increase as of June, the number of jobless residents rose by 154,000, offsetting employment growth and pushing up unemployment by 130 basis points, compared to May. According to the NYS Department of Labor, private sector jobs declined by 18.6% in the city, compared to a 16.8% statewide drop and 9.2% nationwide decrease as of June.
- Job losses were widespread in New York City, one of the first U.S. epicenters of the outbreak. Face-to-face or essential sectors were hit the hardest: As of May, leisure and hospitality was down 455,700 jobs, followed by trade, transportation and utilities (-231,300) and education and health services (-184,000).
- Although less impacted by COVID-19, remote industries also shed jobs. Professional and business services was down 156,700 positions, while financial activities and information lost a combined 50,700 jobs through May.

**New York Employment Share by Sector**

| Code | Employment Sector | Current Employment (000) | Current Employment % 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

- Population growth has been stagnant in the borough over the past decade. Manhattan lost some 8,000 residents between 2015 and 2019.
- Since the onset of the pandemic, more than 400,000 New Yorkers have temporarily relocated.

**Manhattan vs. National Population**

| | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| National | 323,071,342 | 325,147,121 | 327,167,434 | 328,239,523 |
| Manhattan | 1,636,261 | 1,629,780 | 1,628,701 | 1,628,706 |

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

## SUPPLY

- Manhattan had 7,969 units under construction across 35 projects as of June, with more than 80% of the total pipeline geared toward the Lifestyle segment. Another 30,000 units were in the planning and permitting stages.

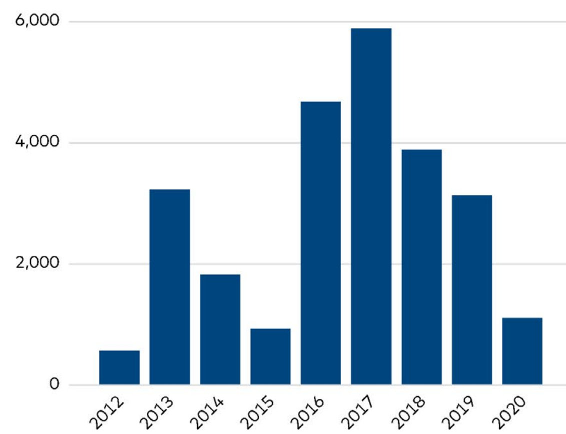
- As part of New York's Phase 1 of reopening, nonessential construction sites were allowed to resume work under strict safety guidelines as of June 8. Gov. Cuomo's March PAUSE order had previously halted all development except infrastructure, utilities, health care facilities, affordable housing and homeless shelters.

- Developers added 1,107 units to stock year-to-date through June, accounting for 0.3% of the borough's rental inventory, below the 1% national rate. This year's completions are still 94% above the decade's cycle low of 2012, when 571 units came online. As of June, Solow Residential's 448-unit community at 685 First Ave. in Murray Hill was the largest delivery of 2020, while Douglaston Development's 931-unit project at 601 W. 29th St. was the largest development underway as of June.

- Although the COVID-19 crisis brought construction activity to a halt between late March and June, Manhattan's pipeline has been softening every year since 2017, when the delivery of nearly 5,900 units marked a cycle high.

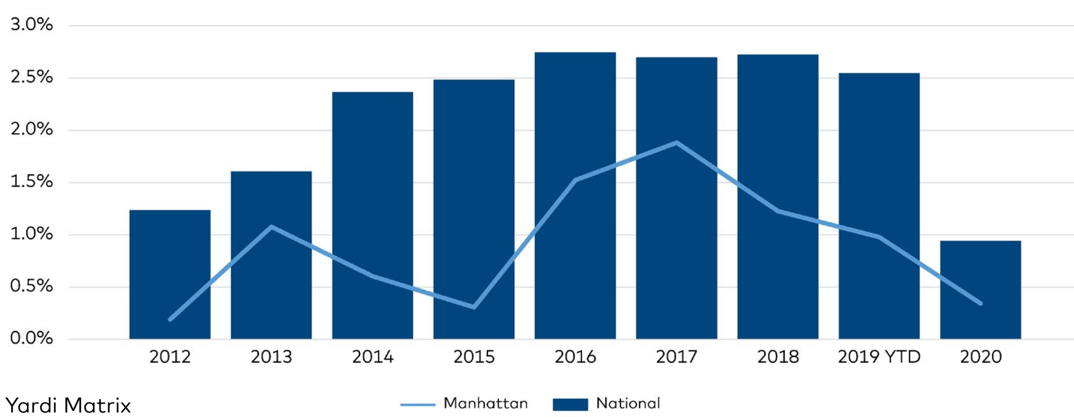
- As of June, East Harlem led development with 1,826 units underway across six properties, while Chelsea (1,320) and Harlem (1,007) rounded out the top three.

**Manhattan Completions** (as of June 2020)




Source: Yardi Matrix

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

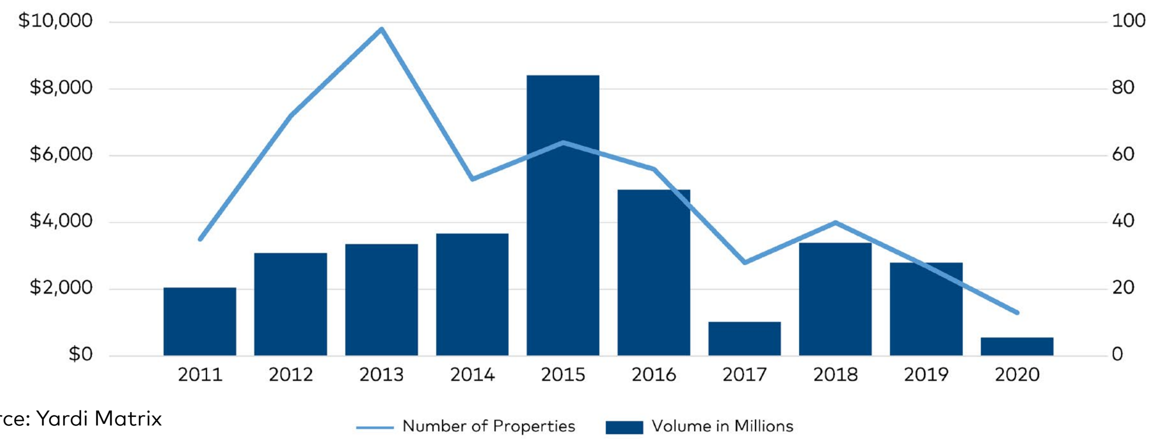



Source: Yardi Matrix

## TRANSACTIONS

- Some $551 million in assets traded in 2020 through June, at an average per-unit price of $862,253, well above the $163,799 U.S. figure, and 20% higher than the 2019 average. Transaction activity in 2020 was limited to the first quarter—investors paused deal-making as pandemic-related restrictions were imposed and county recorder offices were shuttered.
- In the first three months of 2020, buyers targeted the Renter-by-Necessity segment—of the 13 properties sold year-to-date, only one was a Lifestyle asset. Sales volume was halved, compared to the same interval last year when rental asset sales totaled $1.1 billion.
- Some 1,269 units traded in 2020 through June, marking a 22% drop compared to the 1,620 units sold in the first half of 2019. Global Holding Management Group's $381 million acquisition of Instrata NoMad in late February marked the largest deal.

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




Source: Yardi Matrix

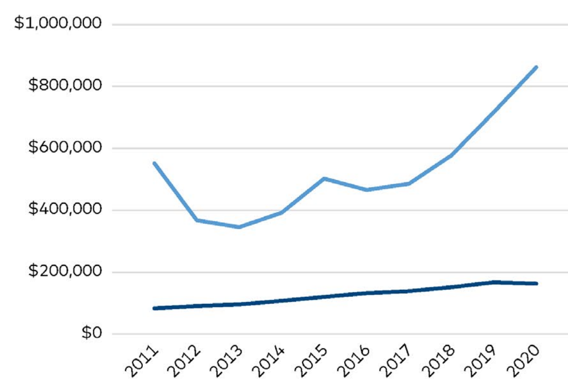
**Top Submarkets for Transaction Volume**[1]

| Submarket | Volume ($MM) |
|---|---|
| East Harlem | 820 |
| NoMad | 381 |
| Roosevelt Island | 340 |
| Lennox Hill | 230 |
| Greenwich Village | 168 |
| Upper West Side | 147 |
| Harlem | 76 |

Source: Yardi Matrix

[1] From July 2019 to June 2020

**Manhattan vs. National Sales Price per Unit**




Source: Yardi Matrix

# Multifamily Trends in NYC, New Jersey: Similarities and Differences

By Adina Marcut

New rent-control regulations in New York City have impacted the market's multifamily sector and put off certain investors. On the other hand, New Jersey continues to be a desirable area for multifamily investors due to its proximity to two of the country's largest employment centers, according to Jeff Sica, the CIO of Circle Squared Alternative Investments. In the interview below, Sica weighs in on what renters will be drawn to once the health crisis subsides.

*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 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 markets 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,

even after units become vacant and the rents have not been raised for years. 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 a great place to own multifamily. We believe Class A buildings with robust amenities and accessible rents will continue to be in demand. The live-work-play concept will be prominent in future development in these areas, and communities at the far end of train lines from major cities will begin to see substantial growth and investment.

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

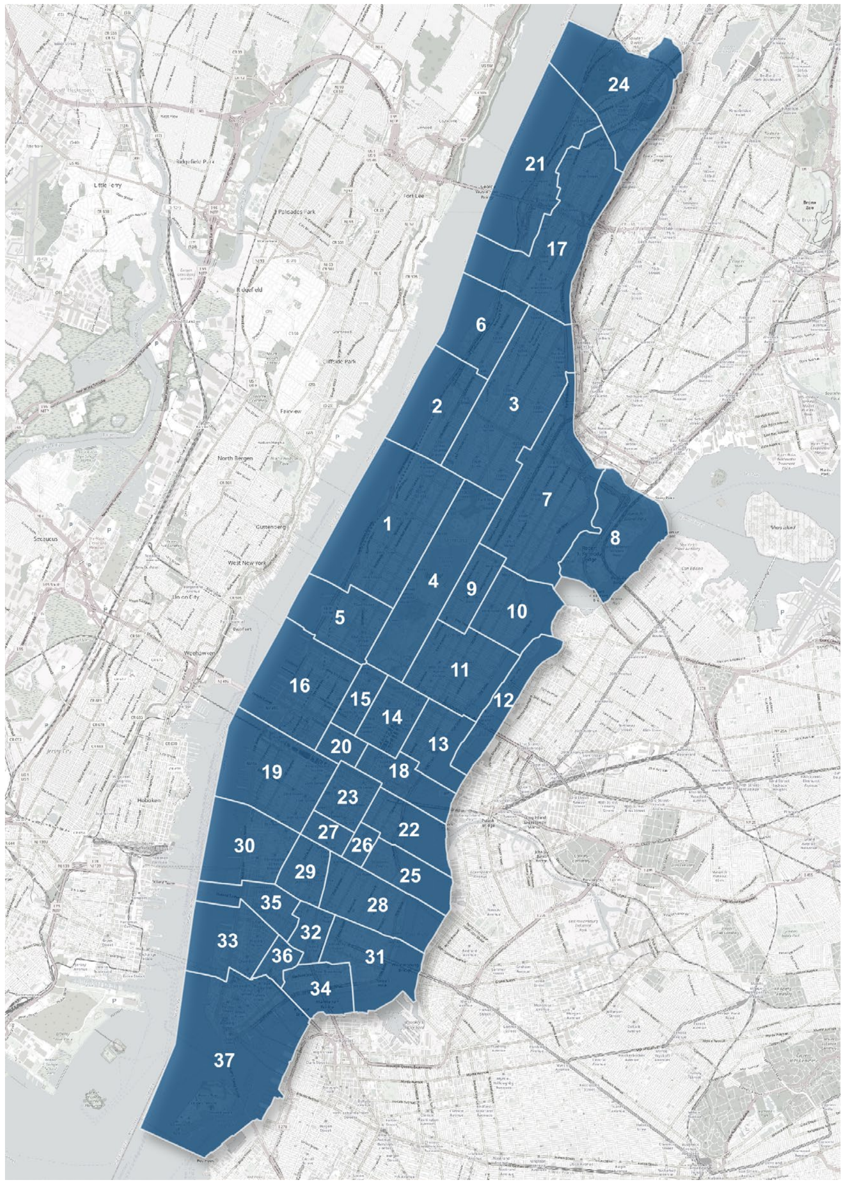
The multifamily market, especially in this area, has always been one of the first sectors to recover from an economic downturn. During the Great Recession, multifamily rents were more resilient than those of office, industrial and retail. Multifamily rents have outperformed those of the other major property sectors during and after the Great Recession in multiple ways. The sector experienced the lowest level of rent decline, the fastest recovery to pre-recession peaks and the longest post-recession period of rent growth.

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.

*(Read the complete interview on multihousingnews.com.)*

## MANHATTAN SUBMARKETS

| Area No. | Submarket |
|---|---|
| 1 | Upper West Side |
| 2 | Morningside Heights |
| 3 | Harlem |
| 4 | Central Park |
| 5 | Lincoln Square |
| 6 | Hamilton Heights |
| 7 | East Harlem |
| 8 | Randall and Ward Islands |
| 9 | Carnegie Hill |
| 10 | Yorkville |
| 11 | Lennox Hill |
| 12 | Roosevelt Island |
| 13 | Midtown East |
| 14 | Central Midtown |
| 15 | Theater District |
| 16 | Hell's Kitchen |
| 17 | Washington Heights |
| 18 | Murray Hill |
| 19 | Chelsea |
| 20 | Garment District |
| 21 | Hudson Heights |
| 22 | Kips Bay |
| 23 | NoMad |
| 24 | Inwood |
| 25 | Stuyvesant Town |
| 26 | Gramercy Park |
| 27 | Flatiron |
| 28 | East Village |
| 29 | Greenwich Village |
| 30 | West Village |
| 31 | Lower East Side |
| 32 | Chinatown |
| 33 | Tribeca |
| 34 | Two Bridges |
| 35 | SoHo |
| 36 | Civic Center |
| 37 | Financial District |



## 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.