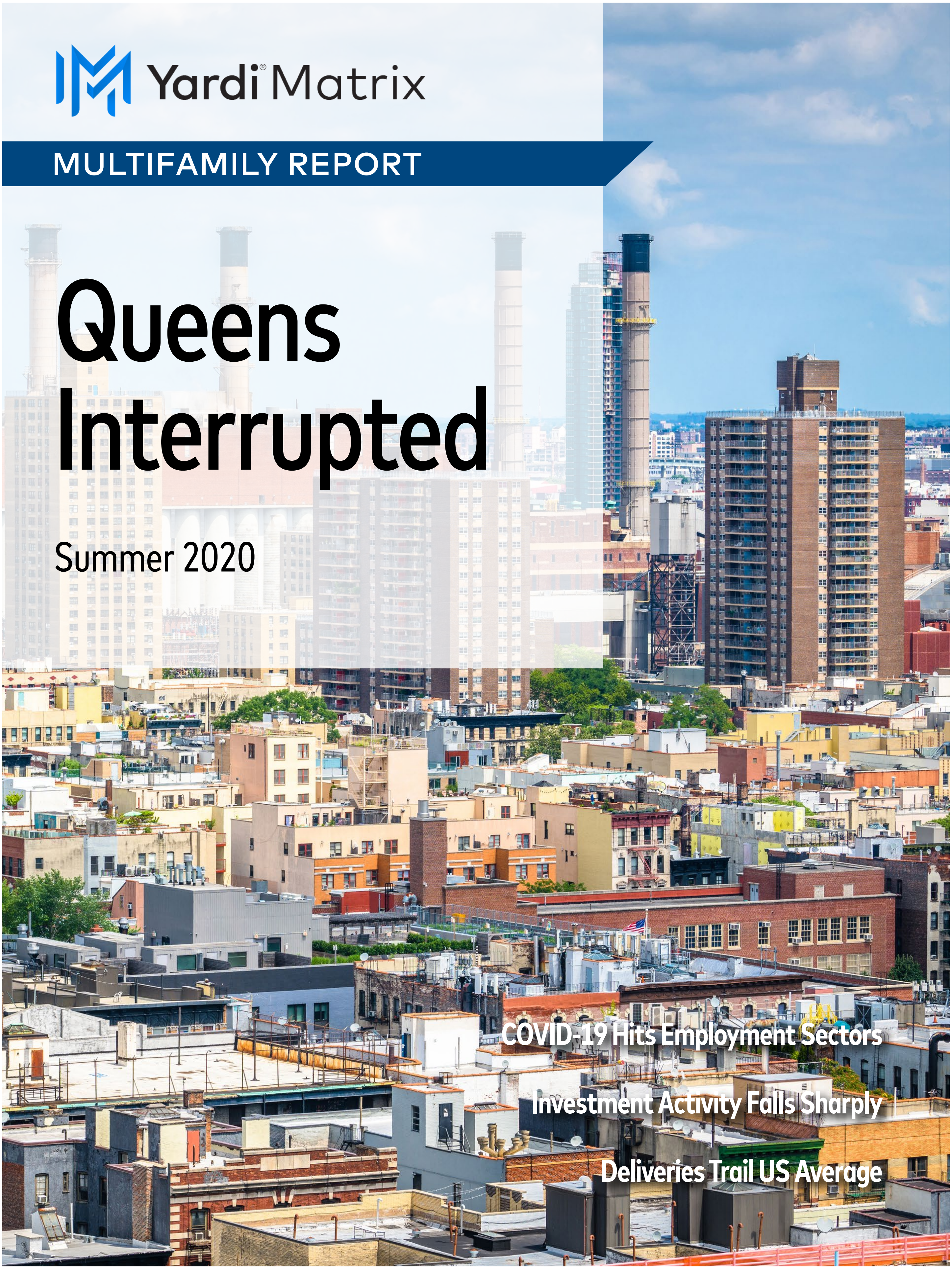
Yardi Matrix

MULTIFAMILY REPORT

Queens Interrupted

Summer 2020



COVID-19 Hits Employment Sectors

Investment Activity Falls Sharply

Deliveries Trail US Average

QUEENS MULTIFAMILY

Coronavirus Hits Borough Hard

The pandemic started taking a heavy toll on New York's economy—and rental market—soon after the coronavirus arrived in the U.S. As of July, Queens rents were down 0.8% on a trailing three-month basis, well below the -0.1% U.S. figure. Lifestyle rates slid 1.8%, as the pandemic pushed renters to leave the city or search for more affordable options, forcing landlords to offer concessions.

As the health crisis turned the metro into a global epicenter in April, unemployment skyrocketed. The jobless rate in the New York-Northern New Jersey-Long Island area jumped from 3.8% in March to 17.0% in June, according to preliminary data from the U.S. Bureau of Labor Statistics. Job losses were widespread, with leisure and hospitality shedding 455,700 positions for a 64% contraction in the 12 months ending in May. At the end of June, the economy slowly started its long road to recovery, and, as of July 20 all of New York's 10 regions were in the final reopening phase.

Following last year's 4,059-unit cycle peak for completions, developers added only 742 units to the borough's inventory this year through July, with an additional 8,075 apartments underway. At the same time, transaction activity dampened significantly. Considering the slump in investor confidence, and the typical pause in transaction activity that usually occurs ahead of presidential elections, deal volume could remain low for a while.

Market Analysis | Summer 2020

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Laura Calugar
Senior Associate Editor

On the cover: Photo by Sean Pavone/iStockphoto.com

Recent Queens Transactions

The John Adams

City: New York City
Buyer: Nelson Management Group
Purchase Price: $27 MM
Price per Unit: $236,607

Belcrest House

City: New York City
Buyer: Parkoff Org.
Purchase Price: $22 MM
Price per Unit: $211,905

RENT TRENDS

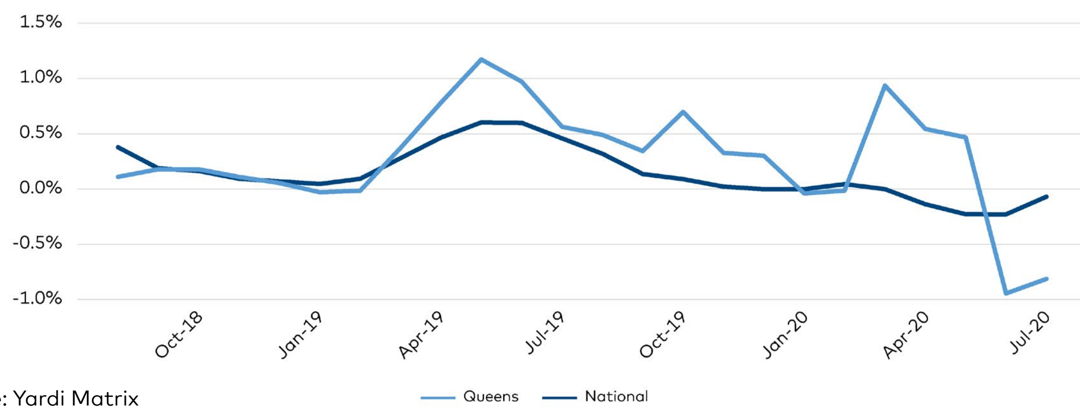
- Queens rents were down 0.8% to $2,543 on a trailing three-month (T3) basis through July. Meanwhile, the average U.S. rate contracted by only 0.1%, to $1,460.

- The coronavirus outbreak generated significant rent contractions, particularly at the higher end of the quality spectrum. Rates in the Lifestyle segment dipped 1.8% on a T3 basis, to $3,257, as many people headed out of the city and in-person showings were prohibited for roughly three months due to shelter-in-place measures. The slew of new inventory hitting the market over the past three years—more than 8,000 units—also depressed rents and forced landlords to adjust.

- Pandemic-induced layoffs across all employment sectors generated increased demand for more affordable housing options. Rents in the working-class Renter-by-Necessity segment rose 0.3% on a T3 basis, to $2,077. Occupancy in stabilized RBN assets clocked in at 99.3% in June, 450 basis points above the U.S. average.

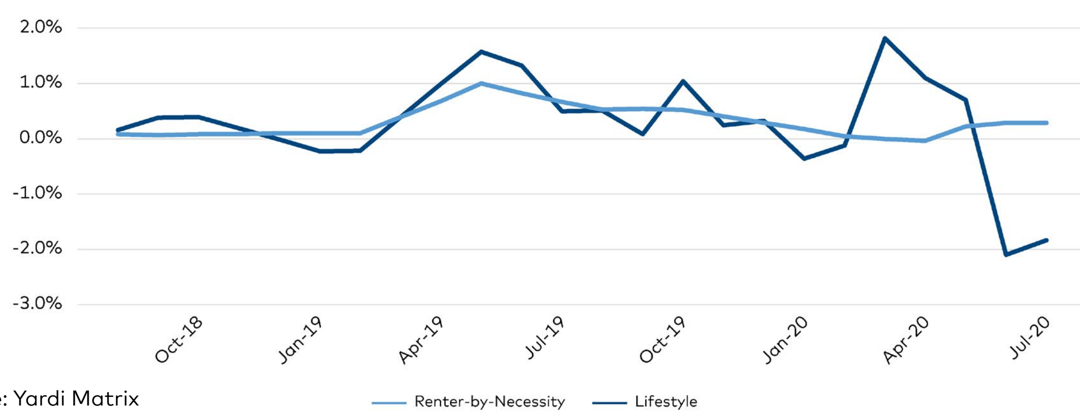
- Long Island City rates slid 3.9% in the 12 months ending in July. Before the pandemic, the submarket was among the borough's most appealing due to its proximity to Manhattan's office towers, but work-from-home policies pushed landlords to cut rates or offer concessions. However, at an average rent of $3,474, Long Island City remained Queens' most expensive submarket by far, followed by Astoria ($2,711).

Queens vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Queens Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- New York City's unemployment rate rose from 3.8% in March to 17.0% in June, according to preliminary data from the BLS. Job growth was near national averages last year, but started to slowly decelerate at the beginning of 2020.

- In the 12 months ending in May, employment growth contracted by 5.9%—260 basis points below the national average. The need for social distancing and the stay-at-home orders in effect for roughly three months, have hit New York City's workforce hard, with the leisure and hospitality sector bleeding the most jobs, though all sectors have felt the impact of the health crisis. The city has lost more than $10 billion in revenue since the onset of the pandemic and despite New York City lawmakers passing an $88.2 billion budget at the beginning of July, the layoffs of 22,000 city employees in October is still a possibility.

- Meanwhile, the city once considered the global epicenter of the coronavirus outbreak, has now entered its final phase of reopening, with several restrictions still in place. Professional sports competitions resumed, but without fans in the stands. Phase 4 also means higher education activities can restart, as well as some TV production. Museums, movie theaters, malls and indoor dining will be the last businesses to resume activity.

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

- In 2019, Queens County marked a 1.1% demographic drop, losing 25,048 residents. Meanwhile, the U.S. population rose 0.3%.

- Increasing costs and a decline in domestic and international migration have contributed to the borough's population drop in recent years.

Queens vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Queens	2,309,032	2,296,865	2,278,906	2,253,858

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

SUPPLY

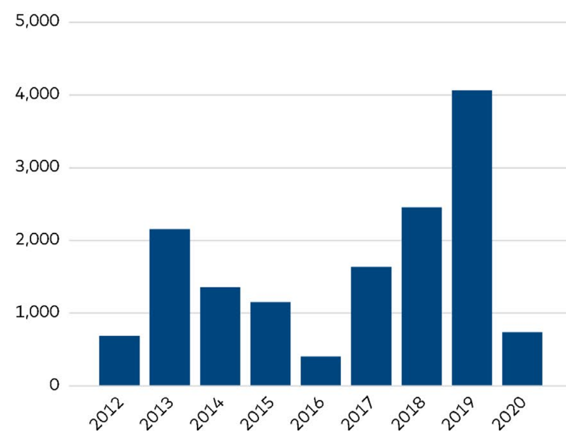
- Queens' pipeline had 8,075 units under construction as of July, of which 1,462 were initially slated to come online by the end of this year. Only affordable housing and a few other types of developments were deemed essential during the statewide lockdown, so many projects will likely fall behind their scheduled delivery dates. Social distancing guidelines, a tight labor pool and supply chain disruptions also contributed to delayed deliveries. Overall, we expect New York City to add only 6,201 apartments to its stock in 2020.

- After peaking at 4,059 units last year, deliveries in the borough have tempered significantly. Only 742 units, or 0.7% of total stock, came online in the first seven months of 2020, totaling roughly half the U.S. rate. And while all units delivered year-to-date through July were in upscale projects, the pandemic-induced record-high unemployment rate has accelerated demand for market-rate and workforce housing options.

- The state-mandated halt on evictions also made development and acquisition problematic across the metro, ebbing real estate players' confidence in new housing construction and existing multifamily rentals.

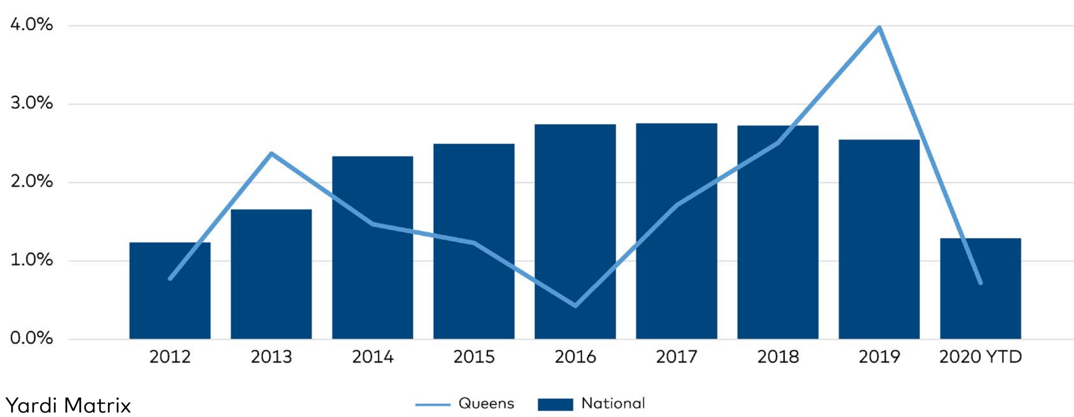
- Long Island City remained a development hotspot, long after Amazon scrapped their plans for HQ2 in the neighborhood. The submarket accounts for almost half of upcoming inventory, including the borough's three largest projects. At 1,194 units, TF Cornerstone's 475-foot-tall Hunters Point South tower was the largest rental development in the borough as of July, slated for completion in 2022.

Queens Completions (as of July 2020)



Source: Yardi Matrix

Queens vs. National Completions as a Percentage of Total Stock (as of July 2020)



Source: Yardi Matrix

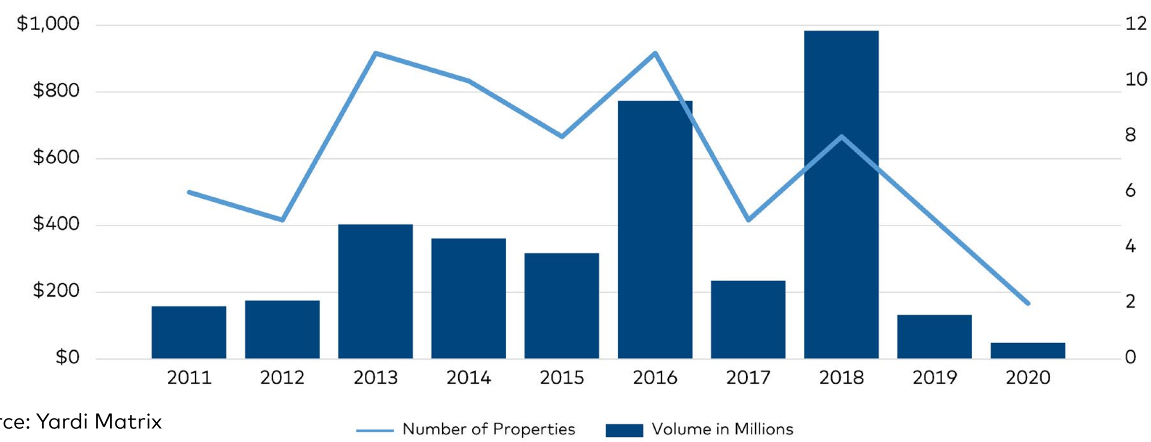
TRANSACTIONS

- Only two multifamily assets with more than 50 units traded in Queens this year through July, for a total of $49 million. After peaking in 2018 at $984 million, transaction volume plummeted to $132 million last year. The shelter-in-place order issued to contain the spread of the virus in the first U.S. epicenter of the outbreak effectively halted New York City's housing market between mid-March and late June.

- Both assets that traded this year catered to the Renter-by-Necessity segment, but the per-unit price in Queens stood substantially above the $164,991 national average, at $224,654.

- Many restrictions were lifted in the last month of the second quarter, but investors remained hesitant to close deals in an uncertain economic environment. Additionally, transaction activity tends to slow ahead of presidential elections, so deal volume for 2020 could see the most significant drop since 2011, when it bottomed out.

Queens Sales Volume and Number of Properties Sold (as of July 2020)



Source: Yardi Matrix

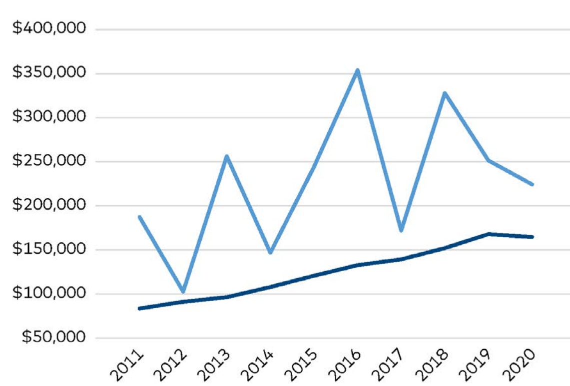
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Forest Hills-Rego Park	27
Jamaica	22

Source: Yardi Matrix

[1] From August 2019 to July 2020

Queens vs. National Sales Price per Unit



Source: Yardi Matrix

Brought to you by:

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 how residents' needs are bound to change after the pandemic and what developers can do to meet their demands. Sica also shares how COVID-19 has impacted the company and its projects, as well as his view on how the multifamily market is expected to recover once the crisis subsides.

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

I think renters will be forever changed by this experience and amenity packages will become a larger driver in their rental decisions. There will be a rush from developers to deliver the most robust amenity package in order to differentiate themselves from competition.

Additionally, I believe that development will begin to include more smart home features. Lastly, I anticipate that we will see heightened demand for bigger apartments.

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

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, in turn, 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.

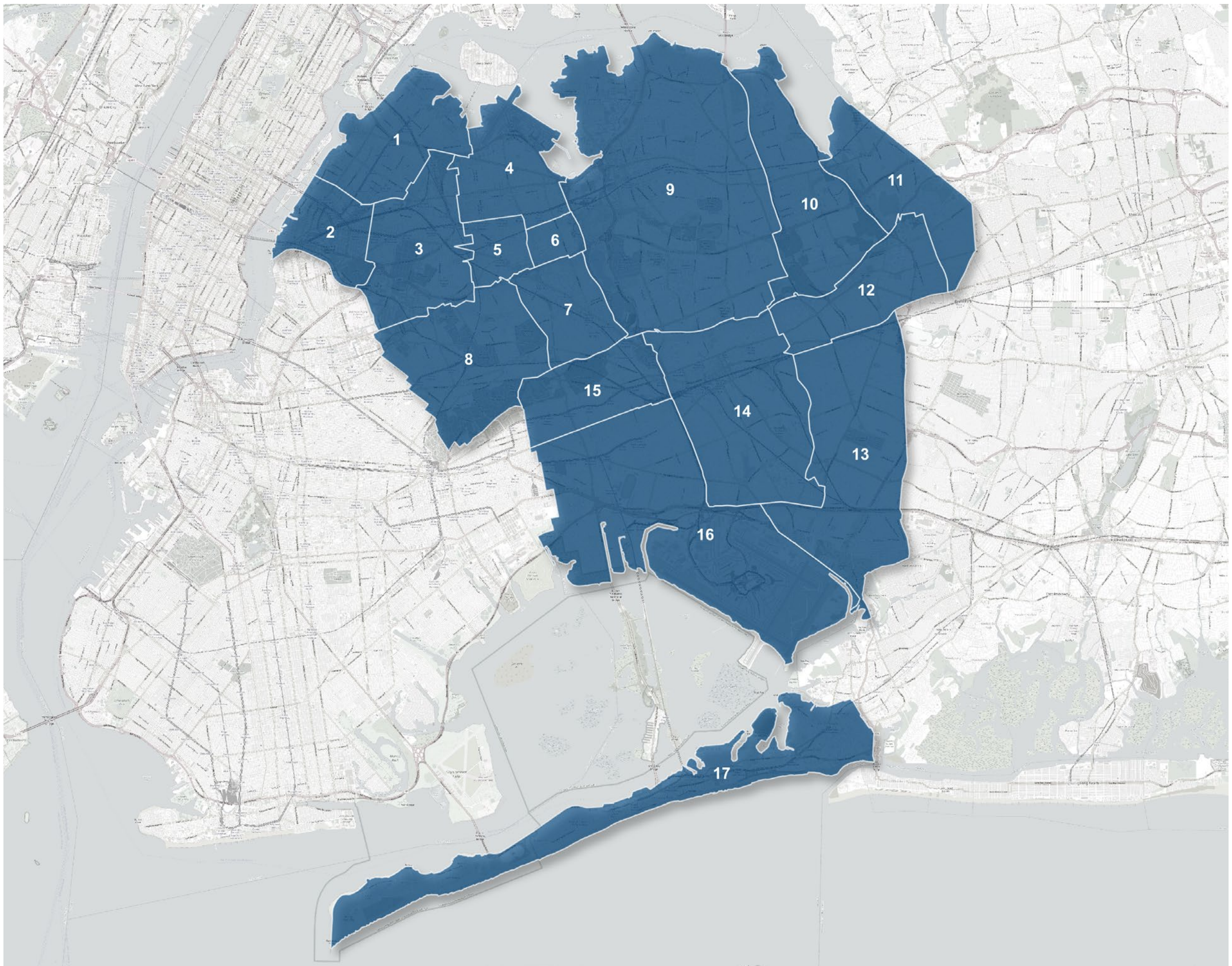
How do you expect the multifamily market to recover following the crisis?

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.

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. Also, we believe this crisis and economic downturn will have lasting negative effects on the already record-low levels of homeownership.

(Read the complete interview on multihousingnews.com.)

QUEENS SUBMARKETS



Area No.	Submarket
1	Astoria
2	Long Island City
3	Woodside
4	Jackson Heights
5	Elmhurst
6	Corona
7	Forest Hill–Rego Park
8	Middle Village
9	Flushing

Area No.	Submarket
10	Bayside
11	Little Neck
12	Queens Village
13	St. Albans
14	Jamaica
15	Kew Gardens
16	Ozone Park–JFK
17	Rockaway

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 July 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 July 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, July 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

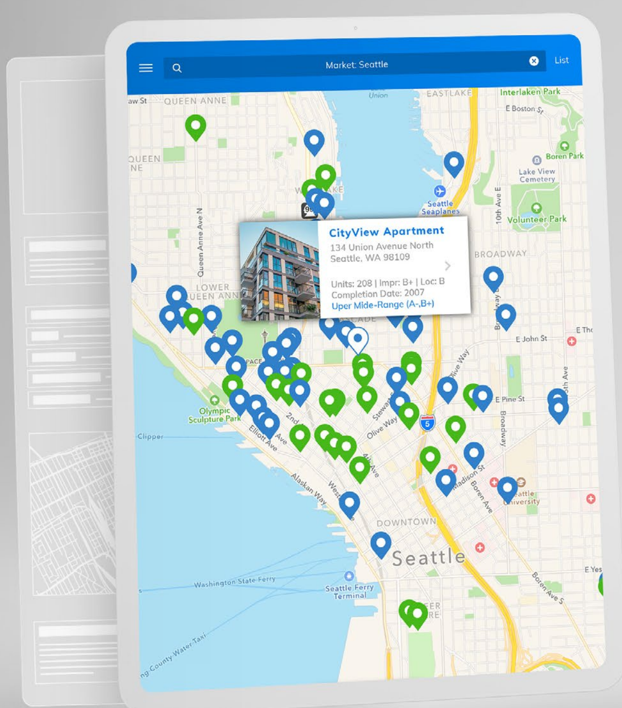
The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

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.

Yardi® Matrix

Power your business with the industry's leading source for originating,
pre-underwriting and managing assets for profitable loans and investments.



Yardi Matrix Multifamily provides accurate data on **18+ million units**, covering over **90% of the U.S. population.**

Key features

- Pierce the LLC every time with true ownership and contact info
- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
- Gain complete new supply pipeline information at the asset, competitive set and market level
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access exclusive aggregated and anonymized residential revenue and expense comps

Get the latest market trends and forecasts at yardimatrix.com/**publications**

(800) 866-1144 | yardimatrix.com/multifamily

©2020 Yardi Systems, Inc. All Rights Reserved. Yardi, the Yardi logo, and all Yardi product names are trademarks of Yardi Systems, Inc.

YARDI

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (http://www.yardimatrix.com/Terms) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2020 Yardi Systems, Inc. All Rights Reserved.