



MULTIFAMILY REPORT

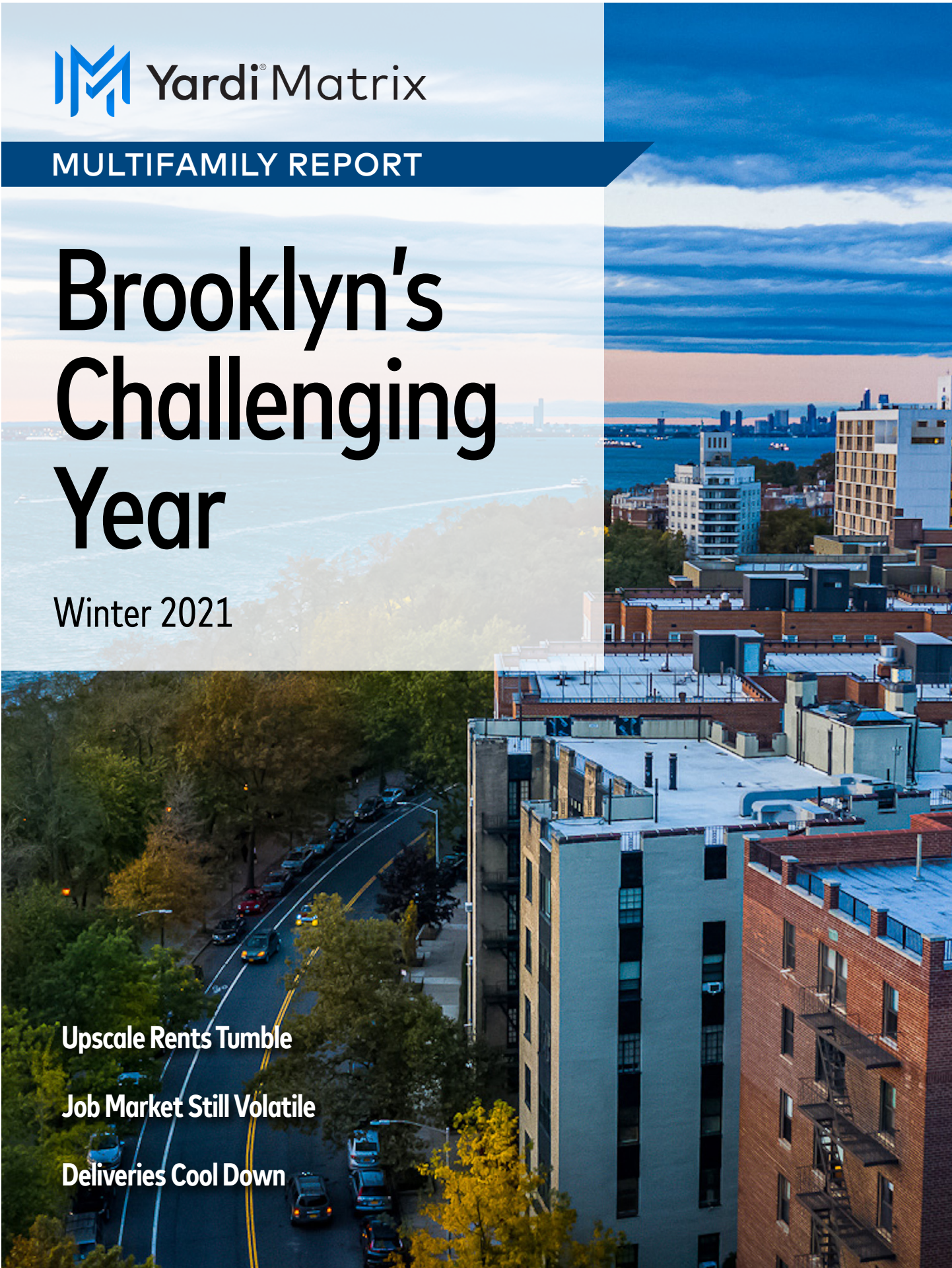
# Brooklyn's Challenging Year

Winter 2021

**Upscale Rents Tumble**

**Job Market Still Volatile**

**Deliveries Cool Down**



# BROOKLYN MULTIFAMILY



## Rents Drop, Completions Stumble

After performing well throughout 2019, Brooklyn's multifamily market recorded significant hardship amid the health crisis and resulting economic volatility. As of November, rents were down 2.0% on a trailing three-month basis, with the overall average at \$2,621, still above the \$1,465 U.S. rate. Meanwhile, the borough's occupancy rate in stabilized communities dropped 30 basis points year-over-year through October, to 98.5%.

New York City employment contracted by more than 800,000 positions in the 12 months ending in September, down 15.3% year-over-year, with all sectors recording drops. Like most U.S. metros, leisure and hospitality took the hardest hit, shedding nearly 300,000 positions. The effects of returning restrictions meant to curb a new rise in COVID-19 infections during the winter months could spell continued volatility for the tri-state area's job market and economy at large. However, the \$900 billion federal relief package negotiated at the end of 2020 should alleviate some of the most serious effects in the short term.

A total of 2,750 units came online this year through November, a more than 30% decline compared to the same interval in 2019. However, with almost 11,000 units under construction as of the fourth quarter—4,500 of which are slated to come online this year—deliveries could record a rebound in 2021.

## Market Analysis | Winter 2021

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On the cover: Photo by MJL Eyes in the Sky Inc/iStockphoto.com

### Recent Brooklyn Transactions

#### Spring Creek Gardens



City: New York City  
Buyer: K&R Preservation  
Purchase Price: \$35 MM  
Price per Unit: \$60,328

#### 221 Linden Blvd



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

#### Chelsea



City: New York City  
Buyer: The Parkoff Organization  
Purchase Price: \$21 MM  
Price per Unit: \$168,699

#### Fiesta

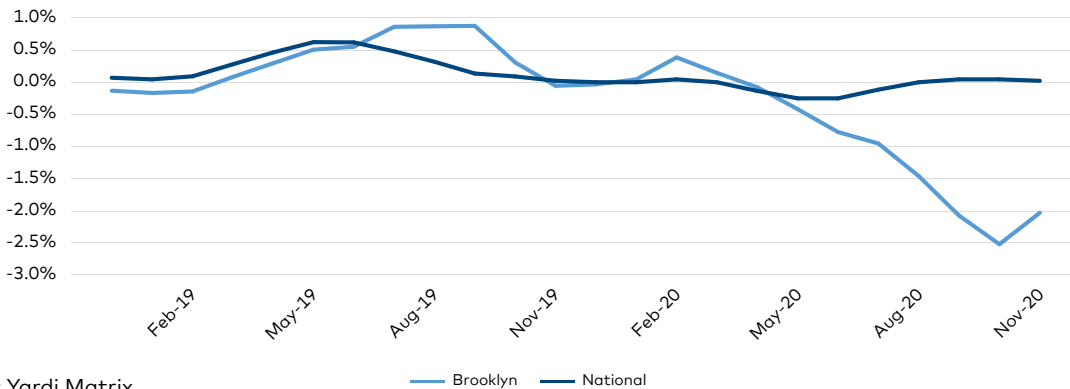


City: New York City  
Buyer: The Parkoff Organization  
Purchase Price: \$20 MM  
Price per Unit: \$162,601

## RENT TRENDS

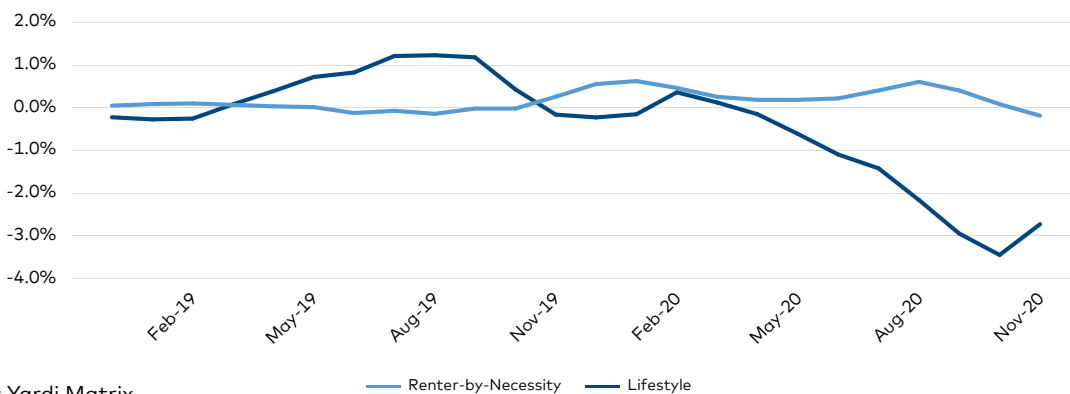
- ▶ The average Brooklyn rent contracted 2.0% to \$2,621 on a trailing three-month (T3) basis through November. Meanwhile, the national average rate remained flat on a T3 basis, at \$1,465.
- ▶ Working-class Renter-by-Necessity rates dropped just 0.2% to \$1,990, while Lifestyle rents were down 2.7% to \$2,621. The debut of the current downturn has predominantly impacted expensive gateway metros such as New York City and San Francisco, especially at the higher end of the quality spectrum.
- ▶ Helped by the submarket's relative affordability and smaller inventory, Flatbush rents went up 4.9% year-over-year through November, to \$1,908. Flatbush was followed by Prospect Park South, where rents were up 3.3% to an average of \$2,427. Rates appreciated year-over-year across a host of other smaller submarkets, including Midwood (2.8% to \$1,795).
- ▶ Meanwhile the most expensive submarkets—which encompass large upscale components—recorded Brooklyn's steepest declines year-over-year through November. The list included downtown Brooklyn (-20.7% to \$2,854), Dumbo (-16.4% to \$3,694) and Williamsburg (-9.1% to \$3,345).
- ▶ Brooklyn wasn't the only borough to feel the pinch. On a T3 basis, rates were also down in Manhattan (-1.6% to \$3,658) and Queens (-1.1% to \$2,439).

### 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 lost 834,500 positions in the 12 months ending in September 2020, marking a 15.3% nosedive year-over-year, compared to a 9.3% nationwide drop. Meanwhile, the unemployment rate improved steadily to 10.7% in September—after reaching a record 18.3% in June—still 400 basis points above the national figure.
- ▶ All employment sectors contracted in the 12 months ending in September, with leisure and hospitality down 42%—or almost 300,000 positions—as the country continued to deal with the impact of the pandemic. For other sectors, losses ranged from 14.3% for other services to 4.3% for financial activities.
- ▶ With New York recording a surge in new COVID-19 cases, the state reinstated some restrictions in December, including an end to indoor dining and a limit on restaurant capacity. Gov. Andrew Cuomo warned that the state could be heading to a shutdown if the trajectory did not change; such measures will significantly delay recovery across several employment sectors.
- ▶ Employment data points to a partial recovery, but New York State continued to record high levels of initial unemployment claims. For the 10 weeks ending on Dec. 12, the weekly average for jobless claims was north of 50,000. By comparison, the state's 2019 weekly average was 15,845.

### New York Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
50	Information	249	3.9%
30	Manufacturing	181	2.8%
55	Financial Activities	609	9.5%
15	Mining, Logging and Construction	251	3.9%
90	Government	884	13.8%
80	Other Services	261	4.1%
65	Education and Health Services	1433	22.4%
40	Trade, Transportation and Utilities	1062	16.6%
60	Professional and Business Services	1060	16.6%
70	Leisure and Hospitality	412	6.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Brooklyn's population contracted by almost 23,000 residents in 2019—down 0.9%.
- ▶ Between 2010 and 2019, Kings County added 50,025 residents, representing a 2.0% increase and staying significantly below the 6.1% national figure.

### Brooklyn vs. National Population

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

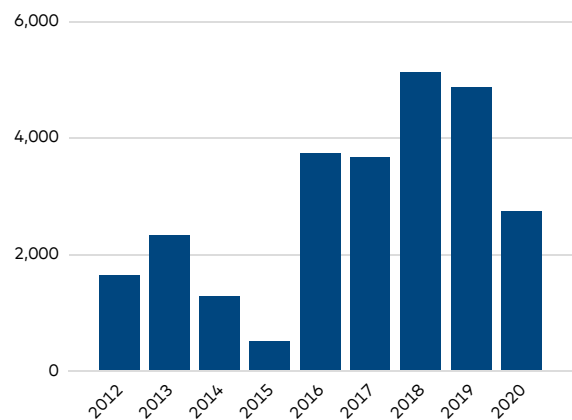
Sources: U.S. Census, Moody's Analytics

## SUPPLY

- ▶ Developers were working on a total of 10,892 units across Brooklyn as of November, equal to 1.9% of existing stock. More than 4,500 of the units underway are slated for delivery as early as the end of 2021. Depending on how economic volatility unfolds this year, some completion dates could be pushed into 2022, when some 3,500 apartments are expected to come online. Additionally, almost 30,000 units were in the planning and permitting stages across Brooklyn as of November.
- ▶ With New York at the epicenter of the pandemic in the first few months of the outbreak, all nonessential development activity was halted during the state's stay-at-home order. Deliveries dropped 31.6% to 2,750 units in 2020 through November compared to the same period of 2019. In Greenpoint, two communities came online—totaling 522 units—equal to 19.8% of the submarket's inventory. Additionally, 1,500 units were under construction in the submarket as of November, representing more than half of its stock.
- ▶ In Prospect Heights, developers were working on more than 1,800 apartments, including the largest project underway—Greenland USA's

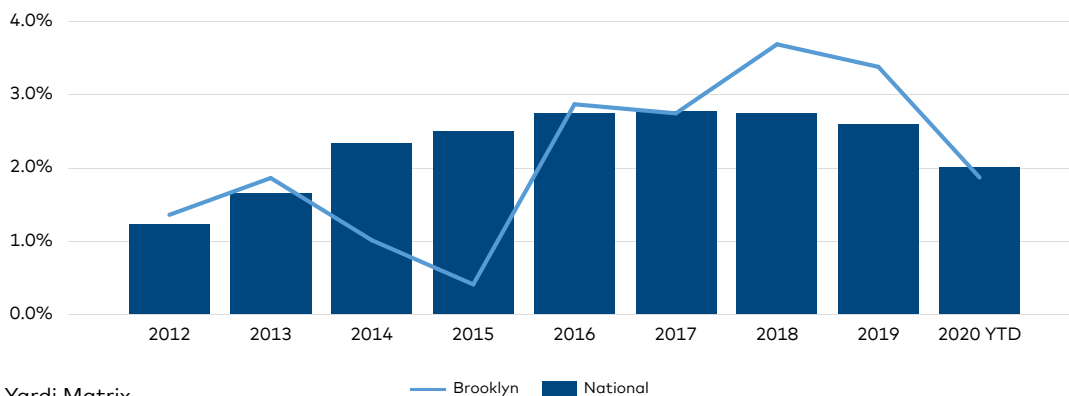
858-unit Pacific Park-B4 Tower. At full build-out, the three upcoming communities will triple the submarket's inventory. Greenland is also developing the B5 building of Pacific Park, with an additional four communities totaling 2,423 units in the planning and permitting stages as of November.

**Brooklyn Completions** (as of November 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

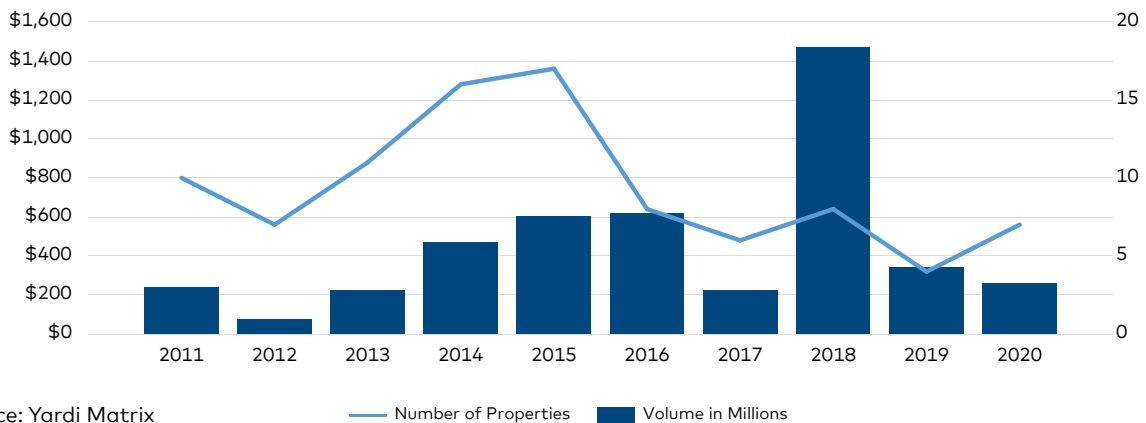
## TRANSACTIONS

- ▶ Investment volume for assets of more than 50 units totaled \$259 million in Brooklyn over the first 11 months of 2020. In line with national trends, the metro saw a decline of almost 25% in its total sales volume when compared to 2019's \$342.7 million through the same interval.
- ▶ After it almost tripled to \$537,188 in 2019, the metro's average per-unit price dropped sharply to \$109,460—the lowest level in a decade. The decline was due to deal composition. Of the

seven properties of 50-plus units that traded in 2020 through November, six were in the Renter-by-Necessity category, while only one was a Lifestyle asset. In 2019, three of the four assets sold were in the Lifestyle segment.

- ▶ As investors targeted value-add opportunities, transactions were concentrated in submarkets consisting primarily of communities completed more than three decades ago, such as East Flatbush and East New York.

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



Source: Yardi Matrix

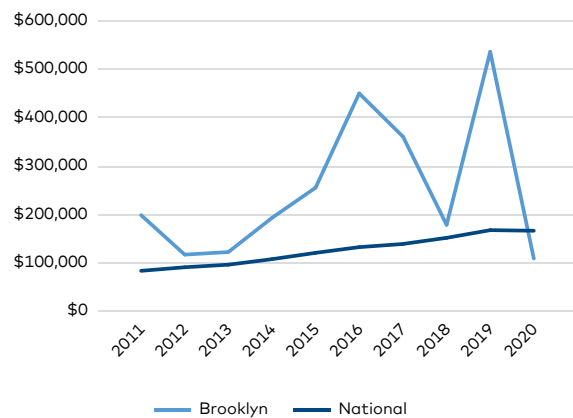
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Williamsburg	138
East Flatbush	45
East New York	35
Gravesend	21
Bath Beach	20

Source: Yardi Matrix

<sup>1</sup> From December 2019 to November 2020

### Brooklyn vs. National Sales Price per Unit



Source: Yardi Matrix



## The Need for Affordable Housing Continues to Pressure NYC

By Evelyn Jozsa

Since the pandemic began, the city has focused on advancing affordable housing projects and has recently announced the acceleration of capital funding within the city's affordable housing plan. Habitat for Humanity New York City's CEO Karen Haycox and The Arker Cos. Principal Daniel Moritz talk about the state of the metro's affordable housing segment and provide insights on strategies that developers can adapt to help in battling the city's housing crisis.

*What does the acceleration of capital funding mean for the metro's affordable housing market?*

Moritz: This is critical and we are greatly appreciative of the restoration of significant affordable housing capital dollars. We can't build affordable housing fast enough and as the economy begins to recover in 2021, the city should be doubling down on its investment in affordable housing to help spur job creation.

*How has the current crisis impacted your business strategies?*

Moritz: Over the past few years, we have focused on large multi-phased developments that can help shape new neighborhoods, where there is a dearth of affordable housing and economic activity.

Haycox: The pandemic has encouraged us to look to alternative methodologies to achieve the stability offered by homeownership. We are exploring 15-year preservation-conversion models that would provide a pathway



Daniel Moritz (left) and Karen Haycox (right)

from tenancy to homeownership when a LIHTC building or other expiring project needs intervention to remain affordable.

*How has the pandemic impacted your projects and timelines?*

Moritz: It has definitely delayed our projects in predevelopment. Additionally, we've seen construction delays on all our ongoing projects, due to COVID-19 related restrictions, though we've implemented strict safety requirements, and have been able to work as well as possible.

Haycox: It can be summarized in one word: delays. Like our for-prof-

it colleagues, we invest significant capital in our projects—readying them for construction—so delays have a significant financial impact on nonprofit developers like Habitat for Humanity.

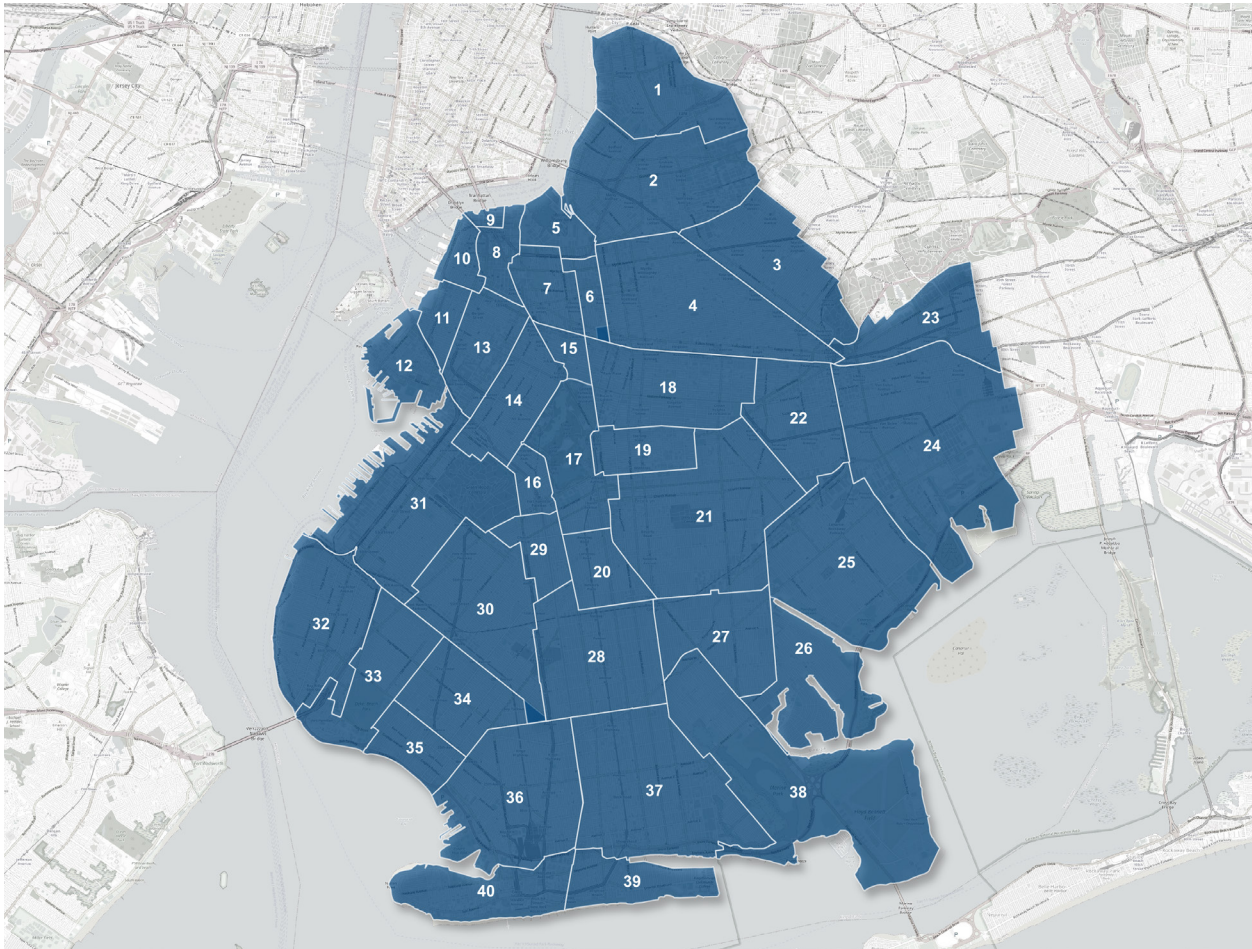
*What are your predictions for NYC's affordable housing market in 2021 and beyond?*

Haycox: We see this as a potentially once-in-a-generation opportunity for New York City and their mission-minded affordable housing development partners to focus on true long-term affordable housing strategies for their vulnerable citizenry.

Moritz: The demand for affordable housing is unprecedented and will be even more so after the pandemic. New York City needs to continue production into the next mayoral regime with even more urgency.

*(Read the complete interview on [multihousingnews.com](http://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 November 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 November 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, November 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.

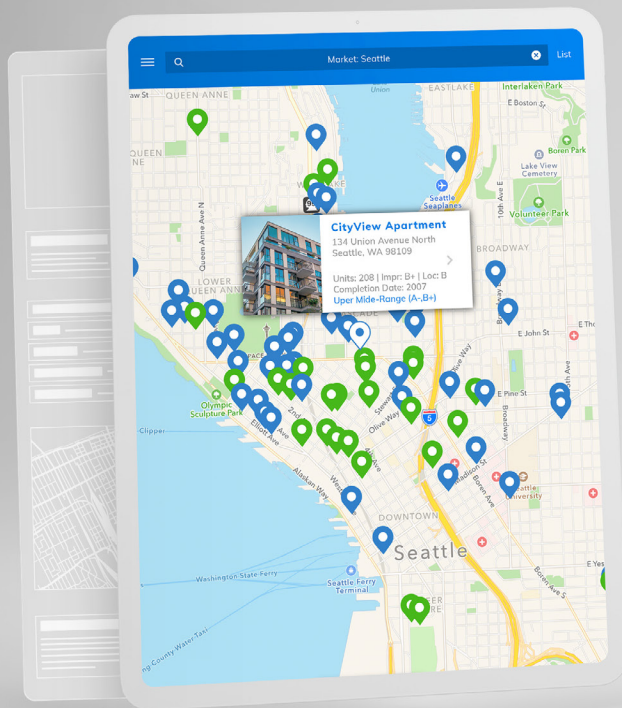
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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