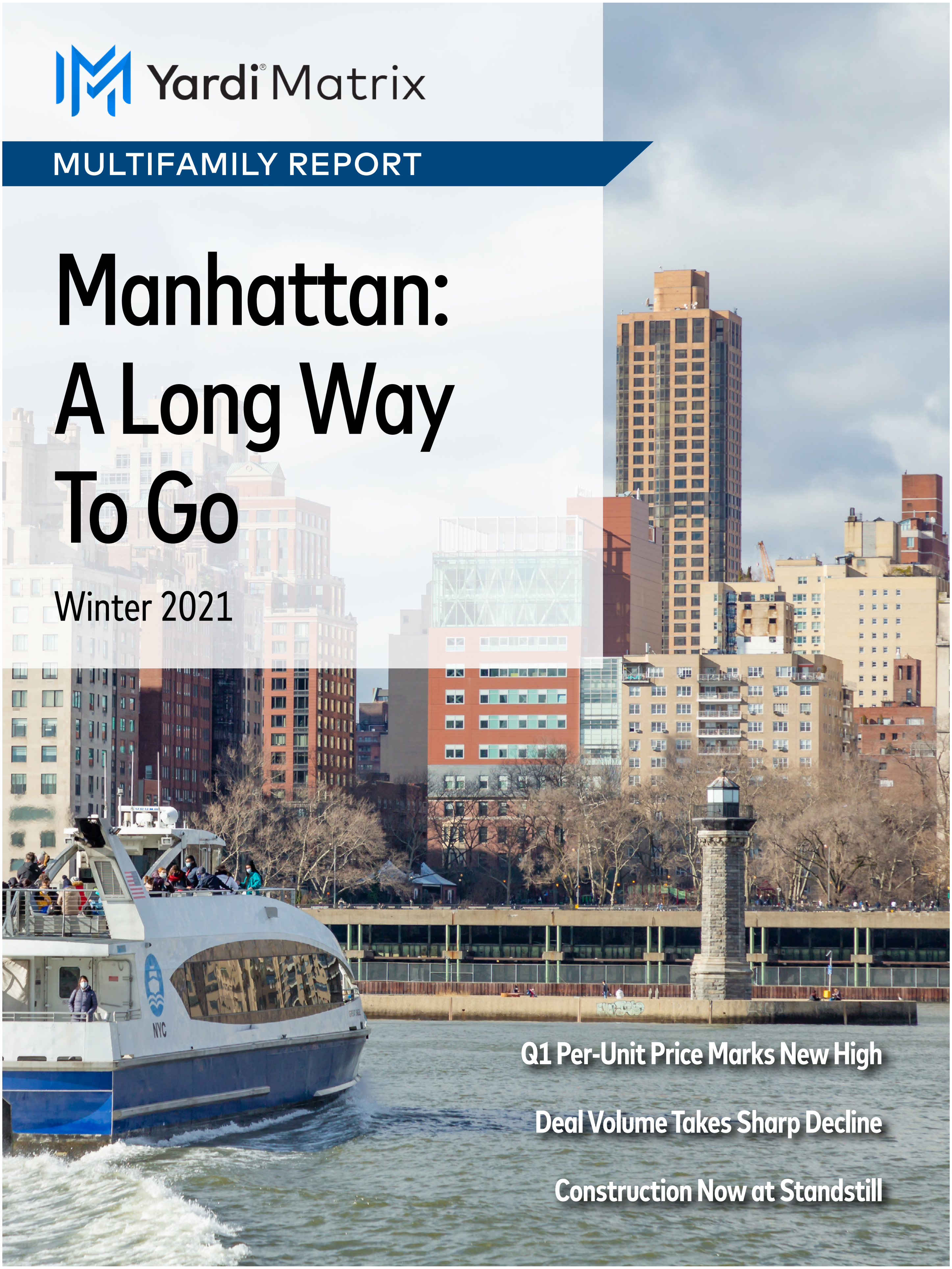
MULTIFAMILY REPORT

Manhattan: A Long Way To Go

Winter 2021



Q1 Per-Unit Price Marks New High

Deal Volume Takes Sharp Decline

Construction Now at Standstill

MANHATTAN MULTIFAMILY

Yardi Matrix

A Lengthy Recovery Projected for the Metro

New York City, a global nexus of finance, culture and entertainment, had been the scene of sustained economic expansion over the past decade—until the pandemic hampered the city's growth spurt. The impacts of COVID-19 are expected to have lasting implications—Moody's Analytics predicts the economic hardship will stretch well into 2025. Lockdown measures, widespread job losses and the exodus of some 300,000 residents from the city—beginning last March—has left a mark on multifamily fundamentals. Manhattan rents were down 1.6% to $3,758 on a trailing three-month basis as of November, but still well above the $1,465 U.S. average.

As of October, unemployment stood at 13.2% in New York City, down 70 basis points from September but almost double the October national rate. More than 1 million New Yorkers were unemployed as of late October, with local businesses severely hit. As of mid-November, small-business revenue in Manhattan declined 68%, according to an analysis by New York City Comptroller Scott Stringer.

Manhattan had 5,915 units underway as of November, with 94% of those aimed at high-income renters. The bulk of the pipeline (81%) is expected to deliver over the next two years. Some $629 million traded in 2020 through November, for a 77% drop compared to the same interval in 2019. The decline pushed 2020's sales volume, as of November, below the decade's low point of 2010 ($790 million).

Market Analysis | Winter 2021

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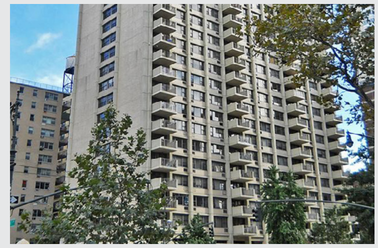
Recent Manhattan Transactions

Tower West

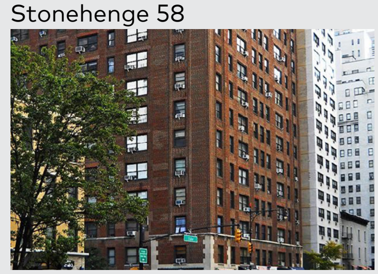


City: New York City
Buyer: Jonathan Rose Cos.
Purchase Price: $94 MM
Price per Unit: $919,965

The Allen House

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

Stonehenge 58



City: New York City
Buyer: A&E Real Estate Holdings
Purchase Price: $62 MM
Price per Unit: $496,000

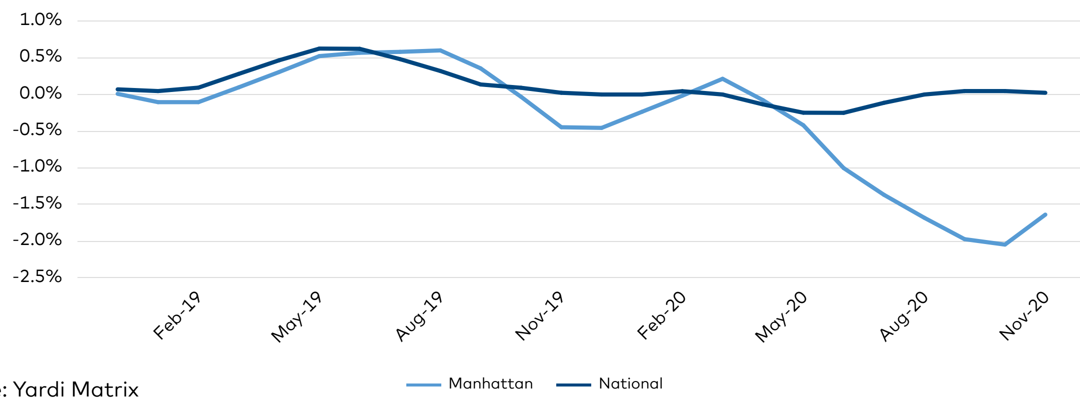
185 Claremont Avenue

City: New York City
Buyer: Prana Investments
Purchase Price: $16 MM
Price per Unit: $254,839

RENT TRENDS

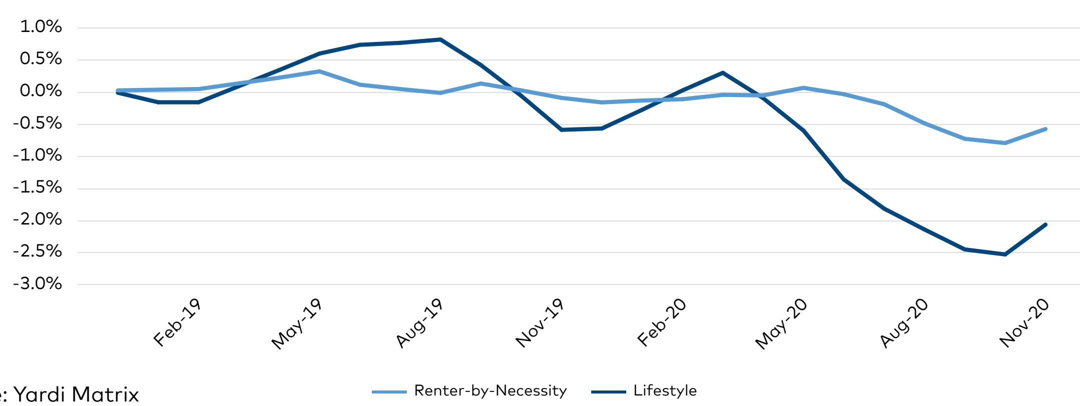
- Rents in Manhattan were down 1.6% on a trailing three-month (T3) basis as of November, while the U.S. figure remained flat. The borough's average stood at $3,758, well above the $1,465 national figure. Rent evolution varied across the quality spectrum, with rates in the working-class Renter-by-Necessity segment down 0.6% on a T3 basis, to $3,280, while Lifestyle prices declined 2.1% to $3,996. Year-over-year, Manhattan rents declined 10.2% as of November.
- Rents have been on a declining trajectory since April (-0.4%) through October (-1.6%). But according to a report from Douglas Elliman and Miller Samuel, new leases were up 30% in the same month, making it the best November in 12 years and marking a tipping point, as low rates and incentives are slowly drawing renters back. Even so, there were more than 15,000 unrented apartments in November, with the overall vacancy rate exceeding 6%, the same report stated.
- The steepest rent declines were in the Financial District (-19.2% to $3,295) and Murray Hill (-17.8% to $2,293). Rents in Tribeca—the most expensive submarket—slid 11.6% to $5,347.
- In October, Gov. Andrew Cuomo extended the state's eviction moratorium through Jan. 1, 2021. As of December, some $40 million in rental assistance—of the $100 million in coronavirus relief funding—was expected to be paid to roughly 15,000 New York households, with $60 million of rent relief to be distributed by Dec. 30, 2020.

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 October, unemployment stood at 13.2% in New York City, down 70 basis points over September and well above the October national rate of 6.9%, according to the Bureau of Labor Statistics. While unemployment in the city peaked at 20.4% in June and has gradually improved since, New York City is still reeling from the impacts of COVID-19, as the number of new confirmed cases has been on the rise in recent weeks.

- In the 12 months ending in September, New York City lost a combined 834,500 jobs, with leisure and hospitality bearing the weight of the economic fallout—down 298,800 positions (-42%)—followed by professional and business services (-131,800) and trade, transportation and utilities (-123,900).

- The number of initial unemployment claims had climbed as of the week ending Nov. 21, with New Yorkers filing 1,266 more claims compared to the previous week, according to the New York City Recovery Index. The uptick came after several weeks of a continued decline in initial weekly unemployment claims—a trend that began in late September.

- As of October, employment in the city was still down nearly 600,000 jobs from a year before, according to the Bureau of Labor Statistics.

New York Employment Share by Sector

		Current Employment	
Code	Employment Sector	(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

- Manhattan gained nearly 40,000 residents over the past decade, for a 2.5% uptick, well below the 6.1% national share.

- Mostly fueled by immigration, population growth started to moderate in 2013, with net outflows from the borough offsetting expansion.

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

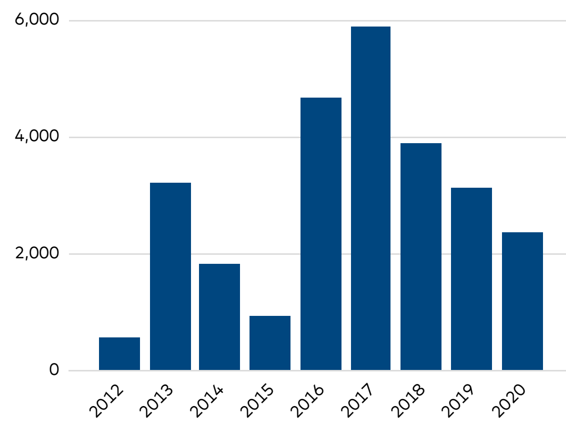
- Manhattan had 5,915 units under construction as of November, with the vast majority of those (94%) aimed at high-income earners. With only two properties slated for completion by year-end, the bulk of the underway pipeline (81%) is expected to come online over the next two years. Some 25,000 units were in the planning and permitting stages as of November.

- Developers completed 2,373 units in Manhattan year-to-date through November, equal to 0.7% of total stock and 130 basis points below the U.S. figure. The bulk (73%) of newly delivered product was in the Lifestyle segment. Since 2011, developers have added an average of 3,000 apartments per year to Manhattan's inventory, with deliveries peaking at 5,893 in 2017.

- Developers broke ground on some 940 units across four properties this year through November. Construction starts in 2020 were 54% below the figure during the same time frame in 2019, when developers broke ground on a total of 2,043 units across eight properties. Although the impacts of COVID-19 are still ongoing in New York City, the New York Building Congress expects residential construction spending to reach $17.8 billion this year, declining from 2019's peak of $19.7 billion. According to the congress' 2020-2022 outlook report, the city's construction industry is well positioned for recovery.

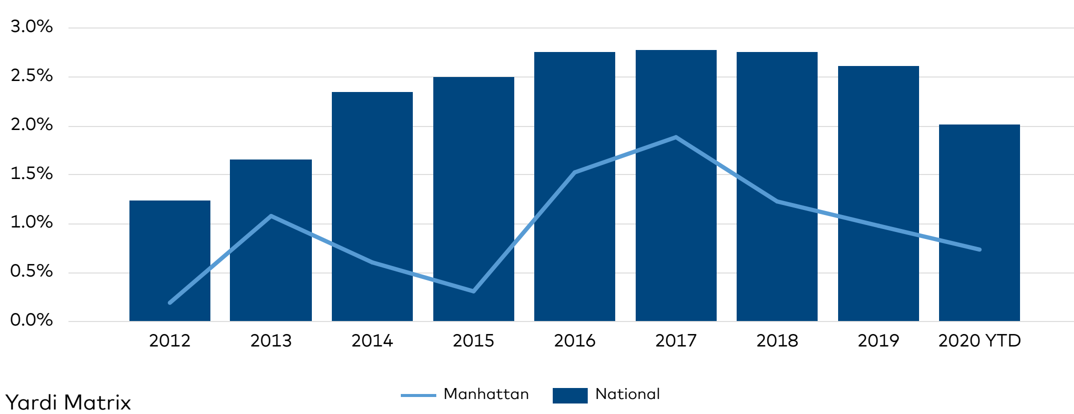
- Chelsea led development as of November, with 1,320 units underway, equal to 56% of the total pipeline. East Harlem (998 units) and Harlem (748 units) rounded out the Top 3.

Manhattan Completions (as of November 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

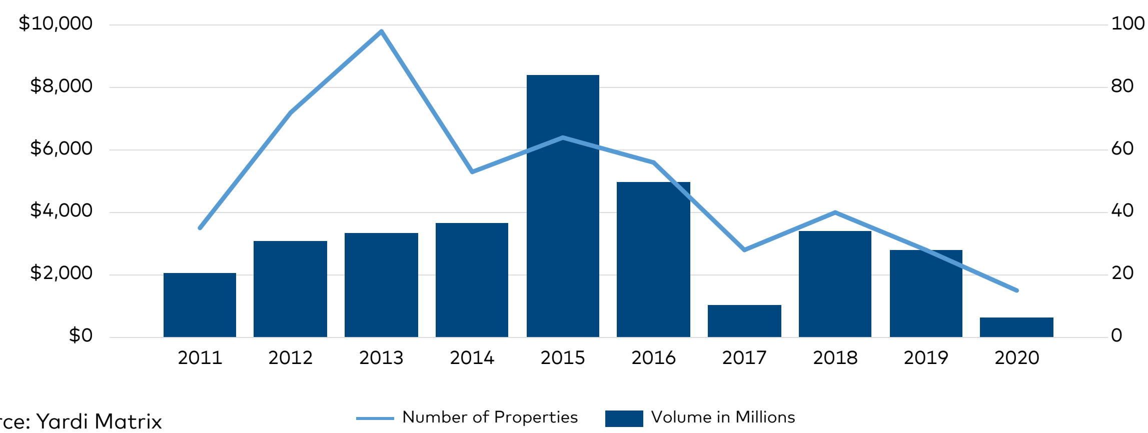
TRANSACTIONS

- Some $629 million traded in 2020 through November—a 77% decline compared to the same interval in 2019. The steep drop in deal flow pushed this year's sales volume below the decade's low point, marking a 20% drop-off compared to 2010 levels ($790 million).

- The number of units sold year-to-date (1,615) was just slightly under 2019's count—1,762. The bulk of investment sales (87%) closed in the first quarter of the year, prior to pandemic-driven impediments. While the coronavirus outbreak enhanced investors' interest in RBN assets, the trend was already evident before COVID-19. Throughout the year, buyers predominantly targeted the segment—of the 15 properties sold through November, 11 were RBN communities.

- A&E Real Estate Holdings' $62 million acquisition of the 125-unit Stonehenge 58 in Midtown East marked Manhattan's largest deal of the third quarter. SL Green sold the asset in September.

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



Source: Yardi Matrix

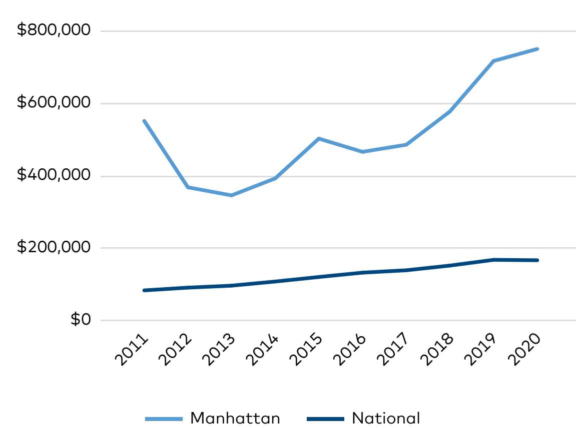
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
NoMad	381
Midtown East	128
Upper West Side	94
Morningside Heights	16
Hudson Heights	10

Source: Yardi Matrix

[1] From December 2019 to November 2020

Manhattan vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

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 its 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 can you tell us about the current dynamics of New York City's multifamily market?

Haycox: With the passage of New York State rent regulatory reforms and changes to the economic landscape of the city brought on by the pandemic, there is renewed interest in tenant opportunity to purchase legislation. When paired with appropriately sized capital investments, this could lead to a renaissance in the affordable homeownership space that Habitat NYC is well poised to help lead.

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.

Daniel Moritz *(left)* and Karen Haycox *(right)*

How has the current crisis impacted your business strategies?

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

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.

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

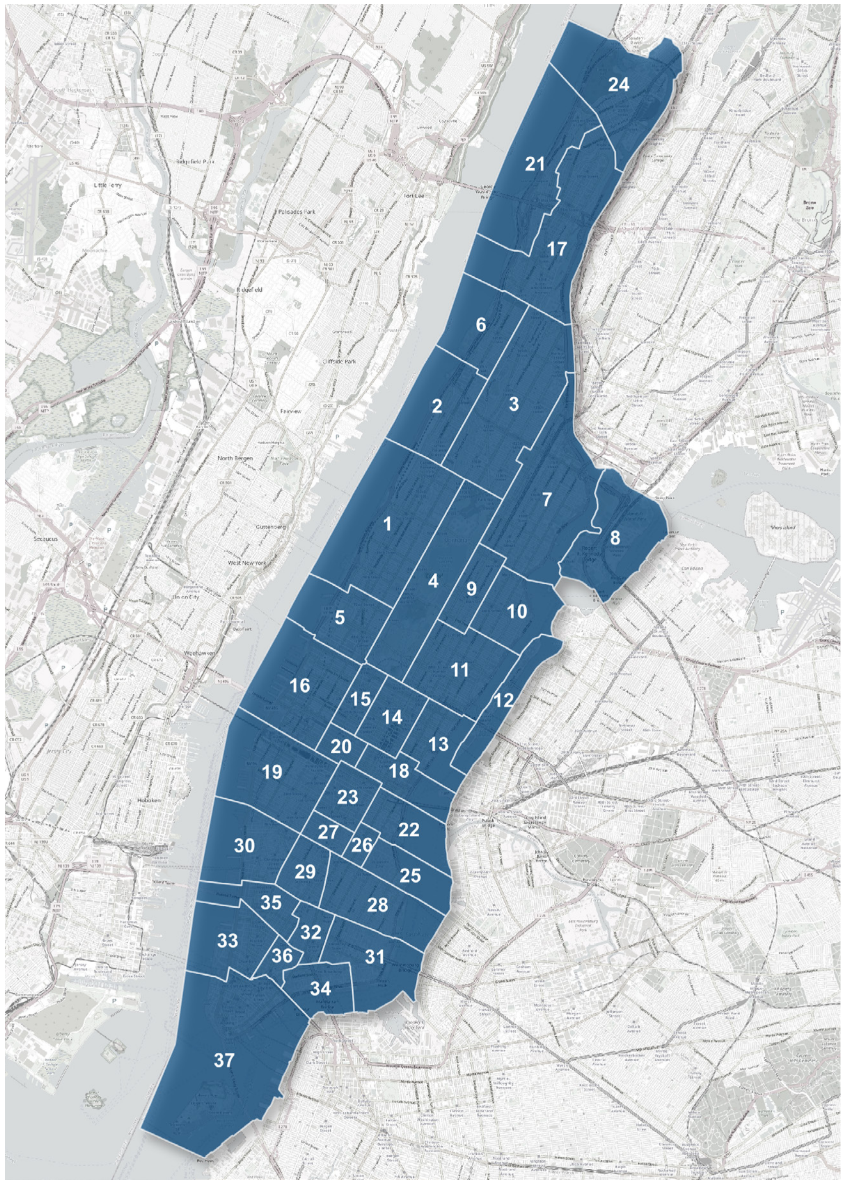
Haycox: We see this as a potentially once-in-a-generation opportunity for New York City and their mission-minded affordable housing development partners to focus on true long-term affordable housing strategies for their vulnerable citizenry. It is more important than ever before to secure existing multifamily housing structures, or other market-rate buildings to be repurposed to house New York City's workforce, preserving a place at the table for more diverse populations.

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.)

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 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.

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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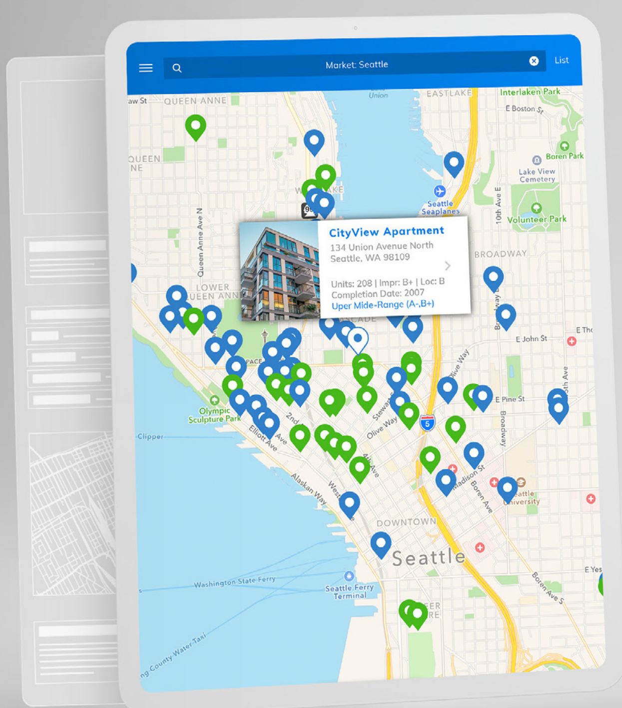

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