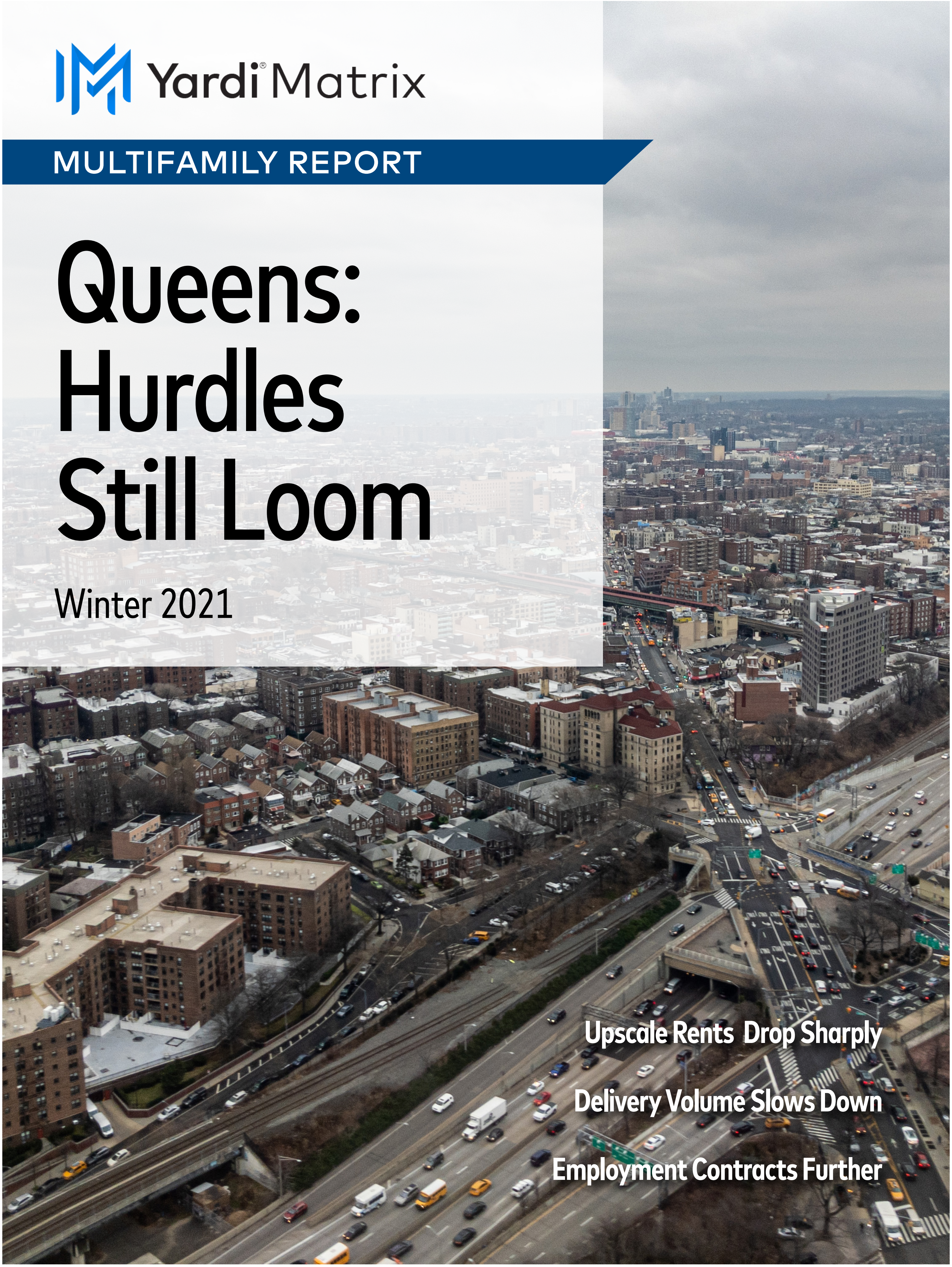
Yardi Matrix

MULTIFAMILY REPORT

Queens: Hurdles Still Loom

Winter 2021



Upscale Rents Drop Sharply

Delivery Volume Slows Down

Employment Contracts Further

Yardi Matrix

Market Takes Hit, Eyes Recovery

New York continues to endure the impact of COVID-19 and the ensuing economic disruption. Multifamily fundamentals have not gone unscathed—the average Queens rate was down 1.1% to $2,439 on a trailing three-month basis as of November, mostly due to sharp drops in upscale rents. Meanwhile, occupancy in stabilized properties was down 60 basis points in 12 months, to 98.4% as of October.

Queens unemployment stood at 13.1% as of October, almost on par with the New York City rate (13.0%), but much higher than the 6.9% national average. With local businesses deeply affected, more than 1 million New Yorkers were unemployed as of late October. Based on an analysis by New York City Comptroller Scott Stringer, small business revenue in Queens had declined by 35% as of mid-November. However, the end of 2020 also brought positive news, with the first coronavirus vaccine in the U.S. being administered in Queens on Dec. 14. Shortly after, Congress passed a $900 billion relief package, which should provide an economic boost, at least in the short to medium term.

Queens had 8,358 rental units under construction as of November, two-thirds of which are aimed at high-income renters. The bulk of the pipeline (92%) is slated to deliver over the next two years. Meanwhile, an already slowing market took another hit due to lingering volatility, with transactions further slowing in 2020.

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: The Parkoff Organization
Purchase Price: $22 MM
Price per Unit: $211,905

Market Analysis | Winter 2021

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RENT TRENDS

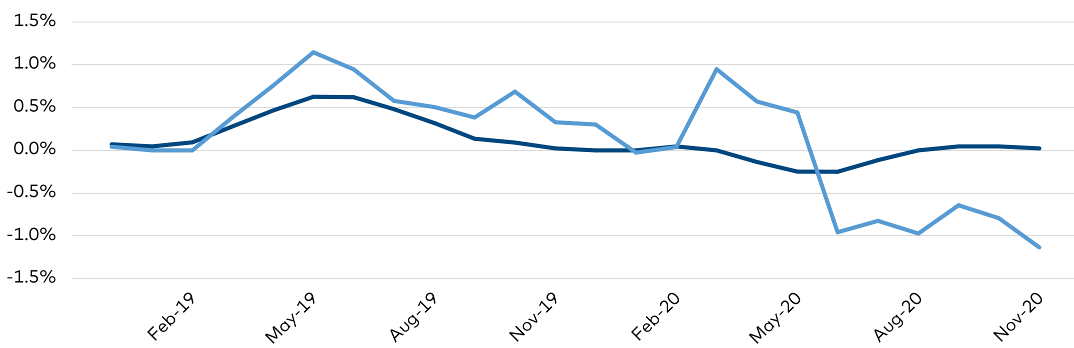
- Queens rents were down 1.1% on a trailing three-month (T3) basis as of November, while the U.S. figure remained flat. The borough's average stood at $2,439, well above the $1,465 national rate and just below the $2,984 Brooklyn average. Prices started to decline in May—when the more profound effects of the pandemic began to sink in—following 15 months of growth. Year-over-year, rates fell 4.8% as of November.

- Rates in the working-class Renter-by-Necessity segment were down only 0.1% on a T3 basis, to $2,075. Meanwhile, Lifestyle rents fell 2.2% to $2,995. Rates in the Lifestyle segment have been on a downward trajectory since June, in contrast with RBN gains, which remained positive in 2020 through October.

- Astoria (7.6% to $2,720) led rent growth in the 12 months ending in November, followed by Elmhurst (1.0% to $2,063) and Rockaway (0.9% to $2,327). Rents in Long Island City—the priciest submarket—saw the steepest decline (-12.8% to $3,054).

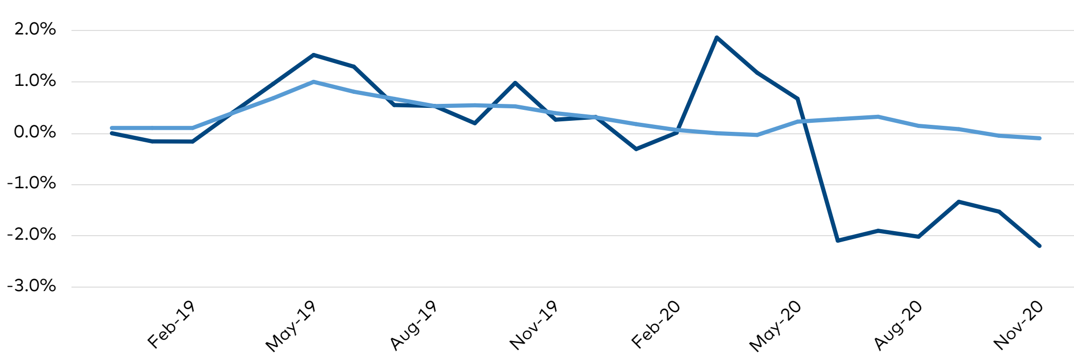
- As of early December, roughly 15,000 New York households hit hard by the pandemic were expected to receive some $40 million in rental relief from the coronavirus aid bill, with an additional $60 million to be distributed by Dec. 30, 2020. The metro is expected to receive additional funds as part of the $25 billion in rental assistance included in the $900 billion relief package passed by Congress in December.

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 unemployment stood at 13.0% as of October, down 90 basis points in a month but still well above the 6.9% national rate. As of October, the unemployment rate in Queens was almost on par with the city—at 13.1%—based on data from the New York State Department of Labor.

- In the 12 months ending in September, New York City employment contracted by a combined 843,500 jobs. Widespread losses impacted all sectors, with leisure and hospitality bearing the brunt of COVID-19—as of September, the had sector lost 298,900 positions, down 42%. Professional and business services shed 131,800 jobs, followed by trade, transportation and utilities (-123,900).

- Mirroring national trends, employment growth in the city turned negative in April. Year-over-year contractions dropped to double digits in July (-11.3%) and reached -15.3% in September. As of the week ending Nov. 28, the number of initial unemployment claims had increased for the second consecutive week—nearly double the national rate—according to the New York City Recovery Index, reversing the downward trend that began in September. Compared to the previous week, New Yorkers had filed 2,429 more unemployment insurance claims.

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

- Queens added some 19,000 residents in the past decade, for a 0.9% uptick—well below the 6.1% national rate.

- Population growth—driven mainly by immigration—has fluctuated in the borough, but a drop in domestic migration has led to a gradual decline in residents over the past four years.

Queens vs. National Population

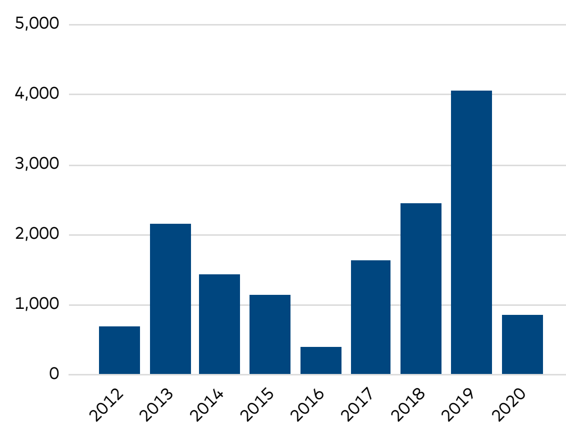
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Queens Metro	2,309,032	2,296,865	2,278,906	2,253,858

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

SUPPLY

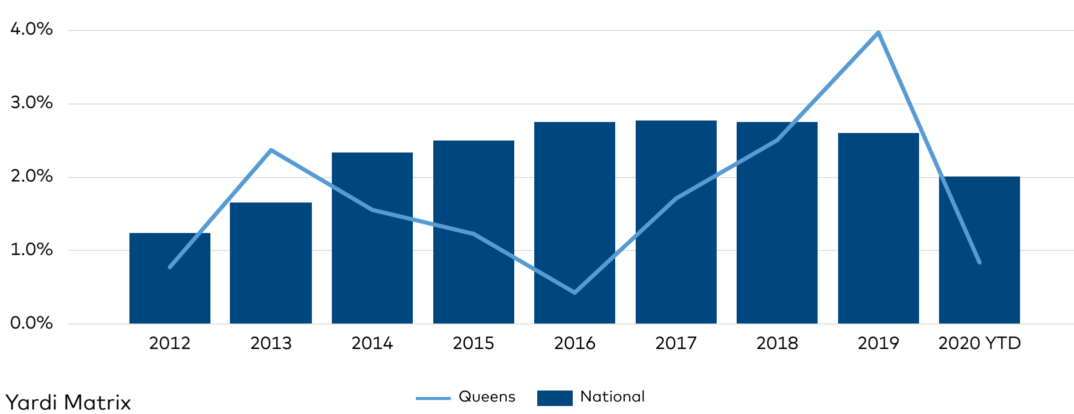
- Queens had 8,358 units under construction as of November, with two-thirds of the pipeline aimed at high-income renters; the remaining units are in fully affordable developments. The majority of underway apartments (92%) are slated to come online over the next two years. Some 41,500 units were in the planning and permitting stages as of November, including a planned 29-acre Flushing development with 1,725 apartments and a proposed $2 billion mixed-use project in Astoria set to include some 2,700 units.
- In 2020 through November, developers completed 866 units, equal to 0.8% of total inventory and 120 basis points below the U.S. figure. The bulk (85%) of newly completed product was in the Lifestyle segment. The year's deliveries were well below the cycle high of 2019 (4,059 units), but more than double the decade's 2016 low point, when 404 units were added to stock.
- Developers broke ground on more than 1,600 units across six communities in 2020 through November. Constructions starts in 2020 were 53% below the total during the same period in 2019, when developers broke ground on 3,468 apartments across nine properties. The largest project to break ground in 2020 was Cape Advisors and The Pioneer Group's 500-unit Waterfront Residential Complex in Astoria. The partnership secured $280 million in construction debt and joint venture equity in July.
- Long Island City led development as of November with 3,555 units underway, equal to 43% of the pipeline. Jamaica (2,325 units) and Rockaway (1,141 units) rounded out the Top 3.

Queens Completions (as of November 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

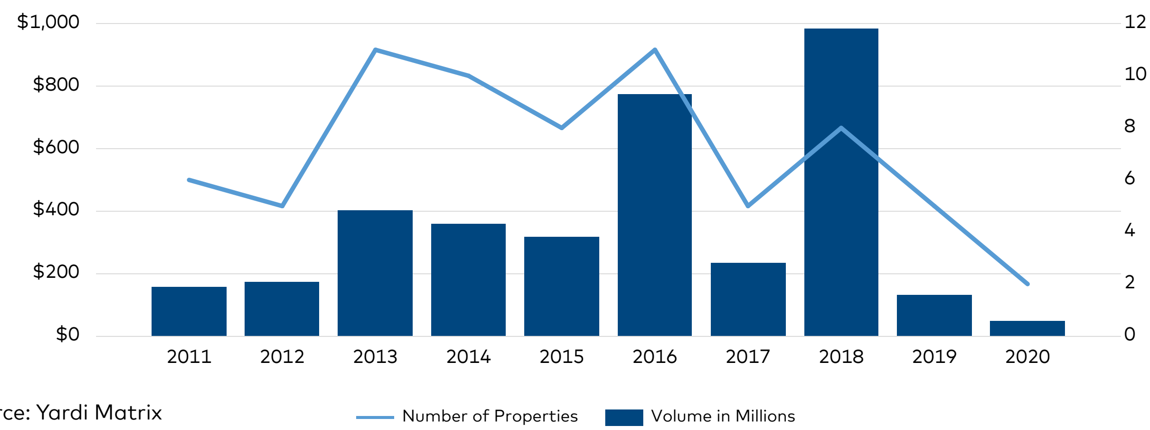
TRANSACTIONS

- Investor interest for larger multifamily assets in Queens was sluggish in 2020 through November. Only two properties with more than 50 units traded in the first 11 months of the year for a total of $49 million, marking a 63% decline compared to the same period in 2019. Both assets were in the Renter-by-Necessity segment.

- After transaction volume peaked at $984 million in 2018, deal velocity subsequently lost steam, totaling some $132 million in 2019. The pandemic, coupled with the anticipation typical of an election year, further inhibited the already-softening sales trend.

- As of November, the per-unit price in Queens stood at $224,654, significantly above the $167,022 national figure. Since 2011, the borough has sustained a positive growth trend. The average price per unit in Queens has consistently surpassed the U.S. figure, peaking at $328,069 in 2018.

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



Source: Yardi Matrix

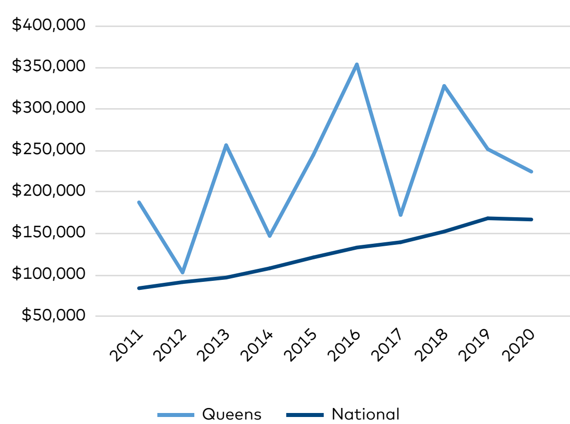
Top Submarkets for Transaction Volume[1]

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

Source: Yardi Matrix

[1] From December 2019 to November 2020

Queens vs. National Sales Price per Unit



Source: Yardi Matrix

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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 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.

Haycox: We are thrilled that the calls from the affordable housing community were heeded and the mayor took measures to partially restore the capital funding previously cut. This means that thousands of previously delayed affordable homes may get funded in the months to come.


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.

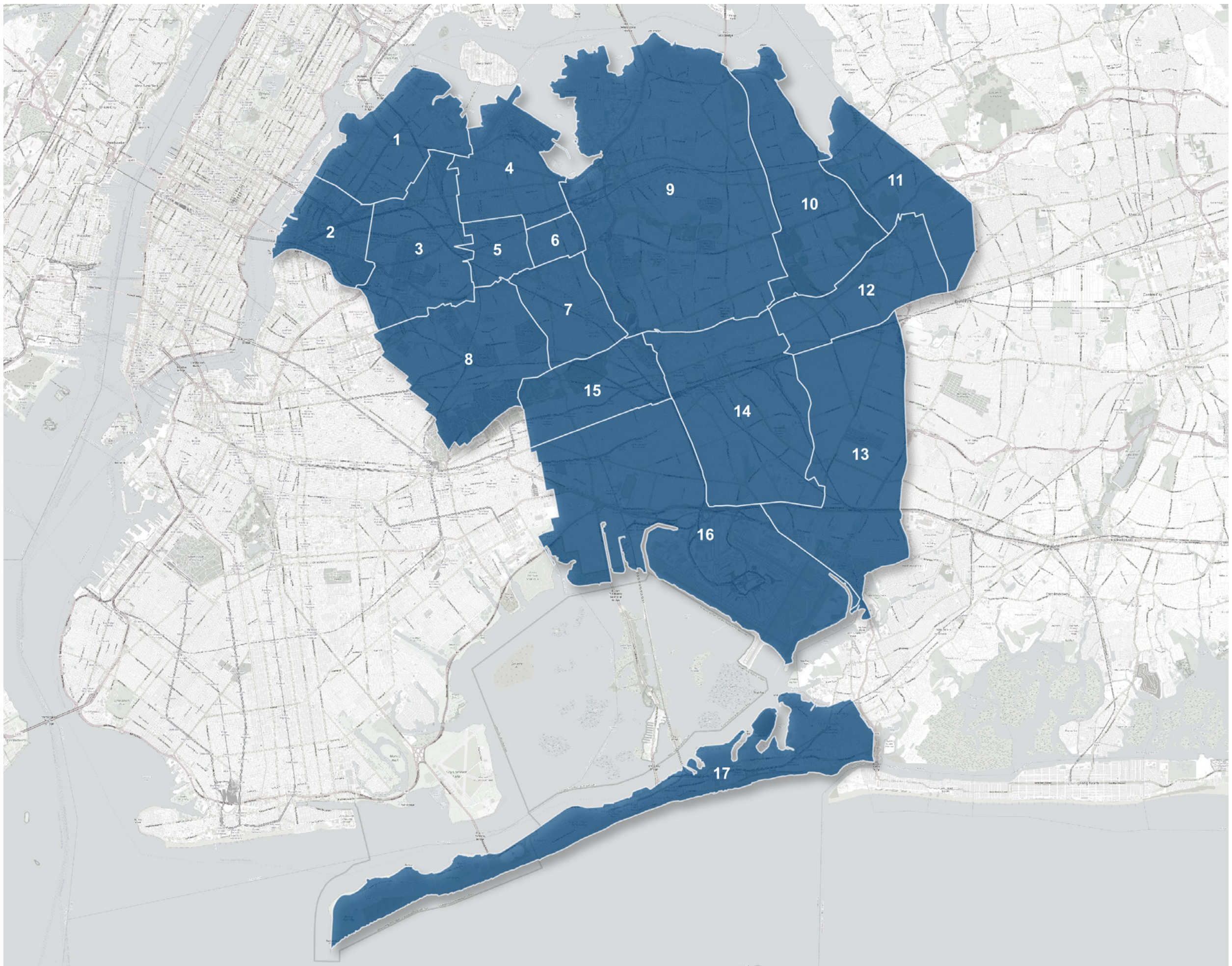
What are your predictions for NYC's affordable housing market in 2021 and beyond?

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.

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.)

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 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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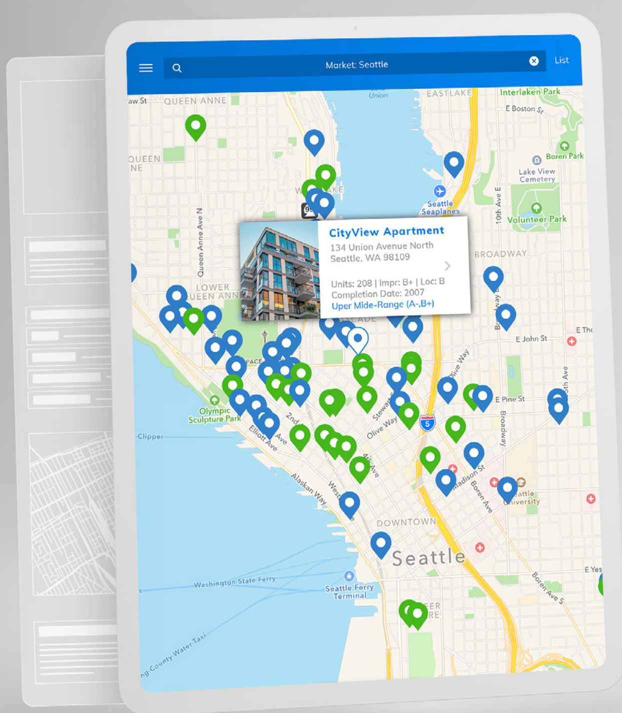

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