



MULTIFAMILY REPORT

Brighter Days Ahead For Brooklyn

Spring 2021

Rents Return to Positive Territory

Prospect Heights Sees Rapid Growth

Investors Target Value-Add Communities

BROOKLYN MULTIFAMILY



Recovery on the Horizon, Even as Hardships Go On

Like most coastal markets, the beginning of the pandemic translated into sharp rent declines across New York City boroughs. Rent development, however, started gaining ground after hitting bottom in October 2020. As of March, Brooklyn rents were up 0.3% on a trailing three-month (T3) basis, with the average at \$2,637. Year-over-year, Brooklyn rates were still down 10.5% as of March, but recent activity points to more steady improvement. Meanwhile, occupancy in stabilized communities dropped 100 basis points over 12 months, to 97.8% as of February.

New York City employment contracted by more than 750,000 positions last year, representing an 11.4% drop, with all sectors losing jobs. As with most U.S. metros, coronavirus restrictions and anxiety resulted in sharp declines for the leisure and hospitality sector, which shed nearly 300,000 positions. Meanwhile, the unemployment rate for the New York City MSA hovered close to the 10% mark for the better part of the past six months.

The number of completed units in the 12 months ending in March dropped 35.3% to 2,914 from the previous 12 months, marking a four-year low. Going forward, rent expansion remains the silver lining, with this year slated to erase some of the contractions caused by the health crisis: Yardi Matrix expects the overall average New York City rent to advance 2.2% in 2021.

Market Analysis | Spring 2021

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(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

Razvan Cimpean

Senior Associate Editor

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Recent Brooklyn Transactions

Spring Creek Gardens



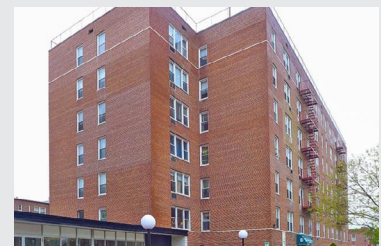
City: New York City
Buyer: K&R Preservation
Purchase Price: \$35 MM
Price per Unit: \$60,328

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

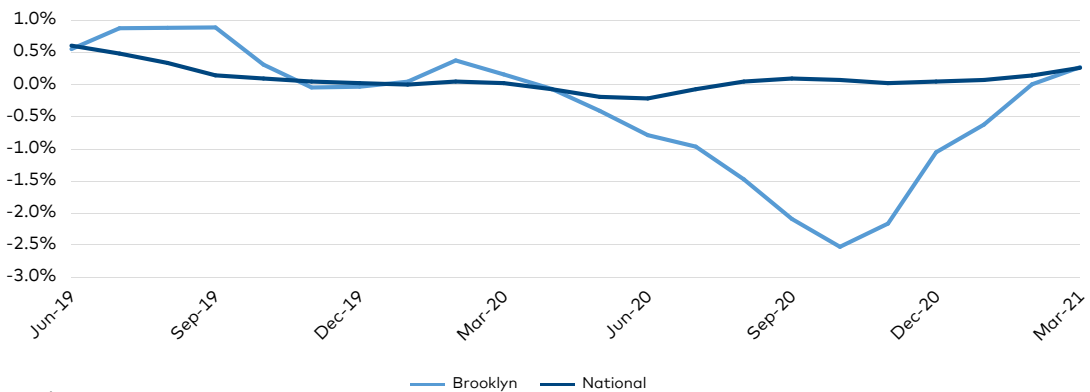


City: New York City
Buyer: The Parkoff Organization
Purchase Price: \$20 MM
Price per Unit: \$162,602

RENT TRENDS

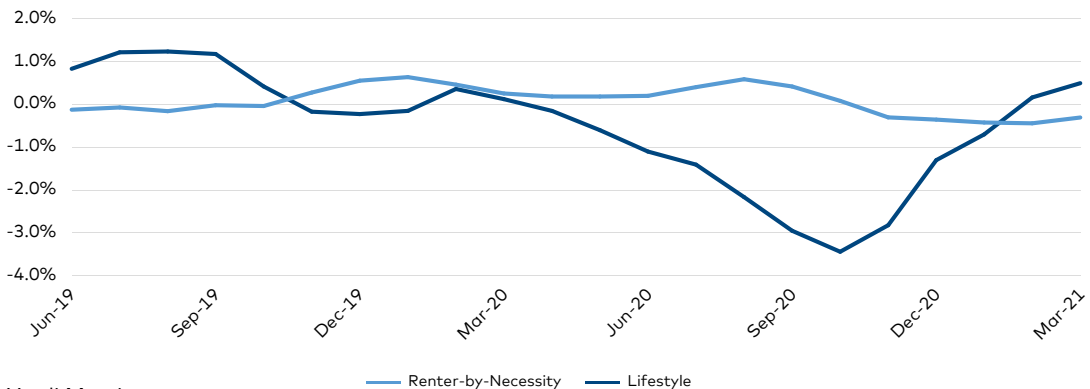
- ▶ The average Brooklyn rent rose 0.3% to \$2,637 on a trailing three-month (T3) basis through March, on par with the U.S. rate. The borough's rate remained well above the \$1,407 national average. Year-over-year, Brooklyn rates were down 10.5% as of March, but the last two quarters point to more steady improvement.
- ▶ At the onset of the pandemic, higher quality Brooklyn communities in expensive gateways were hit hardest, but these are now on the mend. Case in point, the average Lifestyle rate in Brooklyn increased 0.5% in the first quarter of 2021, to \$3,037. Meanwhile, the average working-class Renter-by-Necessity rate was down 0.3%, to \$1,957.
- ▶ As its inventory consists almost exclusively of fully affordable units, rents in the Canarsie submarket rose 0.1% year-over-year through March to \$2,049. In the first months of the COVID-19 crisis, rates in workforce and affordable communities remained relatively untouched.
- ▶ Meanwhile, the bulk of submarkets reported year-over-year declines, with six of them recording double-digit nosedives. In Prospect-Lefferts Gardens, rates were down 20.5% to 2,310, followed by an 18.9% decrease in Fort Greene, to \$2,713. However, eight submarkets recorded small downturns, ranging from 0.1% to 0.3%, especially—but not exclusively—those with a predominantly working-class rental stock.

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 772,600 positions in 2020, marking an 11.4% decrease, well behind the 6.8% national drop. And while the unemployment rate improved significantly after reaching a record 18.3% in June, it stood at 10.7% in January, a 690-basis-point spike year-over-year and 410 basis points above the U.S. figure.
- ▶ All employment sectors contracted last year, with leisure and hospitality down 42.2%, or more than 290,000 jobs, as the number of confirmed coronavirus cases in New York City rose considerably at the beginning of 2021. Gov. Andrew Cuomo lifted a series of restrictions on April 5, including an 11 p.m. curfew for movie theaters

and gyms, while amusement parks could reopen at 33% capacity starting April 9. Meanwhile, losses for other sectors ranged from 14.8% for other services to 1.6% for information.

- ▶ Like most local economies, Brooklyn's recovery depends, in the longer run, on the race between infection rates and the vaccine rollout. As of mid-April, 41% of New York State residents had received at least one shot, with 1 in 4 being fully vaccinated. Meanwhile, 19% of Brooklyn's population was fully vaccinated as of April 15. The CDC estimates that at least 70% of the country will receive at least a first dose by June 8.

New York Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
50	Information	255	3.9%
30	Manufacturing	184	2.8%
15	Mining, Logging and Construction	246	3.7%
55	Financial Activities	611	9.3%
90	Government	920	14.0%
80	Other Services	262	4.0%
40	Trade, Transportation and Utilities	1132	17.2%
65	Education and Health Services	1486	22.6%
60	Professional and Business Services	1083	16.5%
70	Leisure and Hospitality	404	6.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Brooklyn's population contracted by some 23,000 residents in 2019—a 0.9% decrease.
- ▶ Between 2010 and 2019, Kings County added 50,025 residents, equal to a 2.0% increase, significantly below the 6.1% U.S. average.

Brooklyn vs. National Population

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

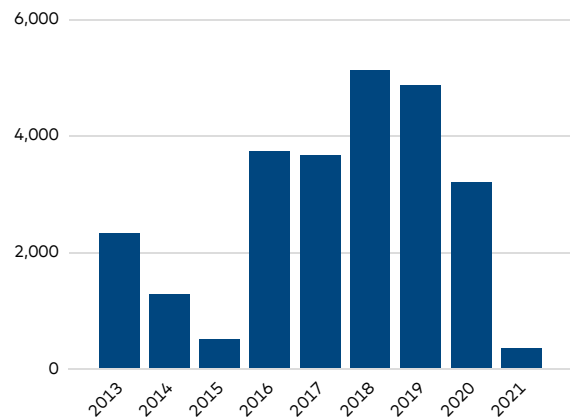
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ A total of 10,328 units were underway in Brooklyn as of March, equal to 7.0% of existing stock. In total, Yardi Matrix expects only 2,186 units to come online across the borough this year, with an additional 3,745 apartments slated for completion in 2022.
- ▶ As of March, the borough also had a little more than 30,000 units in the planning and permitting stages. However, considering the current economic climate, many of these projects are likely to face significant delays or cancellations.
- ▶ Because New York was an epicenter during the first several months of the pandemic, nonessential development was halted during the state's shelter-in-place order. That put pressure on development, and the number of Brooklyn apartments delivered in the 12 months ending in March 2021 dropped 35.3% to 2,914 units compared to the previous 12 months. In East Flatbush, The Hudson Cos. completed the partially affordable, 250-unit The Lois, the submarket's fourth-largest community to date and the largest delivery in more than four decades.

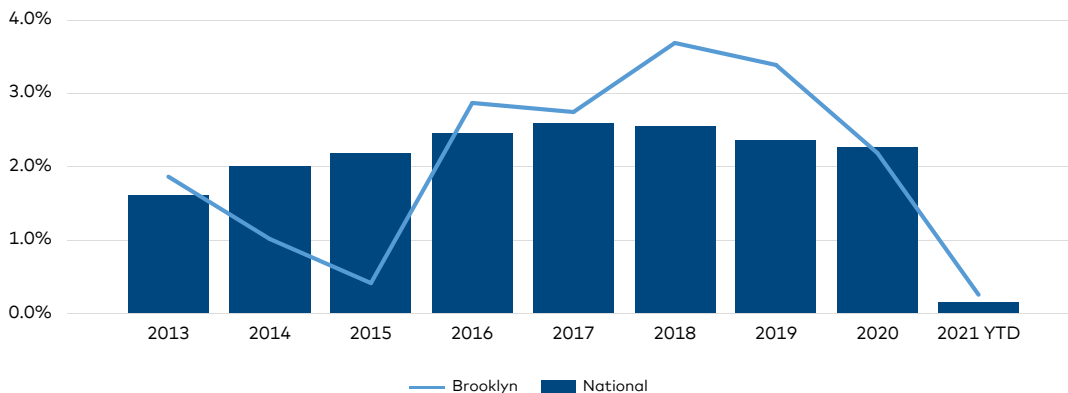
- ▶ Prospect Heights is growing rapidly, with 1,818 units underway as of March, including the metro's largest development—Greenland USA and The Brodsky Organization's 858-unit Pacific Park-B4 Tower. The partnership is also constructing the 648-unit B5 building of Pacific Park, with an extra four communities in the planning and permitting stages. When completed, the two projects are set to more than double the submarket's existing stock.

Brooklyn Completions (as of March 2021)



Source: Yardi Matrix

Brooklyn vs. National Completions as a Percentage of Total Stock (as of March 2021)



Source: Yardi Matrix

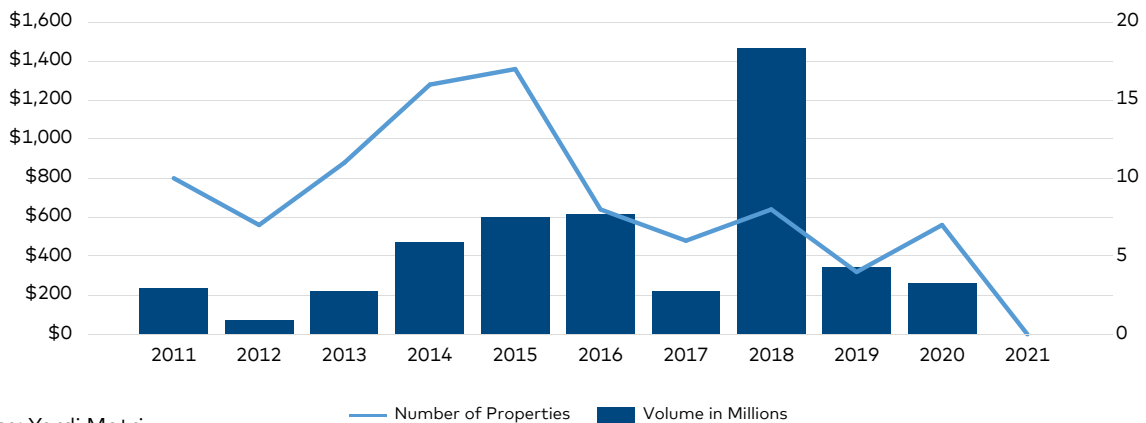
TRANSACTIONS

- ▶ Sales volume for assets of more than 50 units totaled \$121.3 million in Brooklyn in the 12 months ending in March. That marked a more than 60% decrease in investment volume when compared to the \$322 million of the previous 12 months.
- ▶ After almost tripling to \$537,188 in 2019, Brooklyn's average per-unit price nosedived to \$110,946 in the 12 months ending in March. Considering the relatively low sample size, the

decline was due to deal composition. All six properties of more than 50 units that traded during this period were in the Renter-by-Necessity category. In the previous 12 months, all three assets sold were in the Lifestyle segment.

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

Brooklyn Sales Volume and Number of Properties Sold (as of March 2021)



Source: Yardi Matrix

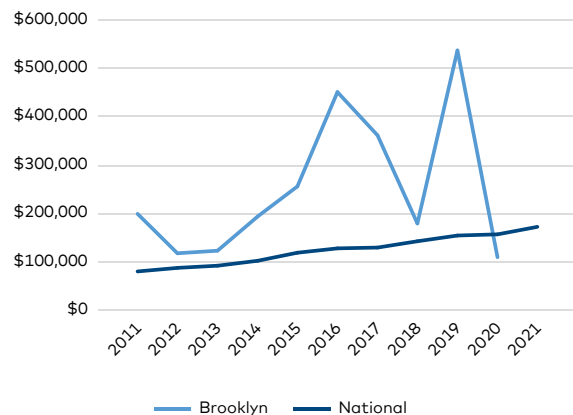
Top Submarkets for Transaction Volume¹

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

Source: Yardi Matrix

¹ From April 2020 to March 2021

Brooklyn vs. National Sales Price per Unit



Source: Yardi Matrix



Fostering Diversity in NYC's Multifamily Industry

By Laura Calugar

Recently, the real estate industry has been making solid efforts to increase diversity, equity and inclusion within its businesses. Racial and gender equality have been elevated to the forefront of executives' growth strategies. As one of the few Black-owned developers in the New York City region—with major projects in Queens, Harlem, Brooklyn and the Bronx—BRP Cos. Co-Founder & Managing Partner Meredith Marshall discusses diversity within the industry.

How have things evolved since you entered the real estate industry?

There are significantly more women and people of color working within the real estate industry today than there was when BRP Cos. was founded, signaling an upward trajectory, but we are not where we need to be in terms of that participation just yet. As of recent months, many firms have been making very meaningful strides forward to increase diversity, equity and inclusion within their businesses, and we hope that momentum only continues across the industry.

Please tell us about the hurdles Black New York City developers face when trying to obtain capital to break ground on new multifamily projects.

Most Black-owned developers are often placed within the "emerging" developer class. Due to this nature of not being as fully established as their white counterparts, access to capital can become an issue due to the wider gap in contacts and networks. Additionally, most



Black developers are often focused on developing within underserved communities, and those markets have historically always been more difficult to secure capital for.

How can minority-owned developers shape the future of New York City communities?

Being fully engaged from a policy standpoint, as well as with the community boards, public officials, community advocates and the not-for-profit organizations that are all stakeholders in those communities is vitally important.

The goal should always be to provide every community with resources to help them better

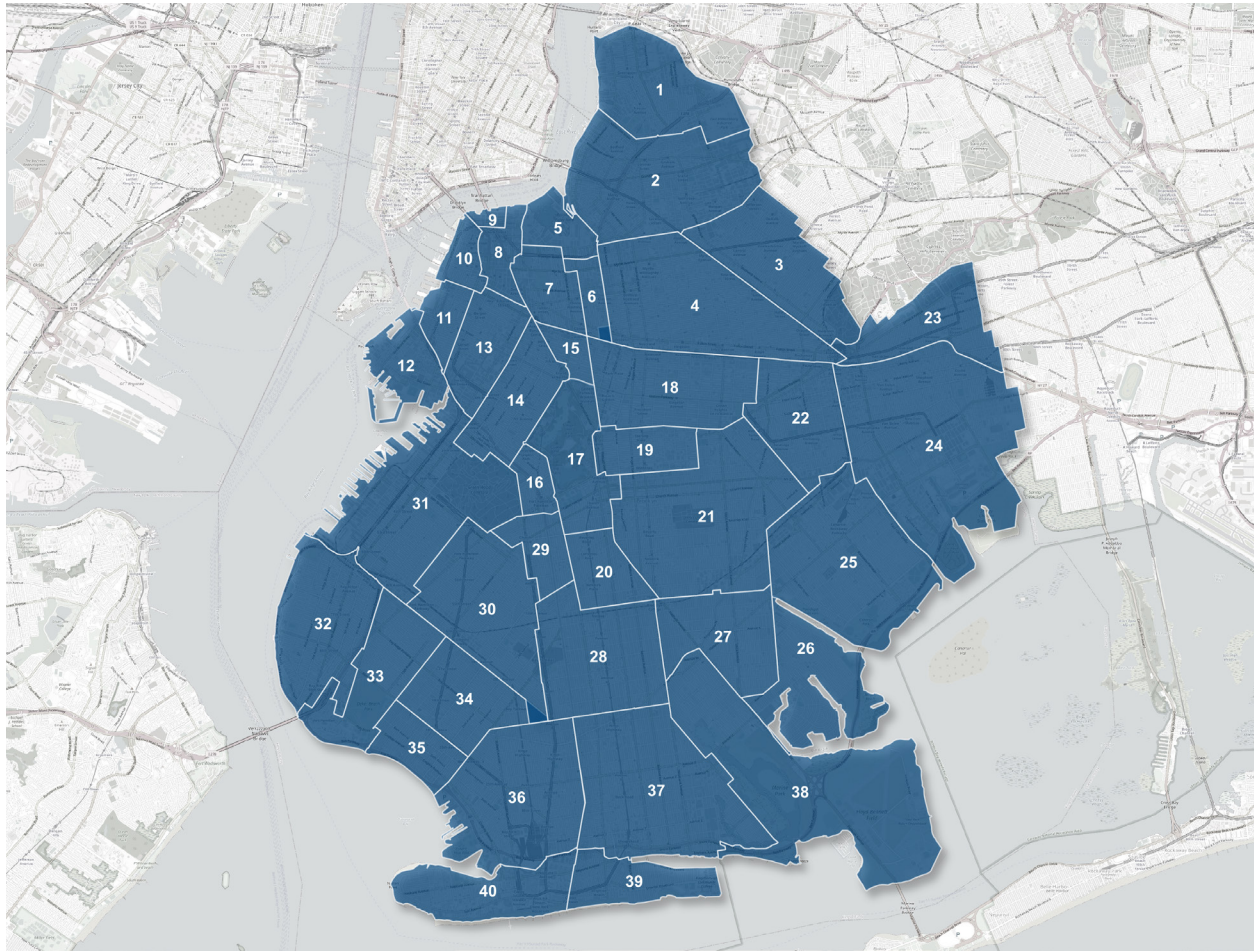
make decisions as a collective moving forward. While bumps along the way are inevitable, encouraging community engagement while simultaneously exemplifying transparency is the most solid path to shaping the future of New York City's various communities.

Do you think things are headed in the right direction when it comes to making the real estate industry more diverse and inclusive?

Absolutely. Any movement is and has been meaningful, but we are starting from a low baseline and still have a long way to go. As an industry, we need to look back to the significant data and other measurement tools to see what has been most effective thus far in increasing diversity and inclusion, and redouble our efforts in those areas.

(Read the complete interview on 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 December 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 December 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, December 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.

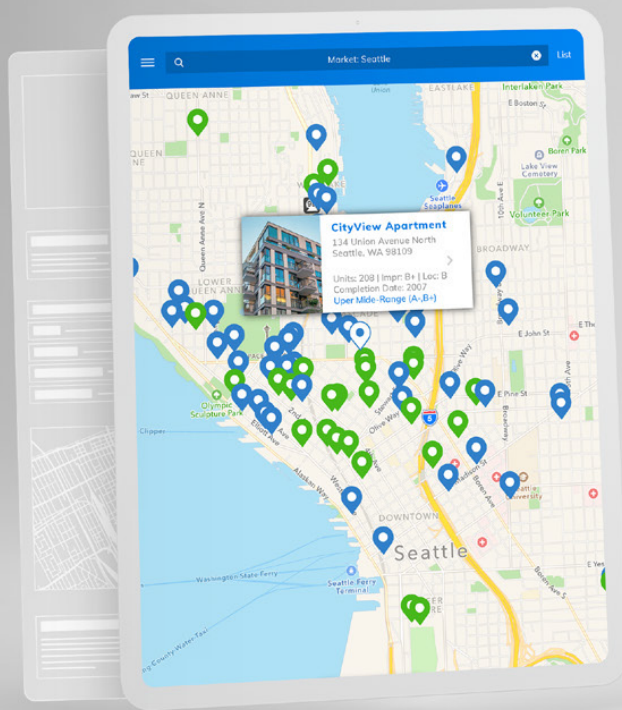
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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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