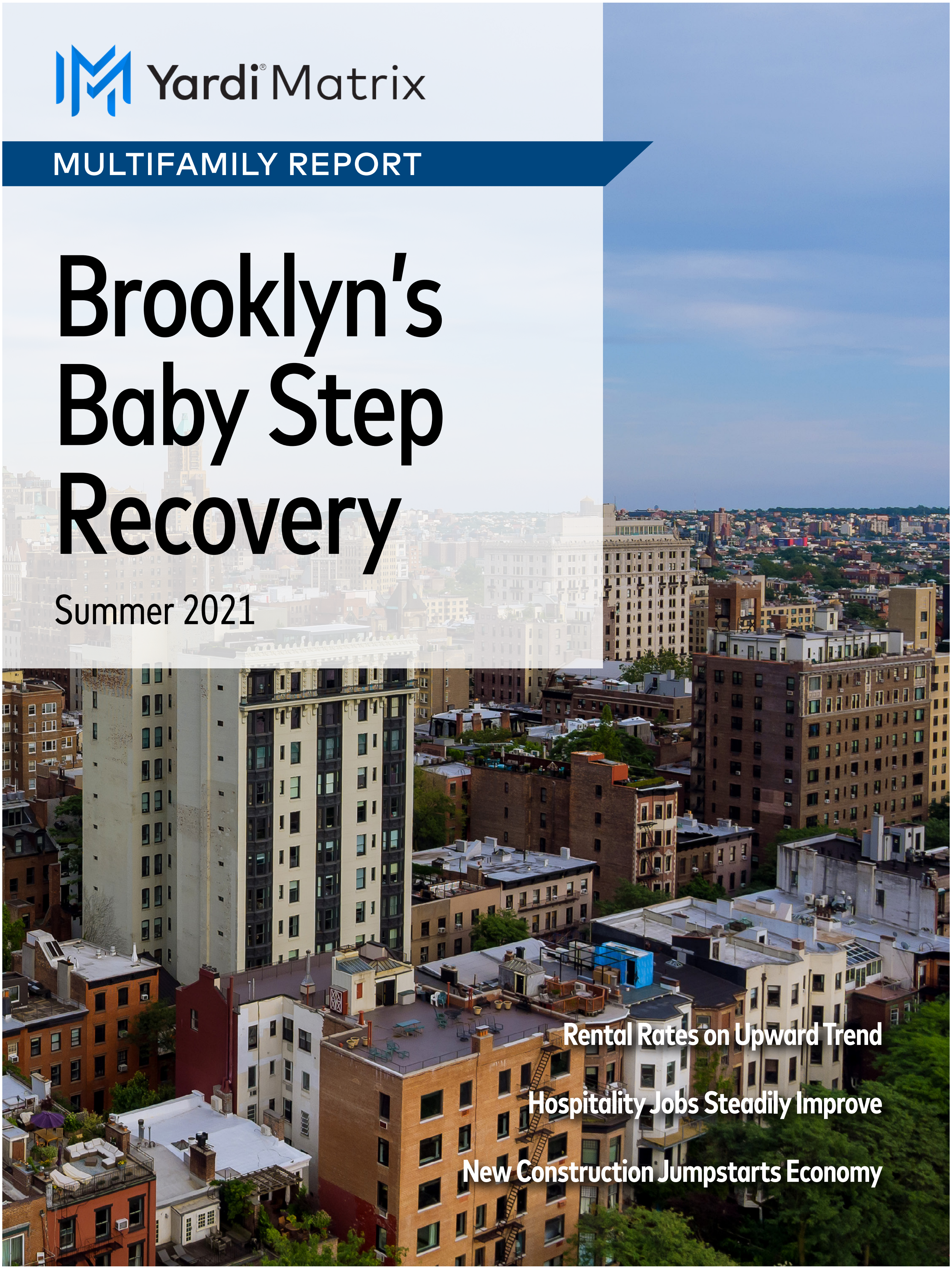
Yardi Matrix

MULTIFAMILY REPORT

Brooklyn's Baby Step Recovery

Summer 2021



Rental Rates on Upward Trend

Hospitality Jobs Steadily Improve

New Construction Jumpstarts Economy

BROOKLYN MULTIFAMILY

Yardi Matrix

Long-Awaited Rebound Underway

Compared to a year ago, the Brooklyn multifamily market is in a much better condition. As of June, rents were up 2.1% on a trailing three-month basis to $2,794, well above the $1,482 national average. Renters have benefited from long-term government support and increased personal savings rates, enabling them to seek out higher-cost apartments after some of the uncertainty waned.

Leisure and hospitality recorded the sharpest decline last year, but is steadily beginning to rebound, as tourists feel comfortable to travel again. According to data released by the New York state Department of Labor in mid-July, the number of jobs in tourism-related industries is up 46% from last year. However, the sector is experiencing a shortage of labor in the metro, as many former employees were pressed to pivot toward a new career to survive the health crisis.

Only 449 apartments across three Brooklyn properties came online in the first half of 2021, accounting for a fifth of what developers completed over the first six months of last year. Moreover, multifamily transactions were also severely impacted by the pandemic, with no deals completed for properties of 50-plus units in 2021. And the investment market is likely to face new challenges going forward.

Market Analysis | Summer 2021

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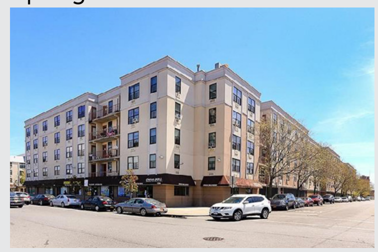
Recent Brooklyn Transactions

Spring Creek Gardens



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

Chelsea

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

RENT TRENDS

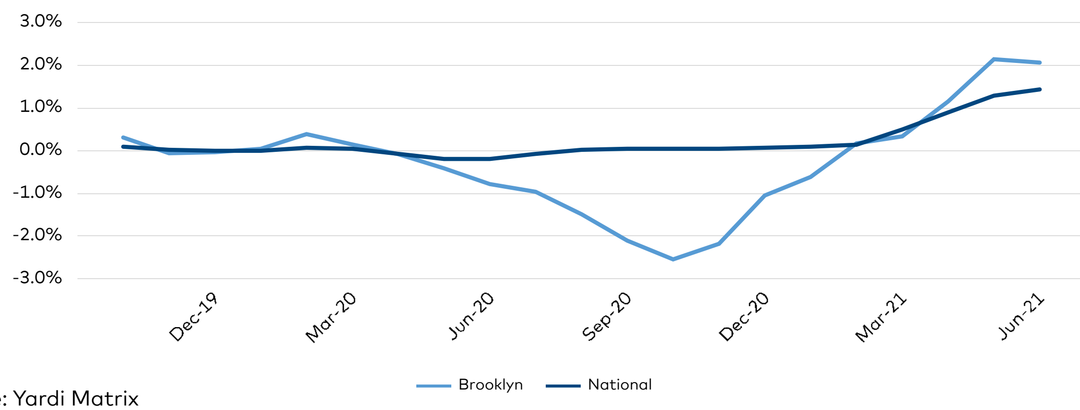
- Brooklyn rents rose 2.1% in the second quarter of the year, while the U.S. rate increased by only 1.4%. Among New York City boroughs, only Manhattan (2.2%) surpassed Brooklyn in terms of rent growth. Kings County's average rent clocked in at $2,794, significantly above the $1,482 U.S. figure. On a year-over-year basis through June, Brooklyn rents contracted by 0.8%.

- Rents in the upscale Lifestyle segment are increasing at a faster pace than rates in the working-class Renter-by-Necessity segment, a sign of an improving market. Lifestyle figures in Kings County were up by 2.8% to an average of $3,321, while Renter-by-Necessity rates appreciated by only 0.3% to $1,974. Rent growth will not be able to continue at these levels indefinitely, but conditions for above-average growth are likely to persist in the coming months.

- Year-over-year through June, rents grew the most in already expensive submarkets of the borough, such as Greenpoint (2.2% to an average of $4,152) and Dumbo (1.1% to $4,149). Meanwhile, roughly half of Brooklyn submarkets reported declines, with three of them recording double-digit slides.

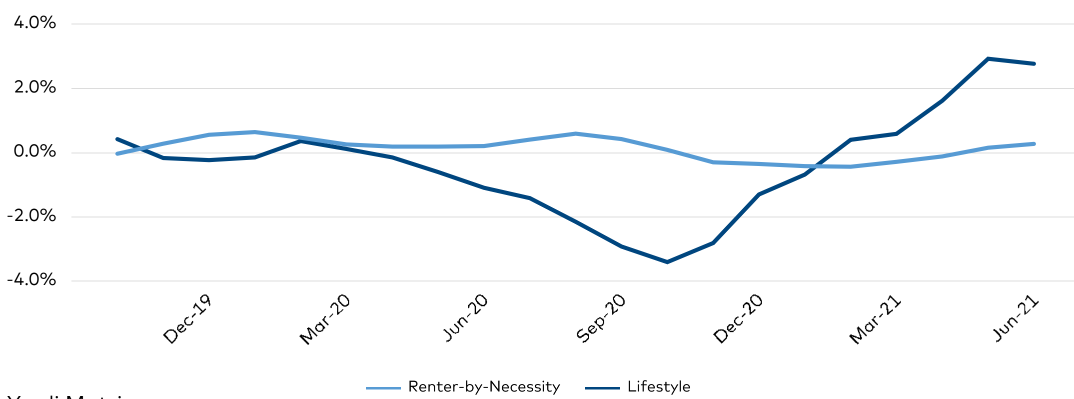
- The occupancy rate in stabilized Brooklyn properties was 97.2% as of May, 120 basis points below the May 2020 rate, when the stay-at-home order enacted to halt the spread of the virus was still in place.

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

- As of May, unemployment in New York City stood at 7.5%, according to preliminary Bureau of Labor Statistics data. Although the city still has a long way to go before pandemic-induced job losses are fully reversed, hiring is seeing an ascending trend.

- Besides the leisure and hospitality sector, construction is also rebounding fast, as several large projects jumpstart the city's economic recovery. In Downtown Brooklyn, 141 Willoughby St. is taking shape, a 24-story, 400,000-square-foot, office-and-retail project developed by Savanna Real Estate, using a $264 million construction loan. The Vital Brooklyn initiative—which aims to create more than 200 permanent positions along with some 3,700 construction jobs—is also moving forward. Empire State Development Corp. joined forces with New York State Homes and Community Renewal and nonprofit Breaking Ground, to develop 900 affordable units in Brooklyn's East Flatbush submarket.

- New York officially reopened for business this summer, after 70% of adults received at least one dose of the COVID-19 vaccine. However, the changing workplace culture is emerging as a major hurdle to the revival of the city's commercial districts. Many local businesses are counting on the long-awaited return of workers to their offices after Labor Day.

New York Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	461	7.0%
40	Trade, Transportation and Utilities	1068	16.2%
65	Education and Health Services	1506	22.9%
60	Professional and Business Services	1087	16.5%
80	Other Services	255	3.9%
15	Mining, Logging and Construction	248	3.8%
30	Manufacturing	183	2.8%
50	Information	256	3.9%
55	Financial Activities	606	9.2%
90	Government	908	13.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Kings County's population contracted by 0.8% in 2020, while the national figure grew by 0.4%. Although the health crisis was the main culprit for the exodus, the elevated outflow from the metro has been an ongoing trend since 2017, due to the high tax regime and increasing cost of living.

Brooklyn vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Brooklyn	2,596,385	2,582,830	2,559,903	2,538,934

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

SUPPLY

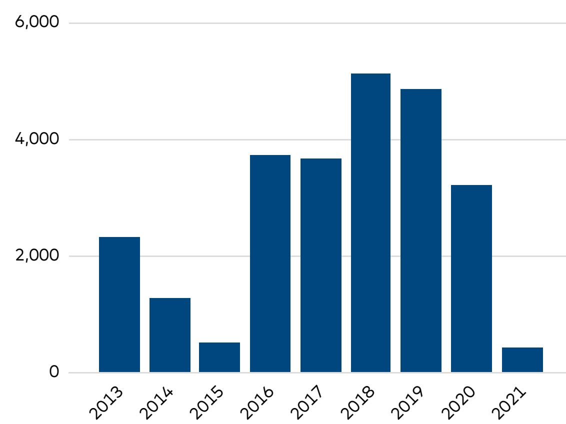
- Brooklyn had 11,772 units under construction as of June, with two-thirds of them geared toward high-income renters. The borough also had 30,581 apartments in the planning and permitting stages, but Yardi Matrix expects only 2,186 apartments to come online by the end of 2021, less than half the previous three-year average.

- Developers delivered just 449 apartments across three properties, only a fifth of what they delivered over the first six months of 2020. Construction starts also dropped sharply—from 4,167 units in the first half of 2020 to only 2,327 units over the same period of 2021. The soaring cost of building materials, labor shortages and the construction freeze in the first months of the pandemic, have all contributed to the slow delivery pace across the metro.

- Downtown Brooklyn (1,999 units under construction) and Prospect Heights (1,970 units) led development as of June, accounting for a third of the borough's pipeline. The largest development in the borough is Greenland USA's 858-unit Pacific Park-B4 Tower. The project is a partnership with The Brodsky Organization and it is being built using a $460 million construction loan funded by Manufacturers and Traders Trust Co.

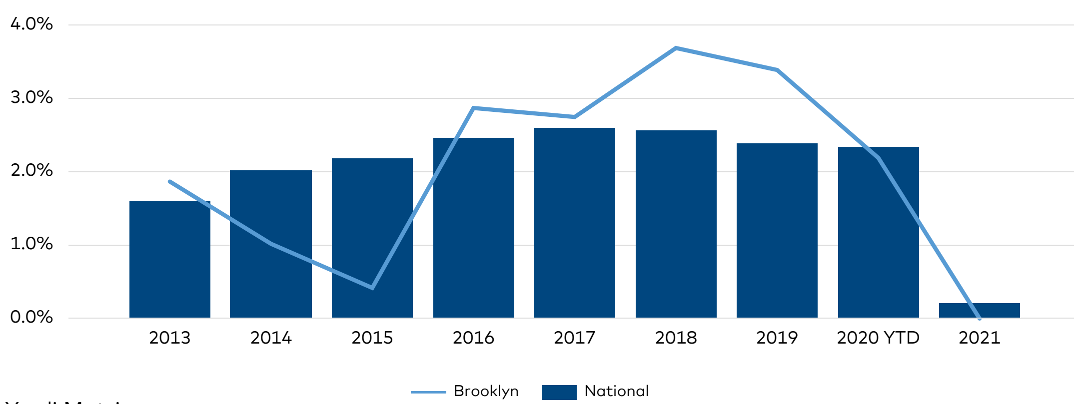
- The largest project that came online this year through June was The Lois—a 250-unit community in East Flatbush—followed by 541 Fourth, a 134-unit fully affordable property in Park Slope-South Slope.

Brooklyn Completions (as of June 2021)



Source: Yardi Matrix

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

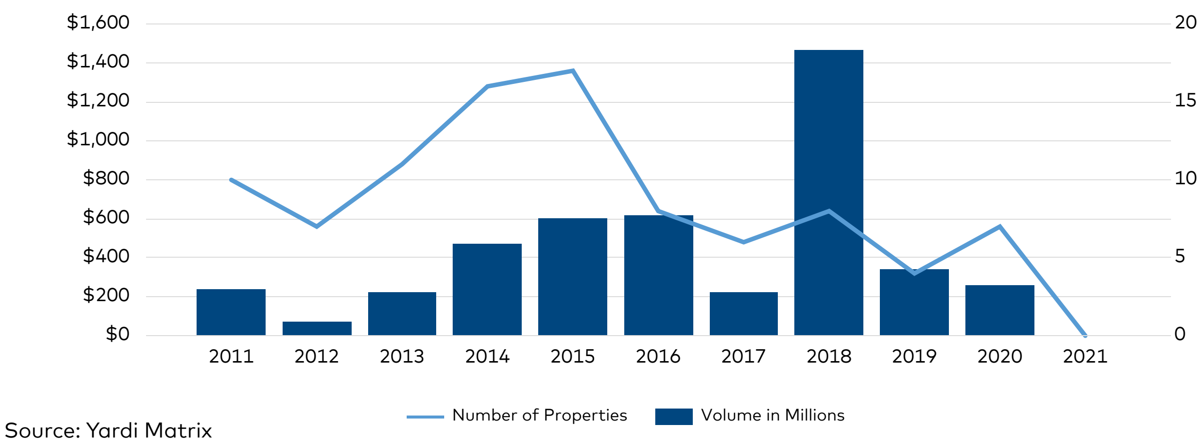


Source: Yardi Matrix

TRANSACTIONS

- The impact of the health crisis on investment was severe in Brooklyn, with no deals completed for multifamily properties of 50-plus units in 2021 through the first half of the year. The pandemic followed the 2019 rent regulation overhaul, further inhibiting deal-making. Going forward, with the Biden administration looking to repeal 1031 tax exchanges—one of the main drivers of value in New York City's multifamily industry—the investment market is likely to experience new challenges.
- Last year, the average price per unit clocked in at $109,461, significantly below the $157,592 national figure, marking the first time that the annual average price was below the U.S. average in a decade.
- As the borough slowly exits its final transition stage this summer—after a year of unforeseen challenges—and New Yorkers return to the city, this fall will likely act as a defining moment for Brooklyn's investment market.

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



Source: Yardi Matrix

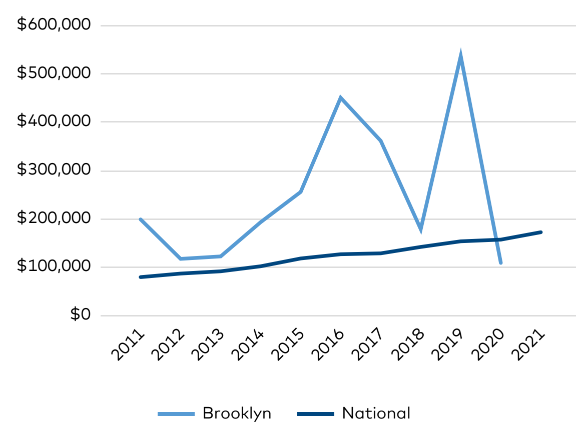
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East New York	35
Gravesend	21
Bath Beach	20
East Flatbush	15

Source: Yardi Matrix

[1] From July 2020 to June 2021

Brooklyn vs. National Sales Price per Unit



Source: Yardi Matrix

Lender Counts on New York Metro Comeback to Be Quicker Than Expected

By Timea-Erika Papp

SCALE Lending, the lending affiliate of Slate Property Group, provides customized financing solutions in the transitional real estate space with a strong focus on the New York metro area. Leveraging Slate Property Group's $5 billion portfolio, the lender has found a niche within the construction senior lending market. "There's strong confidence among the industry in New York City's recovery," said Martin Nussbaum, co-founder & principal of Slate Property Group.

What's been happening in the transitional real estate space in the New York metro area since the onset of the pandemic?

Nussbaum: With cities beginning to recover and reopen, the apartment market is very active at the moment. It will likely take one to two years for rents to fully recover to pre-COVID-19 levels, but we've seen a positive trend of people returning to the metropolitan area. There's a flow of new tenants coming into these areas, rather than moving within their current submarkets or switching buildings. We see that as a positive sign leading into the summer and anticipate the next quarter to be active.

How are lenders approaching new opportunities in the tri-state area?

Nussbaum: Lenders are starting to underwrite a slow recovery in urban markets, whereas three to four months ago they would only look at in-place rents. This is across all asset classes.

What are some of the most sought-after financing products you've worked with recently?

Nussbaum: In the past few months, we've closed on nearly $500 million in loans for multifamily and condo deals. We've focused on deals at a minimum of $50 million, but more typically $75-150 million for ground-up rentals or condo developments. Prior to COVID-19, we saw more loans on the smaller end of that bracket.

Are there certain types of transactions you favor?

Nussbaum: At Slate, we've found a real niche within the construction senior lending market and concentrated our efforts in that space for the last three years.

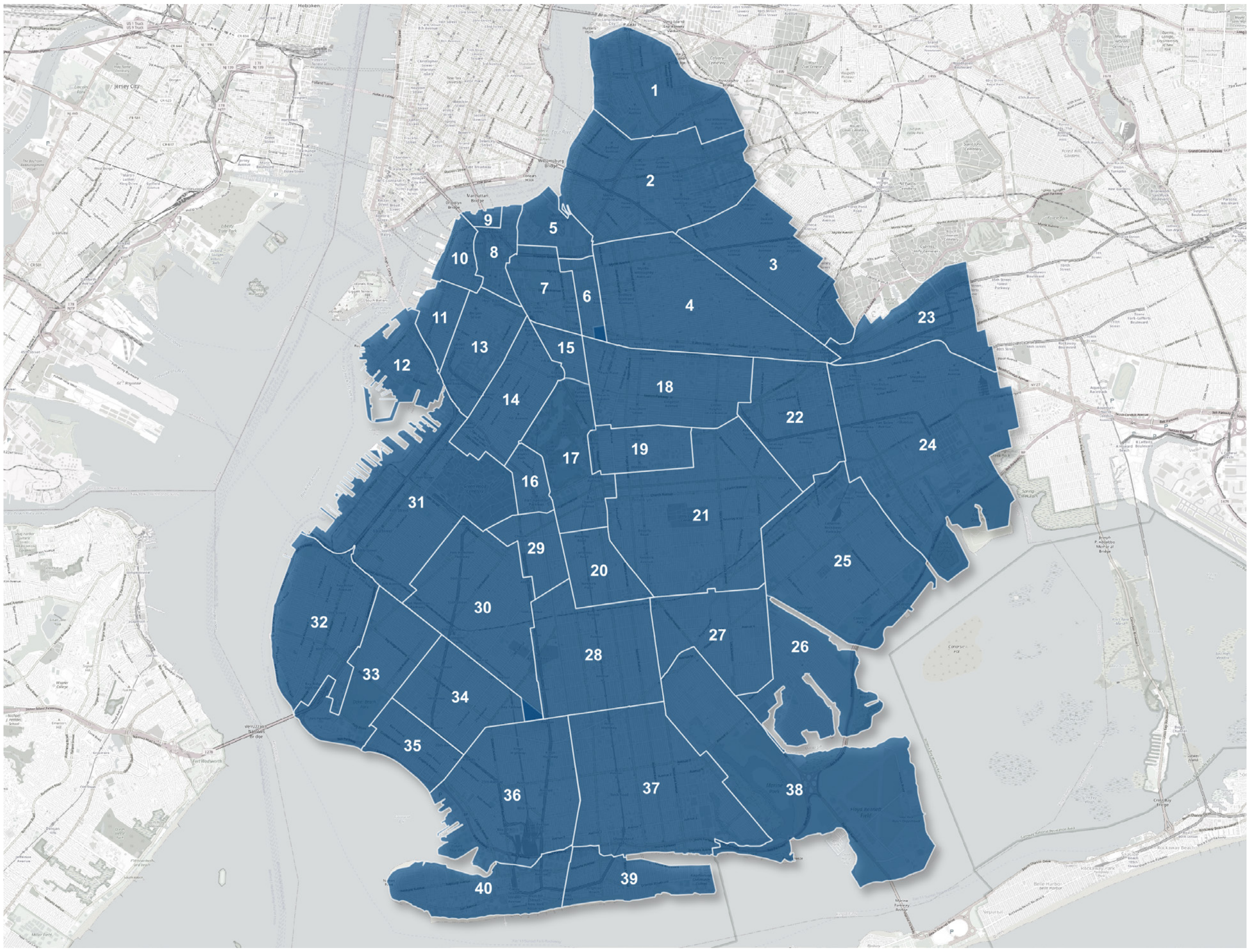
These transactions have pulled back and allowed for us to become a leading alternative for someone who is looking for a more conventional loan-to-cost loan that isn't as available with traditional banks, which are currently around 50 percent to 65 percent. There is a huge opportunity for a development timeline in this space, as we allow the market to come back and banks step back a bit.

What are some of the determining factors that will shape the multifamily lending market going forward?

Nussbaum: Two factors will play a big role in terms of multifamily developments: land prices and construction costs. Land prices aren't where they were pre-pandemic but have only gone down by 15 percent to 20 percent and are not dropping further, creating greater competition in the market.

(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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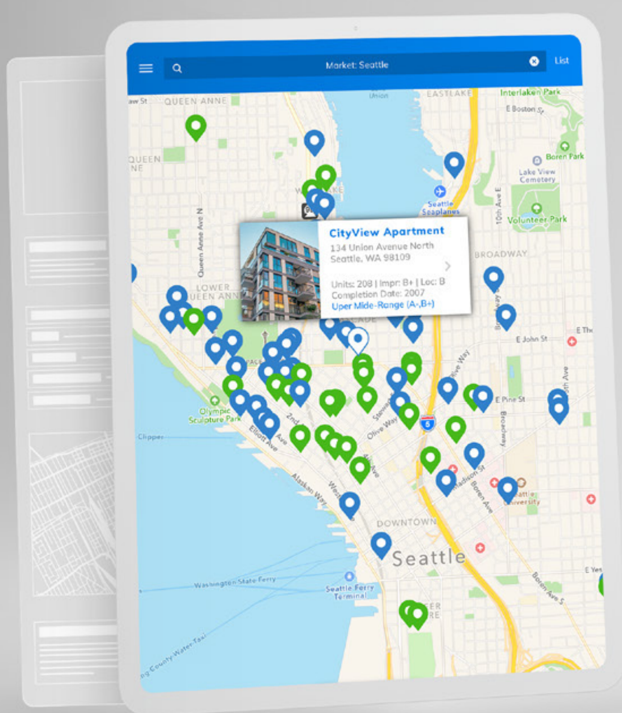

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