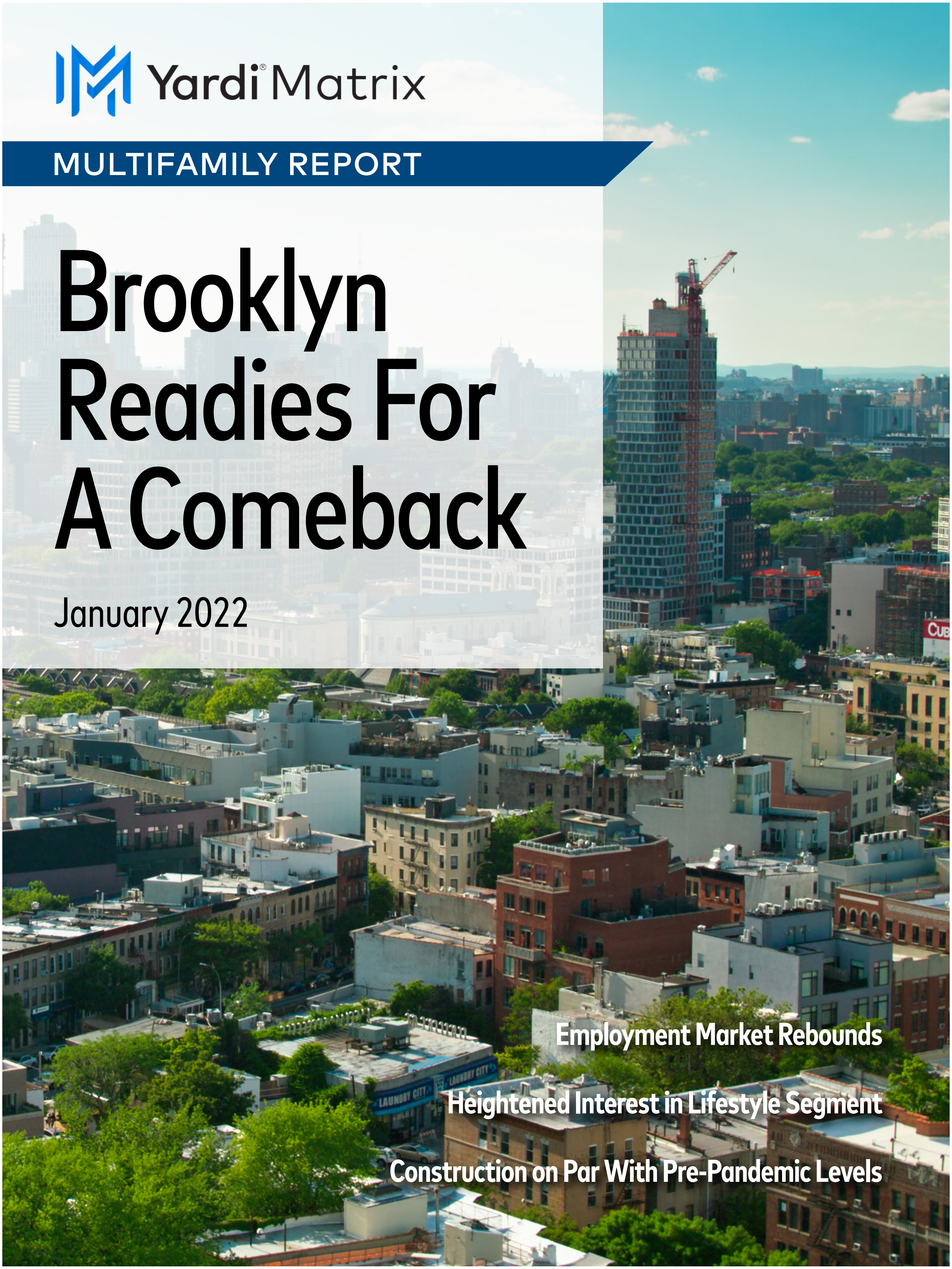
Yardi Matrix

MULTIFAMILY REPORT

Brooklyn Readies For A Comeback

January 2022



Employment Market Rebounds

Heightened Interest in Lifestyle Segment

Construction on Par With Pre-Pandemic Levels

BROOKLYN MULTIFAMILY

Yardi Matrix

Multifamily Market Finds Stability

Brooklyn's multifamily rental market seems ready for a rebound, after a tough interval for New York City overall. Rents were up 0.7% on a trailing three-month (T3) basis through November, to $3,012, almost double the national figure. Demand for Lifestyle assets resurged after a decline in 2020, while the RBN segment kept its footing throughout the slowest periods. Submarkets such as Greenpoint and Downtown Brooklyn led both rent gains and development activity.

Brooklyn added 221,800 net jobs over a 12-month period ending in September, representing a 7.8% uptick. In October, New York City's unemployment rate reached its lowest point since the onset of the crisis—6.3%—according to preliminary data from the Bureau of Labor Statistics. The figure was 170 basis points below the national average. More than $145 million has been awarded by the state to preserve or create some 1,178 affordable homes across New York, of which $26.6 million was directed toward Brooklyn developments.

New construction amounted to 596 units added year-to-date through November—14.5% of the prior five-year average. Some 14,327 units were under construction in the borough as of November, with developers and investors sharing a heightened interest in the Lifestyle segment, which accounted for 65.4% of the pipeline.

Market Analysis | January 2022

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RENT TRENDS

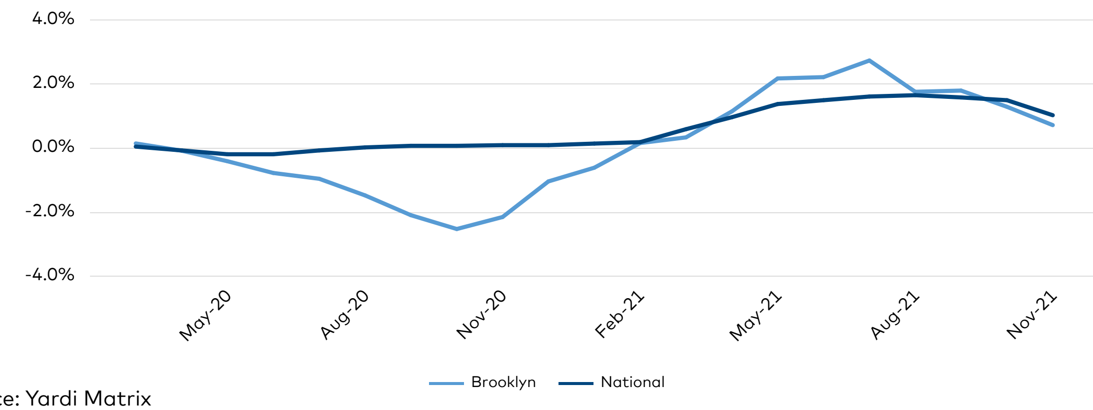
- Rents in Brooklyn were up 0.7% on a trailing three-month (T3) basis as of November, 30 basis points below the national rate. After a growth spurt during the summer months, rent increases slowed down in the borough. Brooklyn's average reached $3,012, almost double the national figure ($1,590). In Queens, the average rate was $2,723.

- Lifestyle assets recorded significant contractions in 2020, only to rebound in 2021, clocking a 0.9% rate of growth on a T3 basis through November and reaching $3,600. RBN assets maintained a steadier course, with demand remaining consistent during the worst months of the crisis. In November, RBN rents were up 0.2%, to $1,995.

- Occupancy in stabilized assets reached 98.4% in November, up 60 basis points year-over-year. Lifestyle occupancy was up 180 basis points, to 98.2%, while the RBN segment recorded a 20-basis-point drop to 98.5%. In September, New York state leaders extended the moratorium on pandemic-related evictions to Jan. 15.

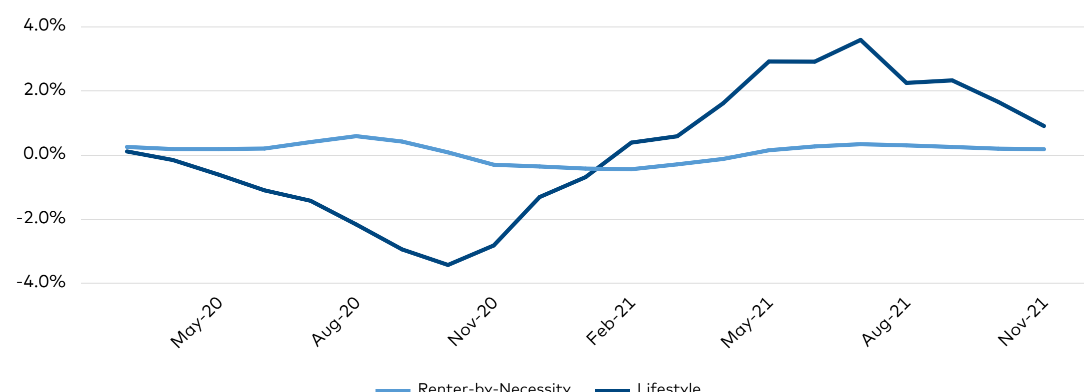
- The borough's priciest submarkets recorded the fastest-growing rents, led by Greenpoint ($4,602), which saw an uptick of 36.7% year-over-year. Other submarkets with significant rent gains included Downtown Brooklyn (up 31.5%, to $3,781), Park Slope-South Slope (25.1%, to $3,389), Fort Greene (23.3%, to $3,205) and Dumbo (21.7%, to $4,496).

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

- Over the 12-month period ending in September, New York City gained 221,800 net jobs, with employment growth clocking in at 7.8%, 140 basis points above the national rate. The borough's workforce continued to grow, with September marking the third-consecutive month of positive gains since the onset of the global health crisis.

- New York City's unemployment rate stood at 6.3% in October, 170 basis points below the national average, according to preliminary data from the Bureau of Labor Statistics. Although unemployment reached its highest point since the onset of the pandemic, the city still has over half a million jobs to recover.

- In line with national trends, the leisure and hospitality sector led gains with 96,300 jobs added, up 23.3% year-over-year through September. Professional and business services recorded a 4.7% uptick, with 49,500 new positions added, while education and health services grew by 3.4% (48,500 jobs).

- The New York State Department of Labor approved over $850 million for the Excluded Workers Fund; $250 million in benefits has already been distributed. Of the 90,000 applicants recorded as of August, 17% were in Kings County.

New York Employment Share by Sector

Code	Employment Sector	Current Employment (000)	% Share
70	Leisure and Hospitality	511	7.7%
60	Professional and Business Services	1098	16.6%
65	Education and Health Services	1477	22.3%
40	Trade, Transportation and Utilities	1077	16.3%
50	Information	263	4.0%
30	Manufacturing	185	2.8%
80	Other Services	254	3.8%
15	Mining, Logging and Construction	253	3.8%
55	Financial Activities	604	9.1%
90	Government	904	13.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The population in Kings County reached over 2.5 million residents in 2020, a 0.8% contraction year-over-year, while the U.S. population increased by 0.4%. Despite experiencing a decline due to crisis-induced migration trends, Brooklyn's population has increased by 2.2% during the past decade.

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 14,327 units under construction across 50 properties as of November. Developers focused on the Lifestyle segment, which accounted for two-thirds of the pipeline, while fully affordable assets represented 27.0%, or 3,872 units. Construction starts through November totaled 4,852 units, 6.0% less than the 5,165 units that broke ground over the same period last year.

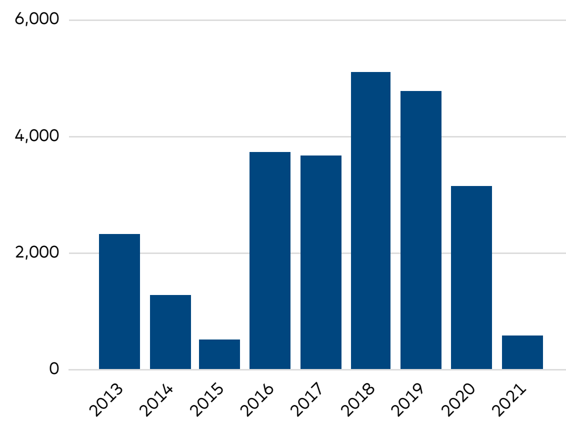
- Demand for new multifamily product is returning to pre-crisis levels, but many projects incurred delays last year. More than half of the current pipeline (7,556 units) is expected to come online this year. An additional 32,800 units are in the planning and permitting stages.

- A total of 596 units came online across four properties in the first 11 months of 2021, 78.3% less than the amount recorded over the same period in 2020, and just 14.5% of the average number of units delivered per year over the past five years (4,100 units). Completions represented 0.4% of total stock, 170 basis points below the national rate.

- Greenpoint was the fastest growing submarket with 2,432 units underway, followed by Downtown Brooklyn (1,982 units), Prospect Heights (1,970), Brownsville (1,161) and Fort Greene (1,139).

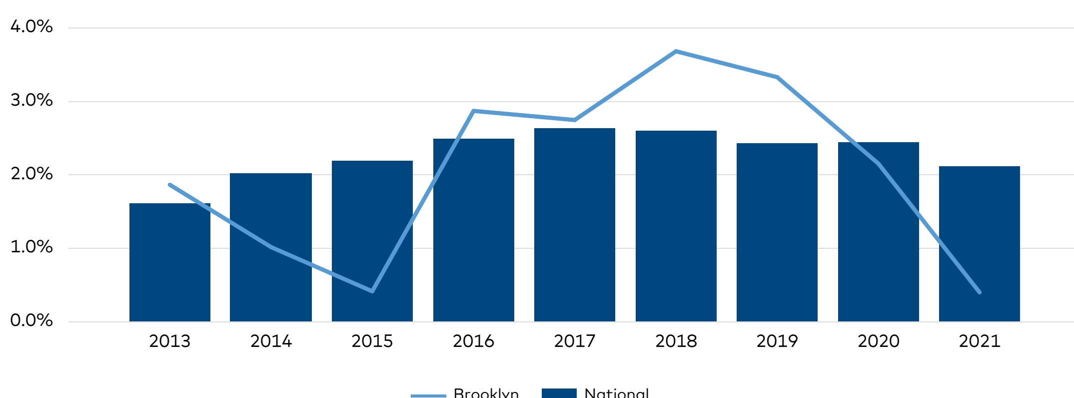
- In Brooklyn's East New York, construction was completed on Fountain Seaview B2, a 100-unit, fully affordable building that is part of a larger redevelopment effort called The Fountains. The $425 million redevelopment encompasses six buildings and will offer 1,163 affordable units.

Brooklyn Completions (as of November 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

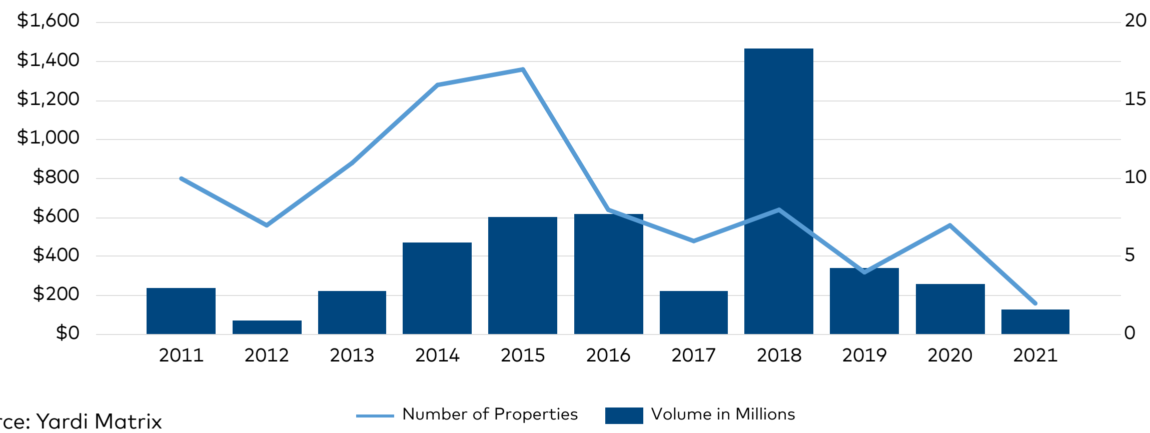
TRANSACTIONS

- Investments in Brooklyn's multifamily market remained tepid for properties of 50 or more units. A limited number of such transactions was recorded over the 12 months ending in November.

- Brooklyn's average price per unit remained unchanged, at $109,460 by the end of 2020, the lowest point in a decade for the borough. The rate remained well below the national average—at $185,466 as of November this year. Investors have kept their focus on RBN assets, as about 88.0% of all sales over the past decade were in this segment. The price per unit for RBN assets also recorded a significant drop. By the end of 2020, it had reached $124,629, down 52.4% year-over-year.

- KKR & Co. completed one of the few transactions in 2021. The company acquired a multifamily portfolio in the Bedford-Stuyvesant submarket from Bruman Realty for $257 million.

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



Source: Yardi Matrix

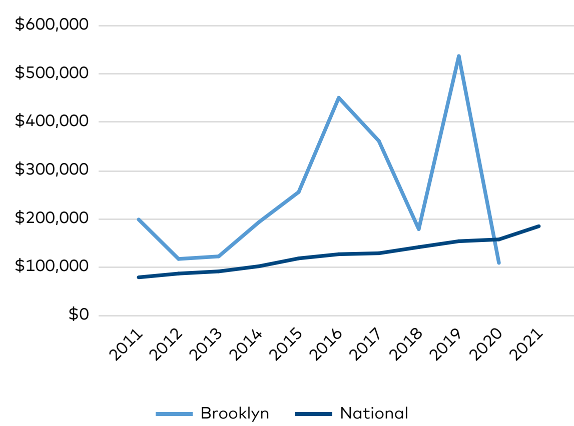
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Bedford-Stuyvesant	126

Source: Yardi Matrix

[1] From December 2020 to November 2021

Brooklyn vs. National Sales Price per Unit



Source: Yardi Matrix

Middle-Market Lending in the Biggest City

By Evelyn Jozsa

Urban Standard Capital is a small real estate private equity firm focused on debt and equity investments in the New York City metropolitan area. The company also develops condos and invests in properties in both well-established and transitioning neighborhoods. We spoke to Founder & Managing Partner Seth Weissman about how the firm is navigating the New York City financing landscape and about the most sought-after financing products in the market.

How have your lending practices changed since the onset of the pandemic?

We continue to focus on long-term, programmatic relationships with our borrowers. More than 60 percent of our business is repeat borrowers or referrals. We lend when we believe in the project and the sponsorship, and there is mutual trust and credibility.

As a private equity fund, we have committed to discretionary balance sheet capital, so we are fortunate to be in a strong capital position and can continue to perform for our borrower partners. We are not dependent on syndication or leverage to perform for our clients. Many of our competitors who depend on deal-by-deal capital have lost significant market share and credibility.

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

Construction completion and inventory financing are the most in demand. As the market recovers,

many developers want to finish their projects and have the runway to achieve sales targets.

Tell us about a recent multifamily deal you closed in New York City. How does this deal represent the current financing landscape in the city?

We did a $15 million construction completion loan on a multifamily rental. The existing lender didn't want to extend the loan as the underlying project was not going to be profitable for the developer. The borrower's objective was to finish the building and recover as much equity as possible. They understood it was likely not going to be a profitable project. This is basically a universal truth for developers who started projects in New York City after 2015. Very few, if any, developers are making money from that vintage.

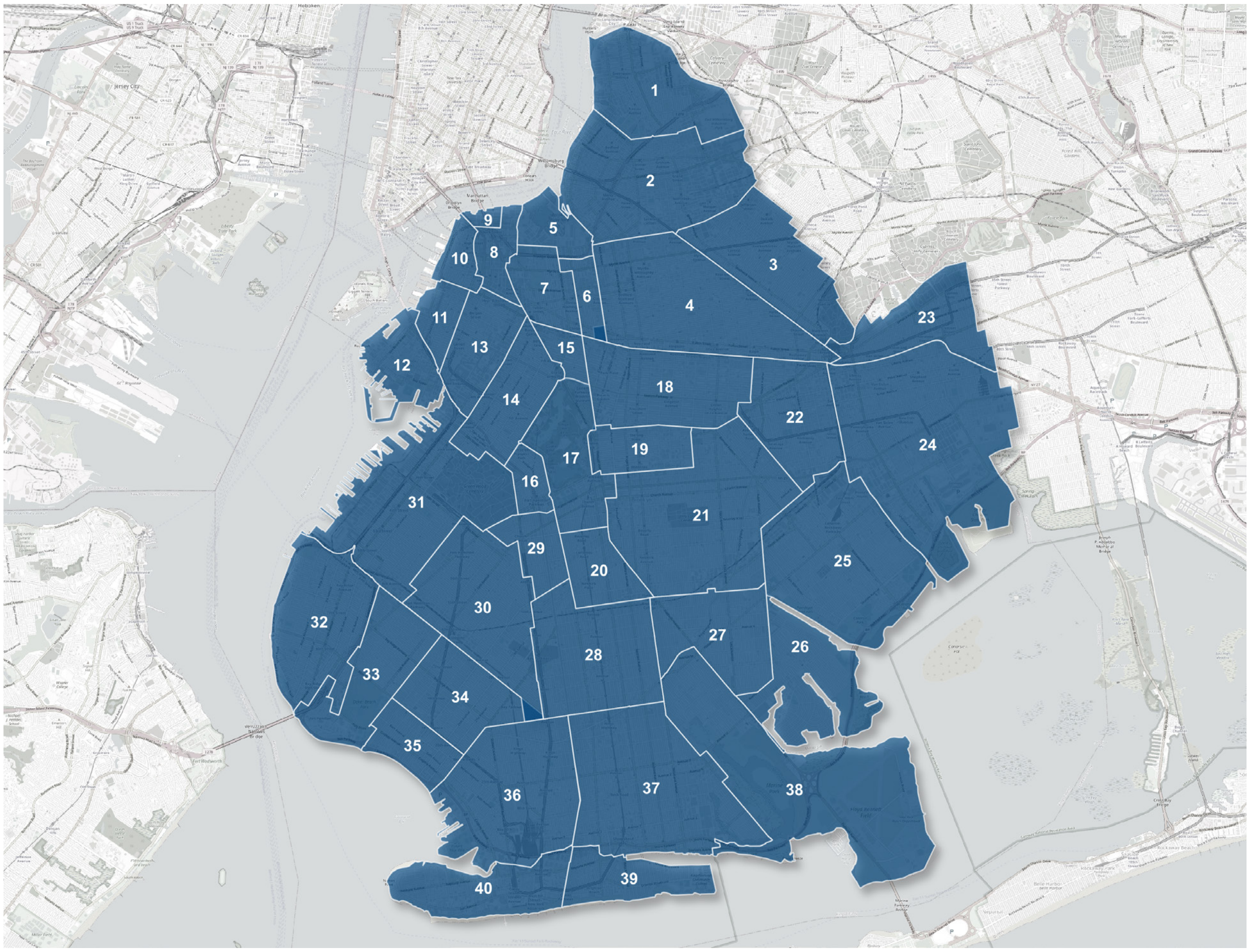
Construction costs, both labor and materials, project delays, New York City bureaucracy, COVID-19 and so on, have crushed the bottom line for most developers. Therefore, the current focus for developers is to maximize equity recovery and move on to the next project.

What trends do you expect to shape the financing landscape in NYC for small private lenders?

The space is institutionalizing, even in the middle market commercial real estate space. The lenders with strong reputations, deal flow and committed, discretionary capital will take over market share.

(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

OTHER PROPERTY SECTORS

Office

- Migration trends and shifting tenant requirements have kept U.S. office markets in a state of transition. The average national full-service equivalent listing rate was $38.62 as of November, according to CommercialEdge data. The rate is up by 1.2% year-over-year, with some markets recording small amounts of growth or contractions, while others saw a significant uptick, with sectors like media production or life sciences fueling growth.

- As of November, Brooklyn recorded the sharpest decline in listing rates across metros tracked by CommercialEdge. Average rates in the borough were down 4.9% year-over-year, to $48.08, while Manhattan recorded a 2.6% decrease in rates, to $83.52. Vacancy rates increased across most metros, up by 140 basis points nationally, to 15.2%. In July, Netflix signed a 170,000-square-foot lease at 333 Johnson Ave., a new office development in the Williamsburg-Greenpoint submarket. Brooklyn's office vacancy was 16.4% in November, up 310 basis points.

- Still, developers are confident in the sector bouncing back after the dust has settled. New office development also contributed to vacancy increases. Nationally, 152.8 million square feet of office space is under construction, or 2.3% of total stock. Brooklyn's rate was 210 basis points higher, with 4.4% of stock under construction, or 1.8 million square feet. During the summer, Brooklyn's tallest office tower came online, developed by JEMB Realty Corp. One Willoughby Square offers 500,000 square feet of office space in downtown Brooklyn, with 30-foot ceilings and wellness-oriented design features. The building also includes a 300-seat public school and is targeting LEED Silver certification.

Industrial

- While the office sector struggled to maintain its footing during the past two years, industrial assets experienced massive growth. National rents for industrial space averaged $6.37 per square foot in November, up 3.8% year-over-year. Coastal markets reaped most of the benefits, as the Inland Empire (up 6.2%, to $6.49), Los Angeles (up 6.2%, to $10.23) and New Jersey (up 5.4%, to $7.98) experienced some of the fastest rent growth across metros tracked by Commercial Edge.

- New Jersey had 11.6 million square feet of industrial space underway in November, or 2.2% of total stock. Most of the new development, totaling almost 6 million square feet, is situated in Northern New Jersey. One of the largest projects currently underway is a two-building, 921,000-square-foot facility in Brewster, N.Y. Lincoln Equities Group and H.I.G. Realty Partners received $163.3 million in acquisition and construction financing for the development.

- Investors in commercial industrial space are focused on the challenges ahead. As demand continues to outpace supply nationally, the dynamics of just-in-case versus just-in-time logistics are shifting. A record number of sales was completed in 2021—$61.6 billion were generated in year-to-date transactions through November, an all-time high for the sector and 28.8% more year-over-year.

Self Storage

- Not unlike industrial, the self storage sector has had a good year. Despite a seasonal decline in rents, demand remains elevated. National street rates for 10x10 non-climate-controlled (NON CC) units was down to 6.7% growth as of November (to $127) while climate-controlled (CC) units reached 8.2% growth (and averaged $145), Yardi Matrix data shows.

- In November, new supply equaled 8.8% of existing stock nationally, an all-time high for self storage development and an uptick of 10 basis points month-over-month. Developers are eager to meet demand, and New York continues to remain dominant among all other markets, with 13.2 million square feet underway, or 18.4% of stock. Year-over-year, average rents in the metro were up 5.0% for NON CC and 4.0% for CC units.

- One of the largest transactions completed this year was StorageMart's acquisition of Manhattan Mini Storage's entire portfolio, in Manhattan. The Edison Properties subsidiary sold 18 properties totaling nearly 2.3 million square feet of rentable square feet.

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.

Yardi Matrix

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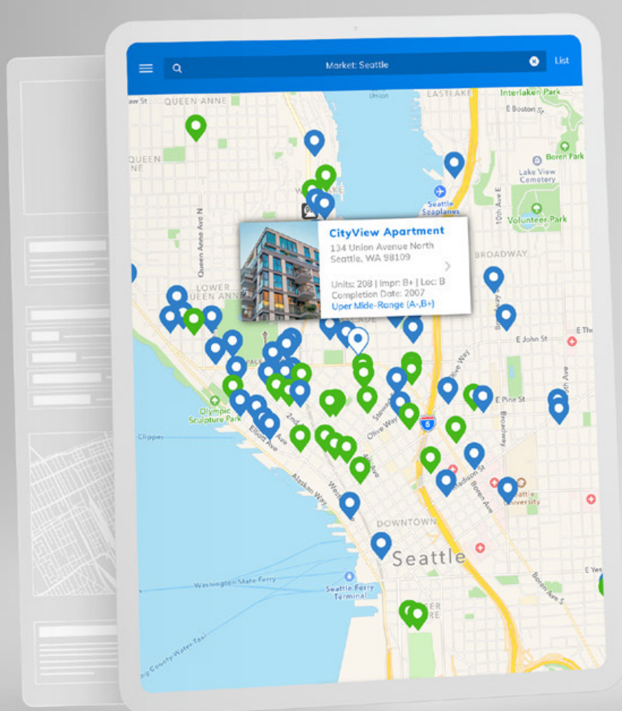

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