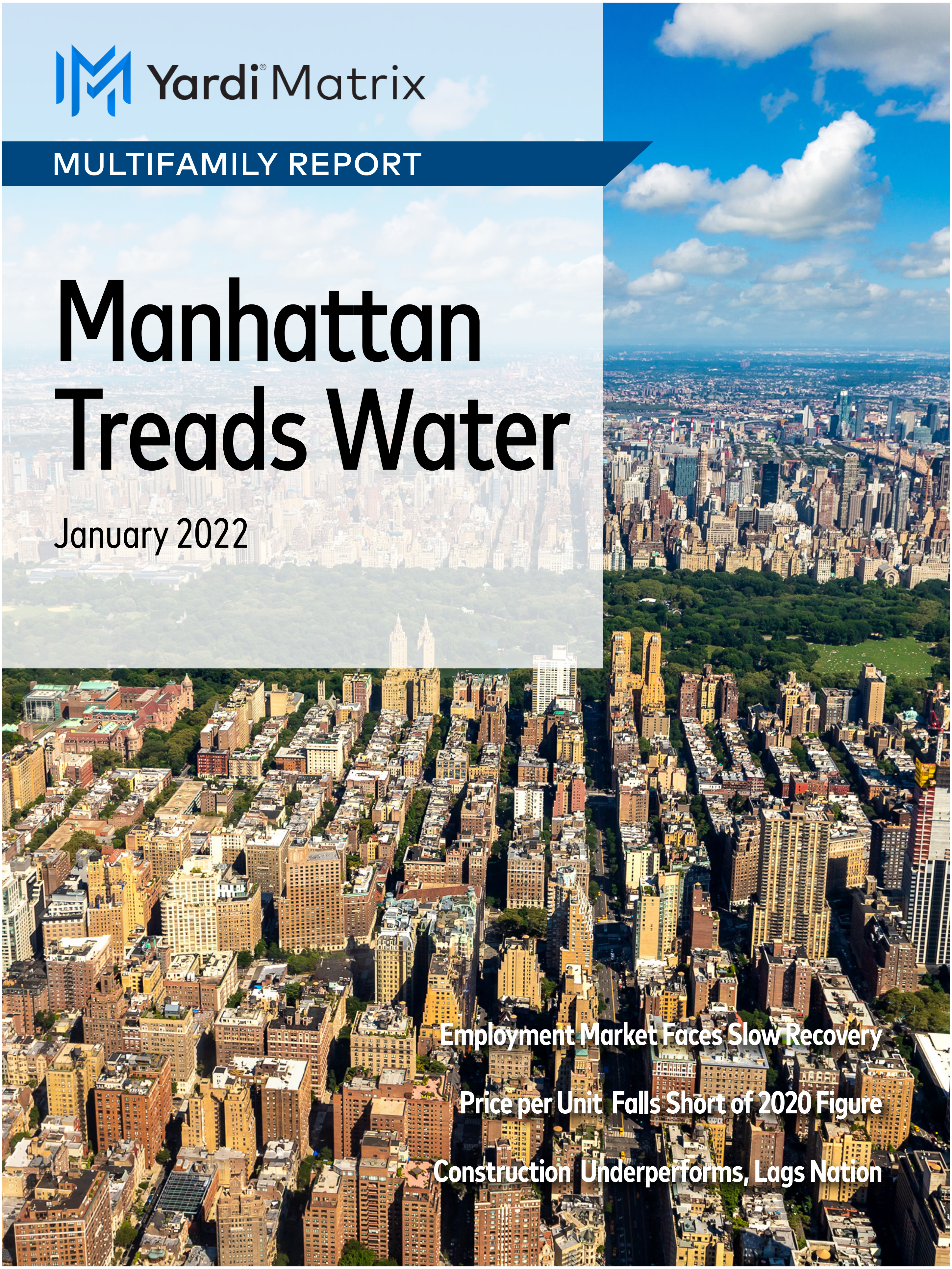
Yardi Matrix

MULTIFAMILY REPORT

Manhattan Treads Water

January 2022



Employment Market Faces Slow Recovery

Price per Unit Falls Short of 2020 Figure

Construction Underperforms, Lags Nation

MANHATTAN MULTIFAMILY

Ongoing Recovery Lacks Consistency

As the hardest-hit major city in the U.S., New York City's recovery has been less than speedy. Lately, Manhattan in particular saw solid demand, with rents rising during the second half of 2021. Rents were up 0.8% on a trailing three-month basis as of November, just 20 basis points below the U.S. average. Occupancy held strong, with the average rate in stabilized properties at 96.4% as of October. With the impending end of the eviction moratorium drawing close, the market is waiting for the fallout from the measure.

Employment has been New York City's largest problem by far, with unemployment most recently at 9.4%, nearly double the fast-recovering national rate. The market has largely struggled to regain its workforce, as most of the drop in unemployment has mainly been due to large numbers of people leaving the labor force, rather than slow job growth. Programs aiming to boost employment in some of New York City's hardest-hit sectors—such as the $100 million New York State Tourism Return-to-Work Grant Program —are directly trying to tackle the expansion of the workforce.

At $1.1 billion last year through November, multifamily investment had already outperformed 2020 totals, signaling some improvement, although a pre-pandemic high seems unlikely. Development largely stalled in 2021, but the pipeline showed some bright spots, with 6,369 units under construction.

Market Analysis | January 2022

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

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Alex Girda
Senior Editor

On the cover: Photo by bloodua/iStockphoto.com

Recent Manhattan Transactions

920 Park Ave.

City: New York City
Buyer: Stonehenge Partners
Purchase Price: $135 MM
Price per Unit: $1,949,275

RENT TRENDS

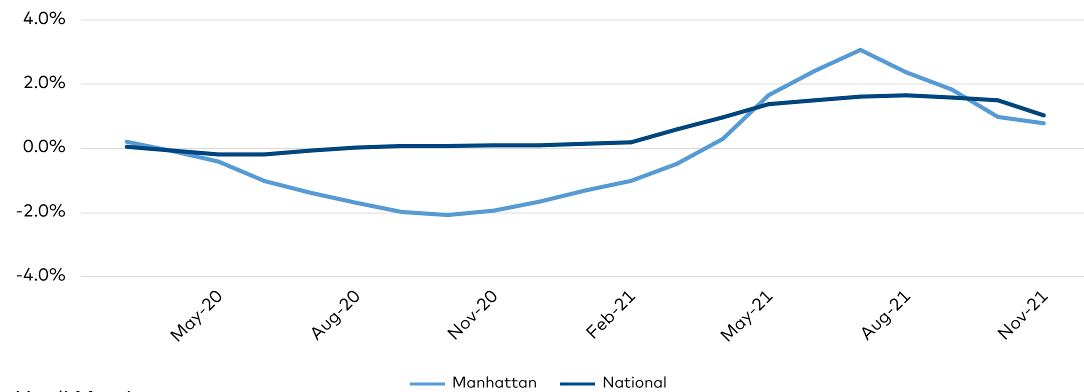
- Rents in Manhattan rose 0.8% on a trailing three-month basis as of November, 20 basis points lower than the national rate. The average rate in the borough remained the highest in the nation, at $4,172, nearly three times the U.S. figure. After struggling for the better part of the COVID-19 pandemic, New York overall experienced something of a bounce back during the second half of 2021, similar to most gateway markets in the U.S.

- Rents in the upscale Lifestyle segment rose the fastest, with improvement at 0.9%, three times the rate of growth recorded in the working-class Renter-by-Necessity segment. Lifestyle figures stood at an average of $4,645, while RBN rents clocked in at $3,209, about 30% lower than the high-end segment.

- Following several drops in rents during the pandemic, the bounce back has led to whopping year-over-year jumps in a few Manhattan submarkets, including Chinatown (up 37.9%), the Financial District (29.8%) and the Theater District (29.2%). Chinatown also had the second-highest average rent in Manhattan, at $5,741, second only to Tribeca, where the average was $6,251.

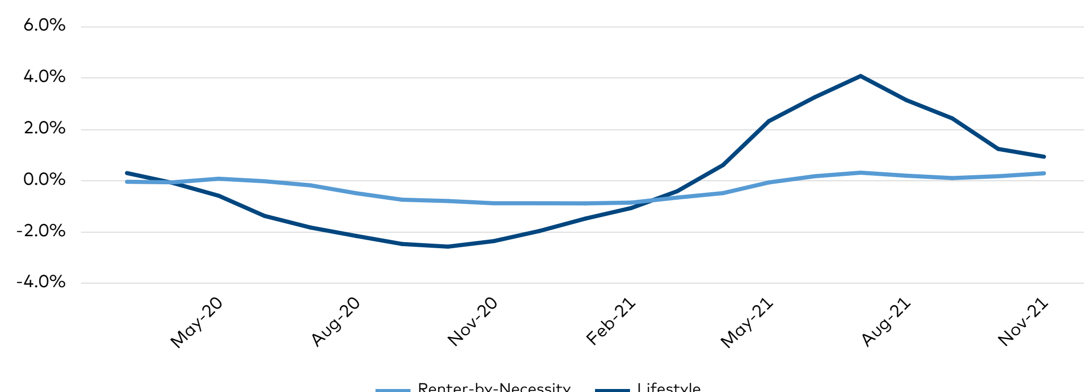
- With average overall occupancy at 96.4% in the borough, the market is prepping for the end of New York's eviction moratorium, which kicked in on Jan. 15.

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

- New York City's unemployment rate stood at 9.4% as of October, nearly twice the national rate. As one of the hardest-hit local economies in the wake of the pandemic, Manhattan saw unemployment soar to 20% in June 2020. However, while other markets are rolling through recovery, even nearing pre-pandemic levels, New York City is struggling to replenish its lost jobs.

- Only three employment sectors were still recording contractions as of September 2021, but the influx of people leaving the labor force was a larger boost toward lowering the unemployment rate last year than the actual recovery of jobs in the city.

- According to the state labor department, the rebound has only translated to the recovery of roughly half of the jobs lost during the health crisis, further highlighting the market's disproportionate employment struggles, even among the hardest-hit major markets in the U.S.

- Among a series of relief and incentive programs to rebuild the labor force, the New York State Tourism Return-to-Work Grant Program will offer up to $100 million to boost employment in the leisure and hospitality sector, aiming to add workforce to the state's struggling tourism industry.

New York Employment Share by Sector

		Current Employment	
Code	Employment Sector	(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

- Manhattan's population was stagnating well before 2020, but the pandemic pushed it on a downward trend.

- Down 1.0% in 2020, the population of Manhattan was further affected by restrictions and the availability of work-from-home options.

Manhattan vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Manhattan	1,629,780	1,628,701	1,628,706	1,611,989

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

SUPPLY

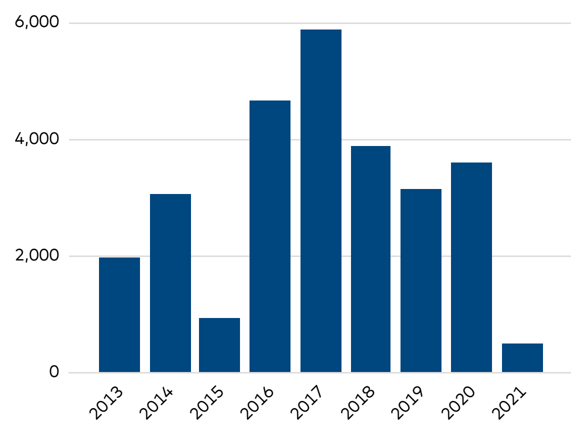
- Developers had 6,369 units under construction in the borough as of November 2021. Deliveries in Manhattan have fluctuated significantly throughout the past decade, from a cycle high of 5,893 units in 2017 to the 935-unit low point of 2015. Only 506 units had come online in 2021 through the first eleven months, 0.2% of existing stock and less than one-tenth of the national rate. Restrictions, availability of construction labor and rising costs have pushed development timelines considerably.

- Another 23,900 units were in the planning and permitting stages in the borough, highlighting that, despite a very tepid increase in supply, there is still demand for rental stock in Manhattan. To illustrate, the average occupancy rate in stabilized properties was 96.4% as of October—one of the highest among major markets. That's a whopping 460-basis-point increase in occupancy year-over-year, as the market bounced back following the implementation of vaccines and the easing of restrictions.

- Multifamily development activity is mainly focused on three submarkets, each with more than 1,000 units underway: Chelsea (1,807 units under construction), Hell's Kitchen (1,136 units) and East Harlem (1,124 units).

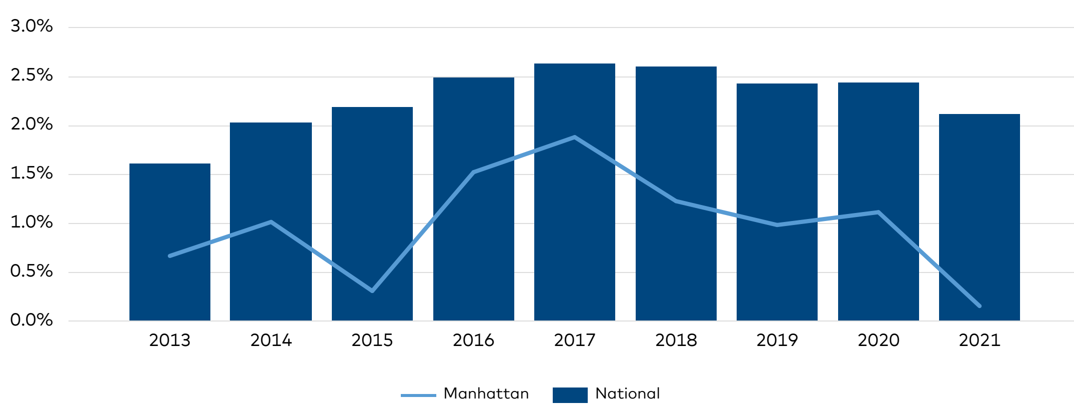
- The largest multifamily project underway is 601 W. 29th St. in Chelsea. The 938-unit development is slated for completion by the end of 2023 and will feature an affordable component.

Manhattan Completions (as of November 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

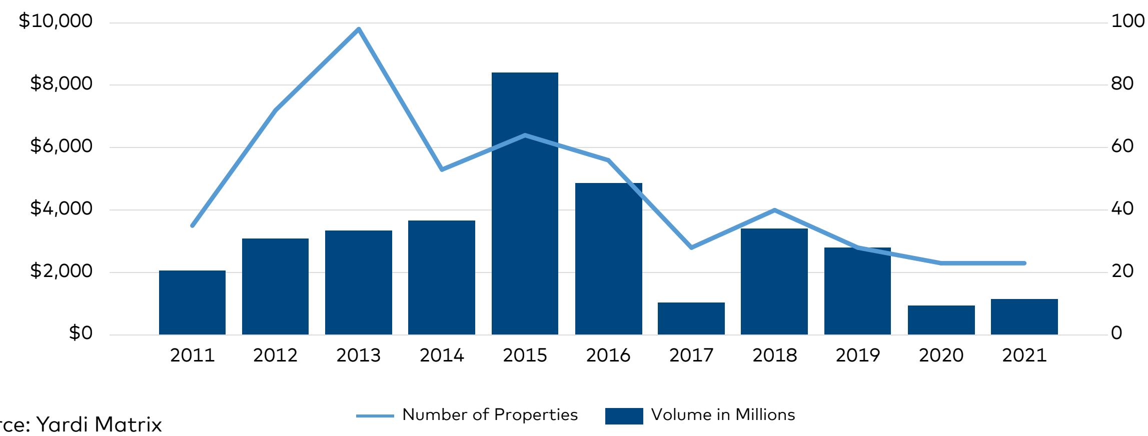
TRANSACTIONS

- Investment sales in Manhattan totaled $1.1 billion in the first eleven months of 2021, bouncing back from the tepid activity of the prior year. In 2020, overall sales did not make it past the $1 billion mark. That was the only time during the past decade that the figure fell short. The number of deals consistently dropped during the same period, from a peak of 98 in 2013 to just 23 in 2021.

- Rental property sales overwhelmingly focused on assets in the Renter-by-Necessity segment, as 21 of 23 completed sales were in the working-class segment. The dynamic has led the market's average price per unit to $679,345. That's 4.3% lower than it was in 2020.

- The top three most-transacted submarkets in Manhattan—Two Bridges ($424 million), the Financial District ($140 million) and Carnegie Hill ($134 million)—accounted for 56% of all multifamily transaction activity during the 12 months ending in November.

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



Source: Yardi Matrix

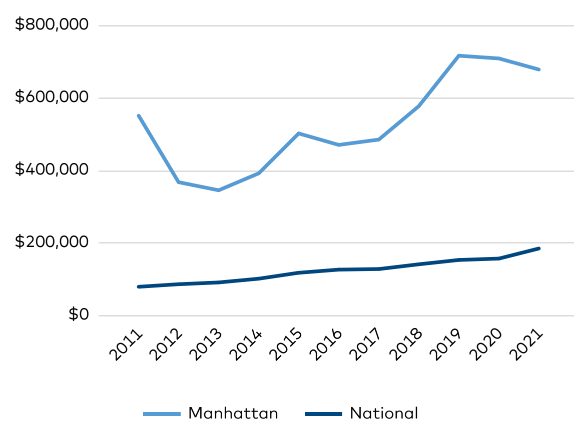
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Two Bridges	424
Financial District	140
Carnegie Hill	135
Upper West Side	99
West Village	93
Central Midtown	92
Lincoln Square	61

Source: Yardi Matrix

[1] From December 2020 to November 2021

Manhattan 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. Founder & Managing Partner Seth Weissman shares how the firm is navigating the metro's financing landscape as a small private lender, and discusses the most sought-after financing products.

How have your lending practices changed since the onset of the health crisis?

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.

Seth Weissman

Urban Standard launched a $100 million investment platform targeting condo projects. How does this strategy fit into the current capital markets landscape?

Urban Standard is a capital solutions provider, so we designed this product to address a need in the market, which we saw consistently on the condo inventory side of our business. Considering that we have an equity business, where we are the owner/developer, we understand first-hand what financing products are needed in the market, and where conventional lenders and even private lenders may fall short.

How do you expect distressed condo and multifamily buildings to impact the capital markets landscape in NYC?

The market will absorb them, and equity will be impaired. But it's a cycle, and buildings and sites purchased post-2020 should flourish, as those acquisitions reflect post-pandemic pricing, labor and material prices.

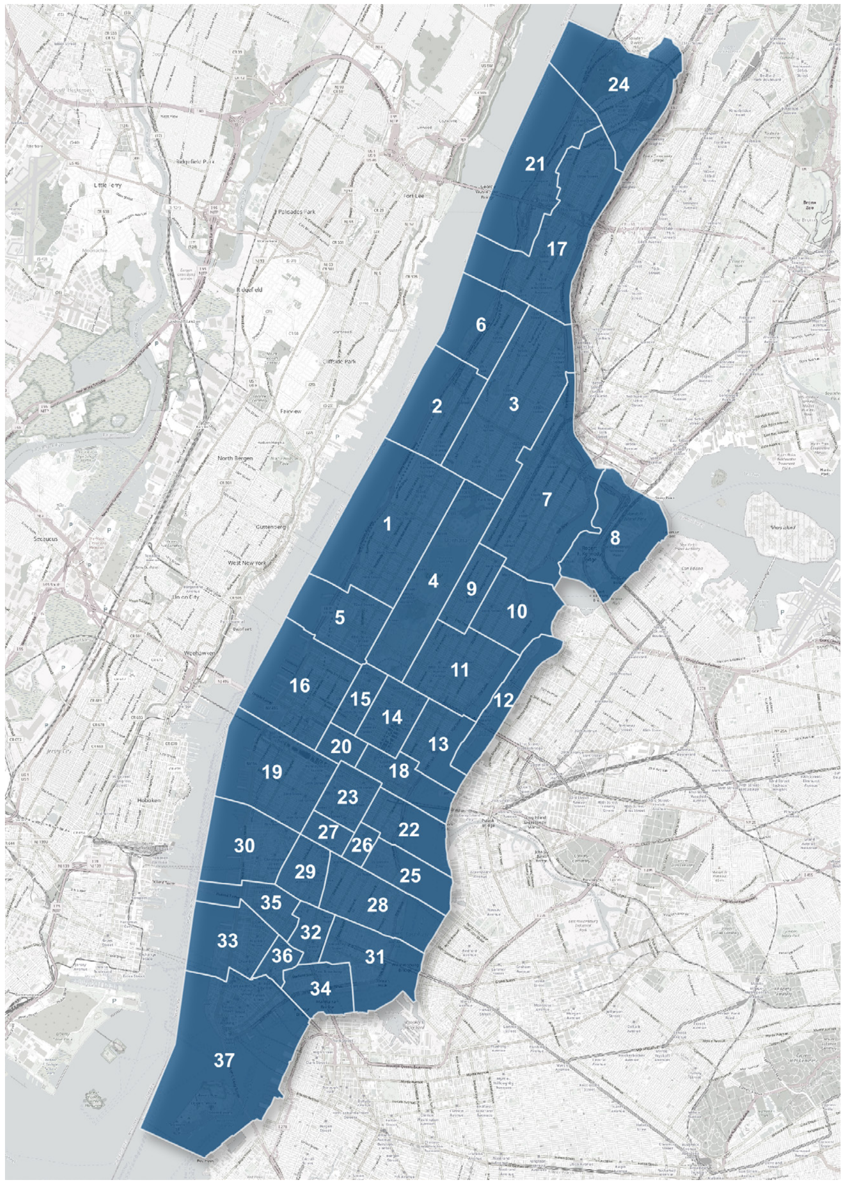
What trends do you expect to shape the financing landscape in NYC for small private lenders?

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.)

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



OTHER PROPERTY SECTORS

Office

- Although overall office sales appetite has been tepid during the pandemic, Manhattan's appeal and penchant for tropy assets have maintained activity at strong levels. With investment volume at $5.4 billion through the first 11 months of 2021, the borough only trailed the Bay Area in transaction totals.

- Construction activity is also still at strong levels in Manhattan. The under construction pipeline accounted for 4.0% of existing office stock as of November, stull one of the largest figures in the nation and nearly double the national rate of 2.3%, per CommercialEdge data.

- Manhattan had 19 million square feet of office space under construction as of November 2021, by far the largest development pipeline among major U.S. markets.

Industrial

- The New York City logistics market largely relies on industrial activity from the nearby New Jersey market, where asking rents rose at some of the fastest rates in 2021, according to the latest CommercialEdge industrial market report. Up 5.4% year-over-year through November, rent growth in New Jersey only trailed hot industrial markets like the Inland Empire (6.2%), Los Angeles (6.2%) and Nashville (5.6%).

- Industrial space is still in high demand in New York State, with major logistics projects still rolling out. Most recently, a $163.3 million development moved forward in Putnam County, N.Y. Developers Lincoln Equities Group and H.I.G. Realty Partners received financing for their Brewster Distribution Center in early December.

Self Storage

- Increased mobility and home fluctuations during the pandemic have driven demand for self storage even higher in under-represented gateway markets like New York. As a result, development activity stays high in the market, where under construction and planned storage space accounted for 18.7% of existing stock as of November 2021, according to the latest Yardi Matrix self storage report. The market led all major U.S. metros for construction activity.

- New York's tight storage market was also highlighted in transaction activity, which also led the nation in 2021. An excess of $3.5 billion in self storage assets traded in the market in 2021, leading all other markets by a whopping $3.1 billion.

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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