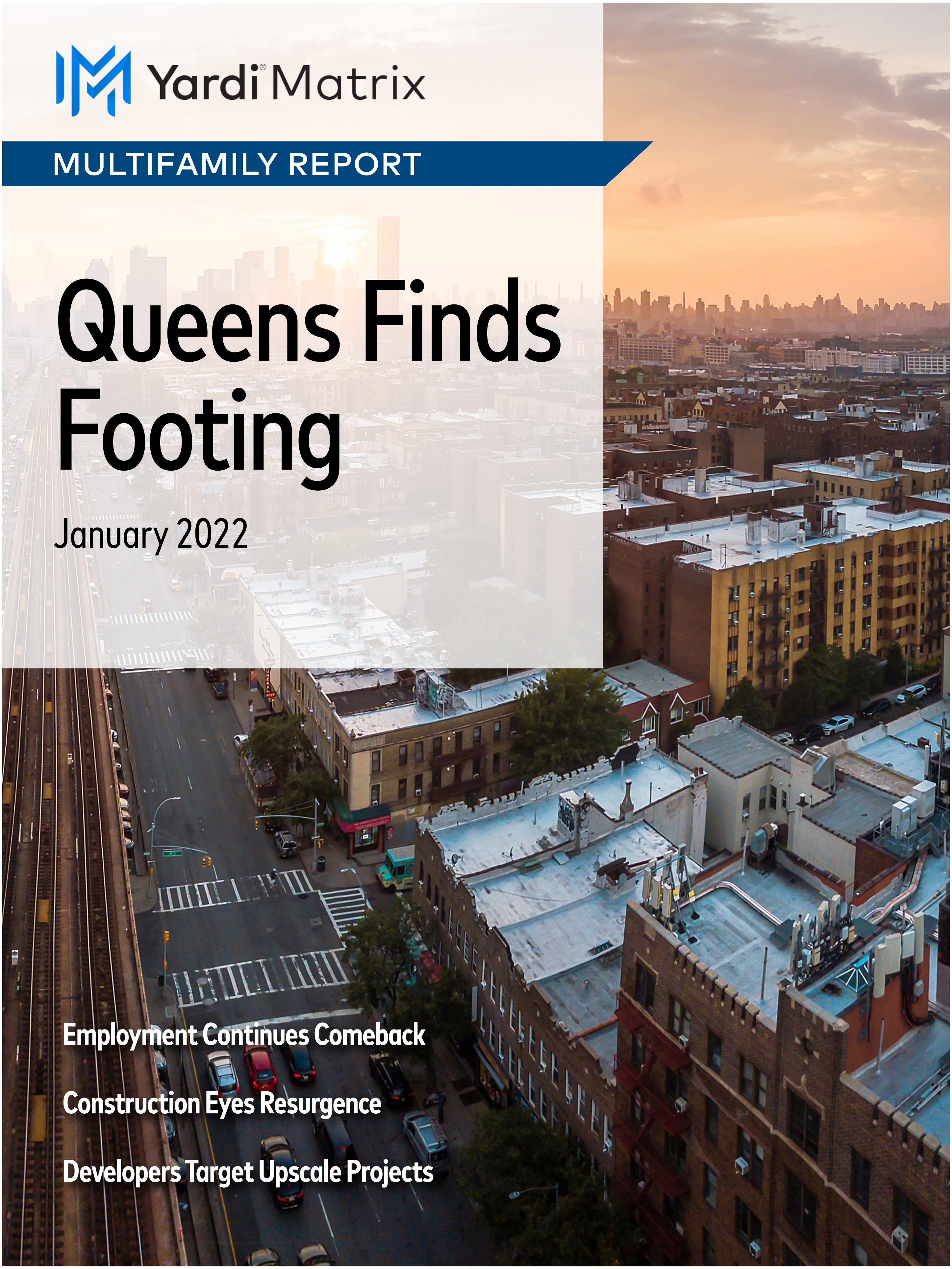
Yardi Matrix

MULTIFAMILY REPORT

Queens Finds Footing

January 2022



Employment Continues Comeback

Construction Eyes Resurgence

Developers Target Upscale Projects

QUEENS MULTIFAMILY

Yardi Matrix

Recovery Begins To Take Shape

Queens continues to build on its previous momentum on the challenging road to recovery. Rents in the borough were still on the rise and reached an average of $2,723, up 100 basis points on a trailing three-month (T3) basis through November, on par with the national rate. Lifestyle figures rose 80 basis points, to $3,518, while the average working-class Renter-by-Necessity rate increased 1.1%, to $2,132.

The New York City unemployment rate decreased to 6.3%, continuing its drop from the 17% peak recorded in May 2020, according to preliminary data from the Bureau of Labor Statistics. While the momentum is encouraging, the metro is still 170 basis points above the national average. NYC added 221,800 jobs in the 12 months ending in September for a 7.8% gain, 142 basis points above the U.S. figure. The hardest-hit sector, leisure and hospitality, experienced the most significant growth, increasing by 23.2%, with 96,300 jobs added. While high vaccination rates have helped build confidence, many businesses struggled to fill the open positions as former employees turned to other sectors.

As of November, developers had added only 1,063 units to the borough's inventory. Although this was an improvement compared to the decade low recorded in 2020 when only 828 units came online, it was still a severe drop from 2019's peak of 3,782 units.

Market Analysis | January 2022

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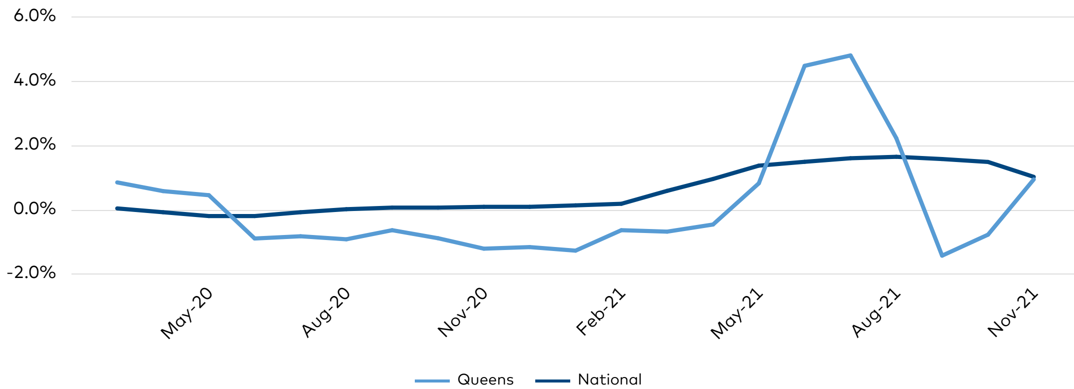
RENT TRENDS

- Rents in Queens were up 1.0% on a trailing three-month (T3) basis through November, on par with the national rate. The overall average rent in New York City's largest borough reached $2,723, still well above the national rate of $1,590. Year-over-year, rents in Queens rose 9.9%. While this is significantly below the 13.5 % U.S. average, prices in the borough have risen over the past two quarters. Lifestyle rates rose 0.8%, to $3,518. Meanwhile, the average working-class Renter-by-Necessity figure increased by 1.1%, to $2,132 as of November.

- The occupancy rate in stabilized properties rose only 10 basis points year-over-year, to 98.0% as of October. Lifestyle assets experienced a 0.1% growth rate in occupancy, to 97.6%, as the health crisis hit expensive gateway markets the hardest, with upscale rental assets in these metros being impacted the most. At the other end of the quality spectrum, while occupancy in Renter-by-Necessity communities clocked in at 98.1%, the occupancy rate contracted by 0.3%. Fluctuations in occupancy numbers will most likely remain stable in upcoming months, as Gov. Kathy Hochul signed a new statewide eviction moratorium into law in September. The moratorium is effective through January 15.

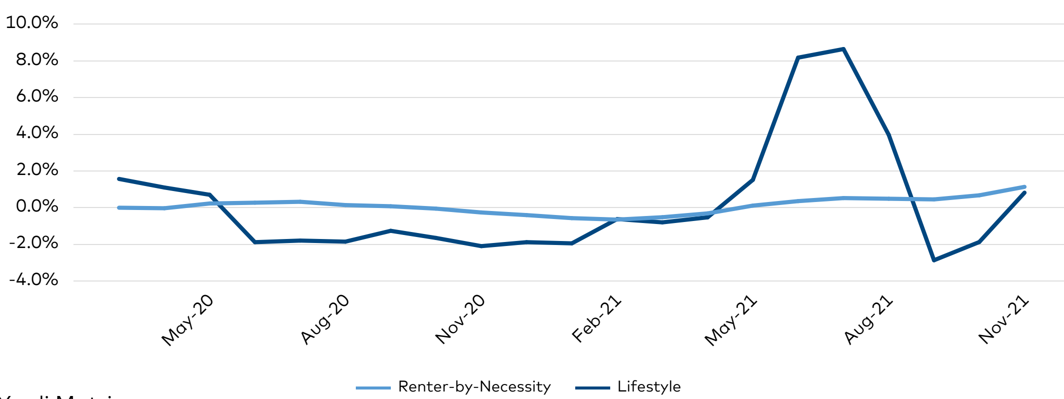
- All submarkets in the borough recorded rent growth in the 12 months ending in November. Long Island City—the priciest submarket—stood out with a double-digit increase, as rates were up 19.4%, with figures clocking in at $3,717.

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 recorded an unemployment rate of 6.3% in October, according to preliminary data from the Bureau of Labor Statistics. Although the metro has improved significantly since the 17% peak in May 2020, the rate is still 170 basis points above the national average. The metro added 221,800 jobs in the 12 months ending in September. This represents a 7.8% growth rate, 140 basis points above the U.S. average.

- Leisure and hospitality recorded the most significant growth, expanding by 23.2%, with 96,300 jobs added. High vaccination rates across NYC allowed tourists and residents alike to explore the city with more confidence. Many businesses are having a hard time filling positions as former employees were forced to change careers in pursuit of stability. Both professional and business services and education and health services added similar numbers: 49,500 and 48,500, respectively.

- In order to help the shortages in affordable housing experienced across the country, Gov. Hochul recently announced that $145 million would be distributed to 21 developments in New York state to preserve some 1,200 affordable homes. Apart from the economic difficulties caused by the ongoing health crisis, New York City also had to deal with the aftermath of hurricane Ida, which forced thousands to relocate.

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

- Queens lost almost 21,000 residents in 2020 for a 0.8% contraction, while the national figure showed a 0.4% increase.

- The borough's population began steadily declining in 2016 and recorded a decrease of some 57,000 residents in the ensuing five years.

Queens vs. National Population

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

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

SUPPLY

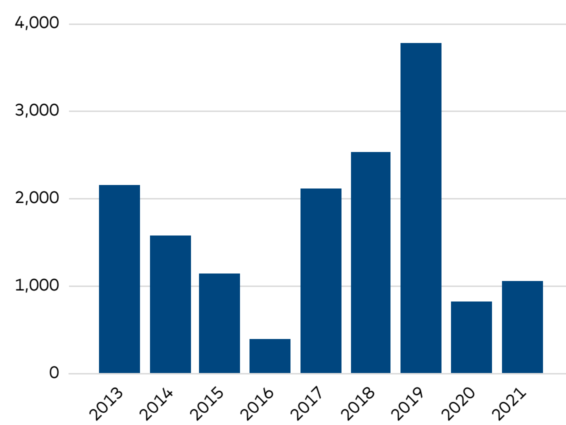
- Some 11,177 units were under construction across the borough as of November. Developers are catering to high-income renters, with more than three-quarters of the pipeline in upscale projects. About 4,630 units across 17 developments are expected to be added to the inventory by the end of 2022. Also, as of November, Queens had some 42,200 units in the planning and permitting stages.

- The impact of restrictions continued to be felt across the multifamily sector. Developers completed four communities in 2021 through November, adding 1,063 units to inventory. This represents 1.0% of total stock, 110 basis points less than the national average. While construction activity picked up compared to 2020, when only 828 units were added to the inventory, it has recorded a severe drop from 2019's numbers, when the borough delivered the most units (3,782) in a decade.

- Long Island City led the way in construction activity with 4,687 units under development as of November, or 42% of the pipeline. Up next with an almost equal number of units underway was Jamaica (2,127 units) and Astoria (2,080 units).

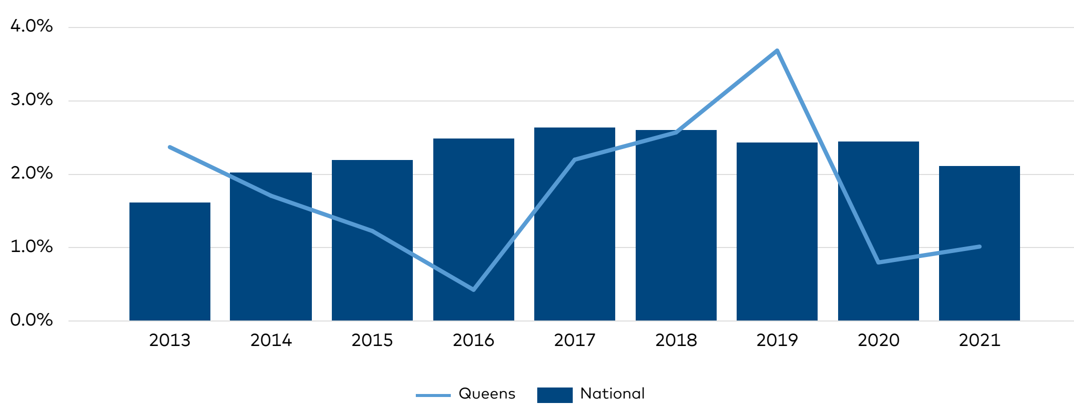
- The largest project to come online in the first 11 months of 2021 was The Crossing at Jamaica Station, a $400 million mixed-use tower that features 699 affordable units, plus retail and a community facility. Developed within an Opportunity Zone, The BRP Development project required 11 sources of capital, from traditional private equity to state tax credits, low-income tax credits and three different mortgages.

Queens Completions (as of November 2021)



Source: Yardi Matrix

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



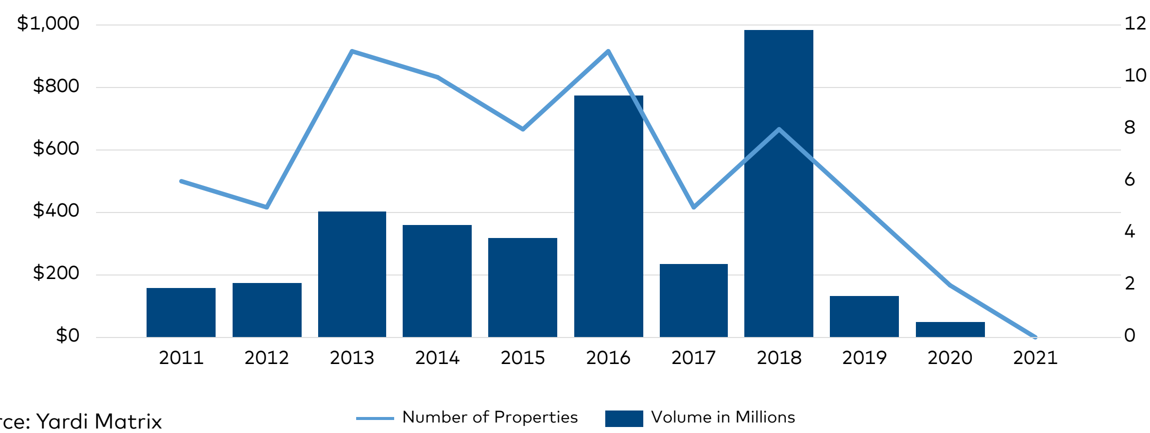
Source: Yardi Matrix

TRANSACTIONS

- The effects of the health crisis continued to influence investor confidence in the borough in 2021. As many companies postponed the office opening dates due to the rise of cases, workers paused their return to the city.

- Only one property of 50-plus units traded in Queens through November. While transaction volume grew 74% compared to the same period in 2020, it has yet to come close to the decade high recorded in 2018, when $984 million in rental properties traded. Although the average price per unit in Queens has experienced a steady decline since the decade peak of $328,069 recorded in 2018, it has still consistently topped the national average. The Carlyle Group spent $85 million at the end of November for 22-22 Jackson Ave., a 175-unit Lifestyle property in the Long Island City submarket. The new owner assumed the $65.6 million CMBS financing the seller originally received in 2016.

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



Source: Yardi Matrix

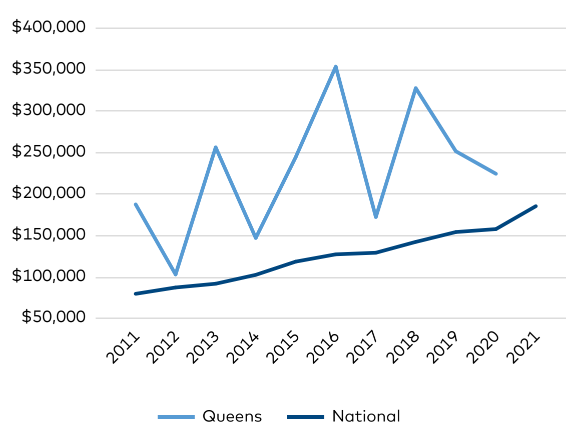
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Long Island City	85

Source: Yardi Matrix

[1] From December 2020 to November 2021

Queens 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.

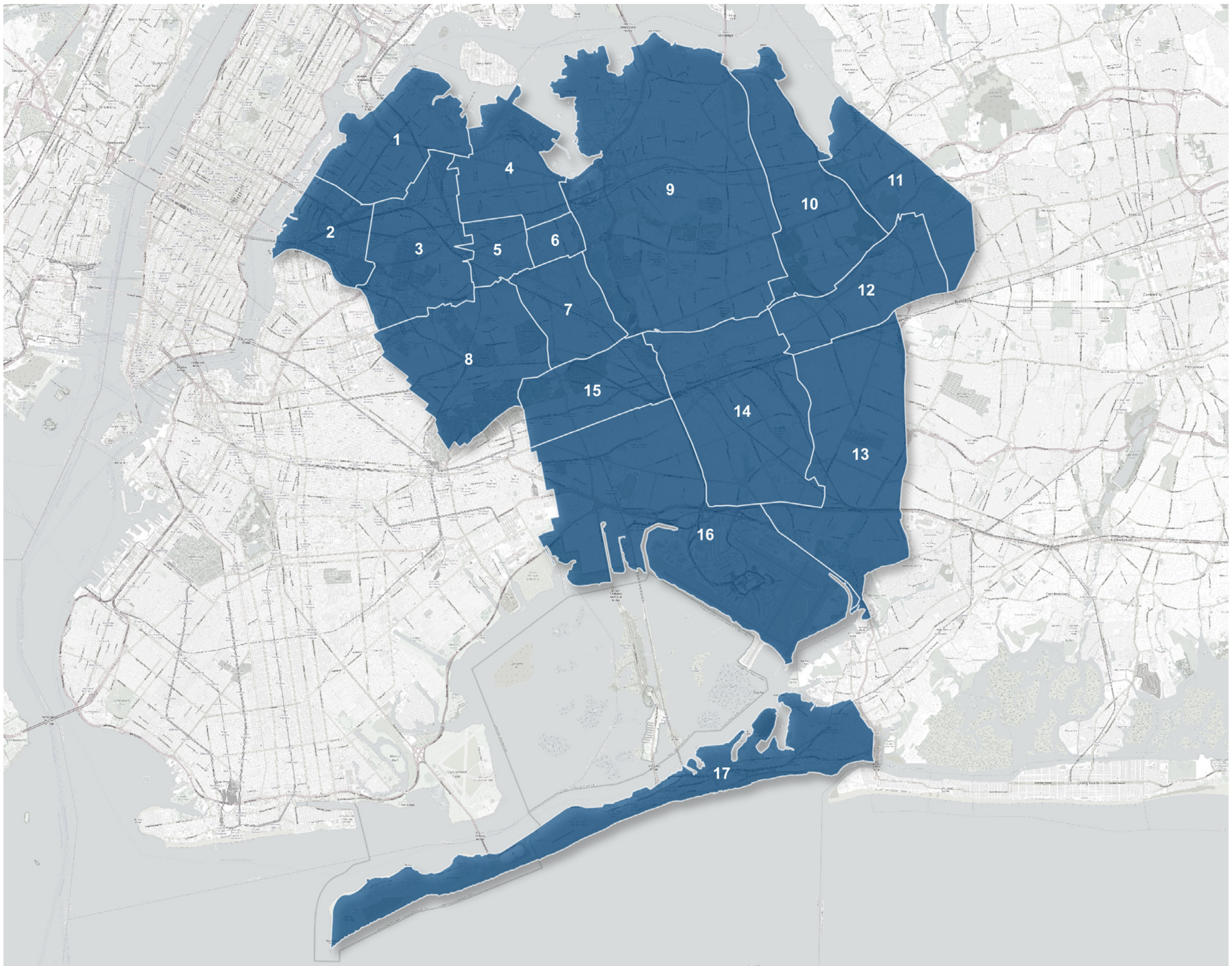
Construction costs, both labor and materials, project delays, New York City bureaucracy, COVID-19 and so on, have crushed the bottom line for most developers. Therefore, the current focus for developers is to maximize equity recovery and move on to the next project.

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.)

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

OTHER PROPERTY SECTORS

Office

- The U.S. office sector is still recovering from a difficult couple of years, with national vacancy rates increasing 140 basis points to 15.2% in the 12 months ending in November, according to CommercialEdge data. However, investor confidence in the asset type is slowly increasing. While still far from pre-health crisis numbers, the national office sales volume grew by 11% compared to the previous year, with a total of $68.8 billion in office sales closed through November.

- Manhattan's office pipeline was still under the influence of uncertainty regarding the future of the workplace, but construction activity picked up in the first 11 months of the year. More than 20 million square feet of office space were taking shape in Manhattan as of November. This accounted for 4.0% of the existing stock, 170 basis points more than the national average. Construction activity focused heavily on redevelopment/renovation projects. The only exception was the 414,000-square-foot Urban League Empowerment Center in Harlem. Queens had only three project underway as of November, totaling almost 200,000 square feet.

- Transaction volumes in Manhattan totaled $5.4 billion through November, according to CommercialEdge data. This marks a significant increased from the same period the previous year, when a little over $4 billion in office properties traded. Additionally, the metro remained the most expensive market with a $1,267 per-square-foot price tag.

- In mid-November, Hackman Capital Partners and Square Mile Capital Management acquired one of New York City's iconic film studios, Kaufman Astoria Studios. The asset features more than 500,000 square feet of production space at 36th Street in the heart of Astoria, Queens.

Industrial

- The industrial sector has recorded significant gains across the country ever since the onset of the health crisis, as substantial e-commerce sales pushed demand for space. Across the U.S., 293.9 million square feet of new industrial supply were delivered through November, according to CommercialEdge data. Also, some 555.4 million square feet of industrial space were underway and an additional 520.5 million square feet were in the planning stages.

- At the end of September, Amazon opened a 1 million-square-foot fulfillment center in Montgomery, N.Y. The property is located at the intersection of routes 17K and 747, just off Interstate 84 and close to the New York Stewart International Airport.

Self Storage

- The self storage industry became a strong performer throughout the health crisis. Even though demand for space has remained high, especially in dense urban areas such as New York City, Yardi Matrix data shows that street rates for assets were coming off record-high gains as of November.

- New York City is one of the most underserved self storage market among major metros and developers have noticed the opportunity. As of November, the city led the way in terms of projects underway, as properties under construction or in the planning stages of development represent to 18.4% of existing inventory, while the national average stood at 8.8%.

- StorageMart expanded its Manhattan presence with an 18-property portfolio in mid-November. Edison Properties, the parent company of Manhattan Mini Storage, grew the brand over the course of more than four decades and was the first and oldest Manhattan self storage company.

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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