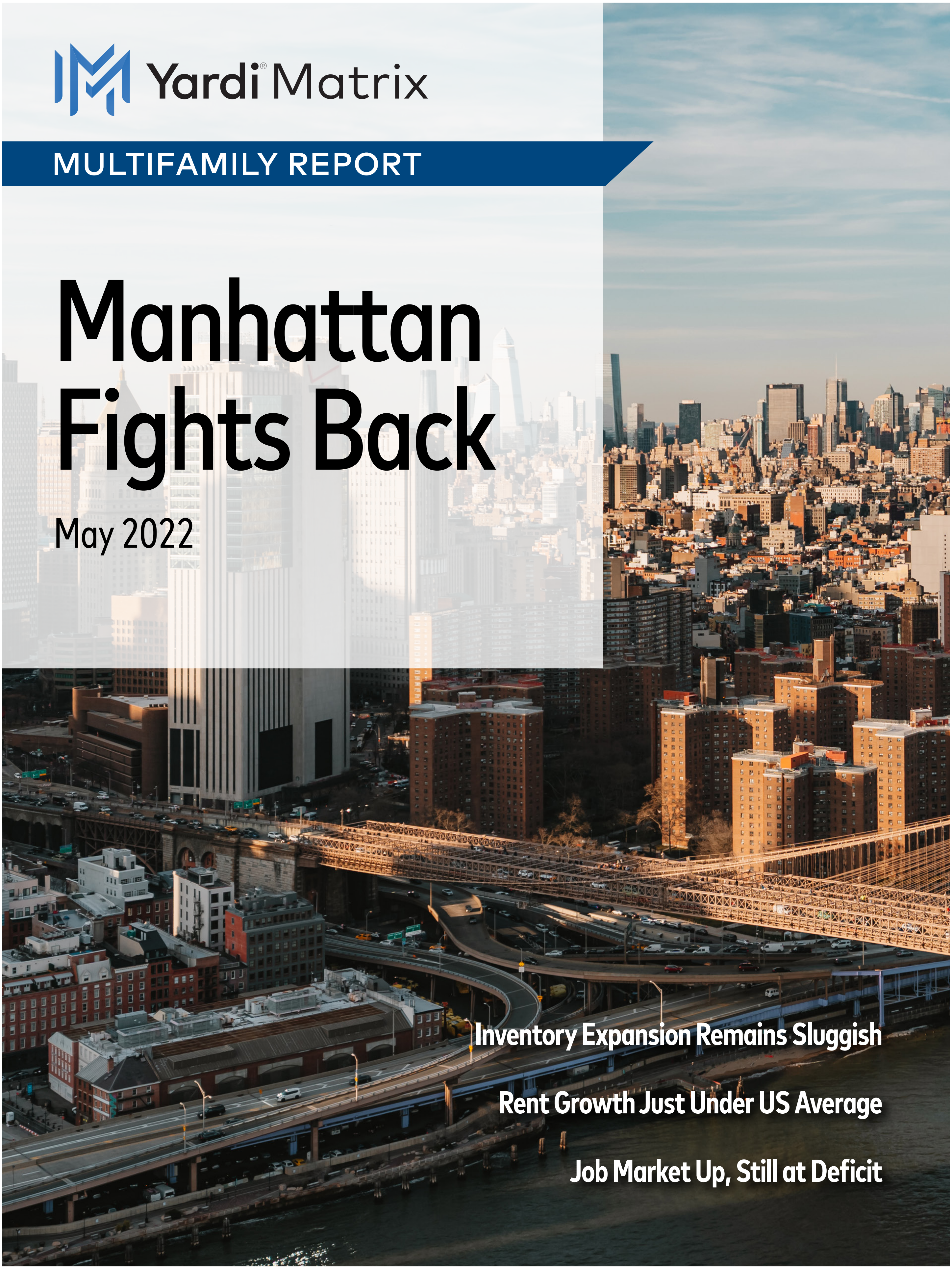
Yardi Matrix

MULTIFAMILY REPORT

Manhattan Fights Back

May 2022



Inventory Expansion Remains Sluggish

Rent Growth Just Under US Average

Job Market Up, Still at Deficit

MANHATTAN MULTIFAMILY

Yardi Matrix

Overcoming Two Tough Years

Following what have been two very difficult years for the market, Manhattan's rental sector seems to have stabilized. Rent growth ended the first quarter of 2022 at 0.5% on a trailing three-month basis as of March, 20 basis points lower than the national rate of improvement. Given the borough's average asking rent, at $4,280, increases are still very significant in absolute numbers.

New York's employment market has faced some of the strongest headwinds in the nation throughout the pandemic, with improvement underway, but slightly underpowered. The metro added some 389,600 jobs in the 12 months ending in February, but further acceleration is necessary if full recovery is to be achieved. The city's leisure and hospitality sector has been the most embattled, but even significant gains over the past year—some 155,400 jobs—leave the sector at a 125,000 job deficit since 2020 levels.

Traditionally slow to add rental stock, Manhattan's multifamily pipeline looks more robust, with 6,897 units under construction, the bulk of which is targeting the upscale segment, which has driven improvement in both rents and occupancy. Meanwhile, transaction activity in 2022 has already outpaced 2020's total, mostly on the back of the sale of the American Copper Buildings to Black Spruce Management. Improvement should endure in 2022, with Yardi Matrix expecting rent growth to reach 5.1% by year-end.

Market Analysis | May 2022

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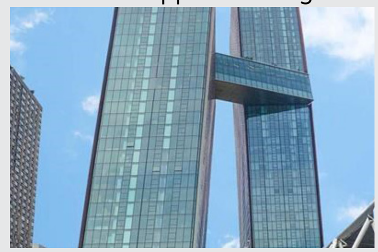
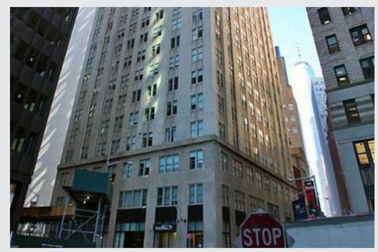
Recent Manhattan Transactions

American Copper Buildings



City: New York City
Buyer: Black Spruce Management
Purchase Price: $837 MM

116 John Street

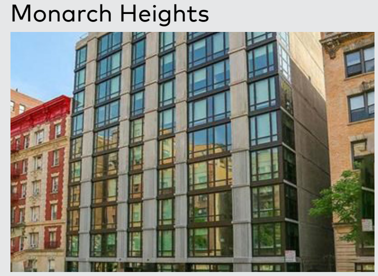


City: New York City
Buyer: Silverstein Properties
Purchase Price: $248 MM

The Cole by Stonehenge

City: New York City
Buyer: Stockbridge Capital Group
Purchase Price: $128 MM

Monarch Heights

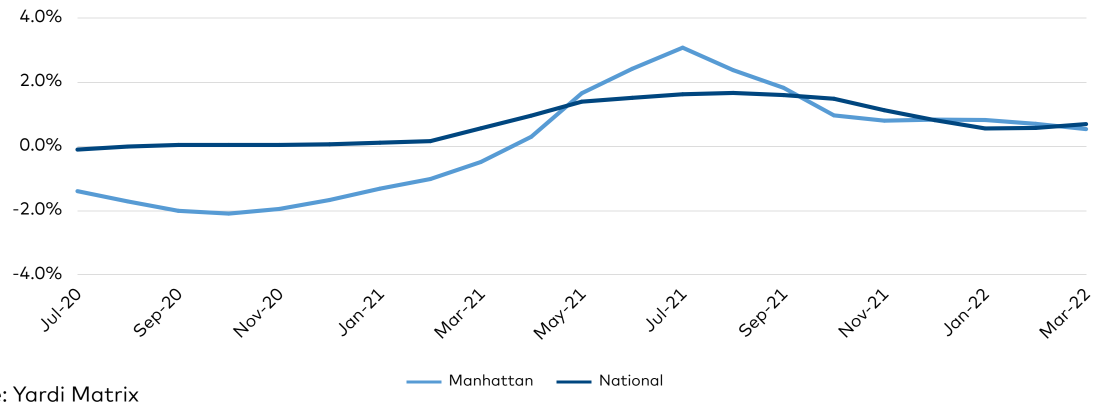


City: New York City
Buyer: The Moinian Group
Purchase Price: $84 MM

RENT TRENDS

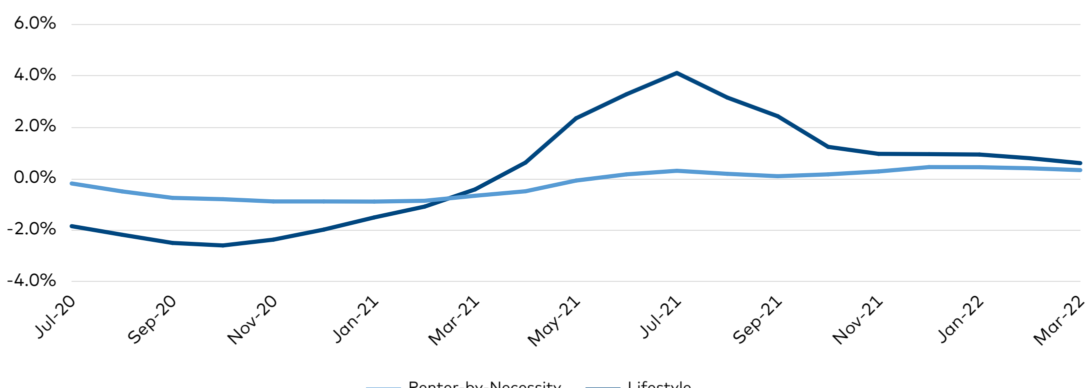
- Rent expansion in Manhattan was 0.5% on a trailing three-month (T3) basis as of March, 20 basis points below the U.S. rate. The average overall asking rate in the borough was the highest in the nation, at $4,280, a far cry from the $1,642 U.S. figure. As one of the markets that were hit hardest by the pandemic, Manhattan's rent growth struggled for the better part of the past two years. An accelerated resurgence that began in the second half of 2021 led to significant gains, petering out in the winter due to a nationally tracked seasonal slowdown.
- Growth came from the Lifestyle segment, where rent gains stood at 0.6% on a T3 basis, while the working-class Renter-by-Necessity segment lagged behind, at 0.3%. The RBN segment is struggling to come back, with occupancy at 96.1%, heavily trailing the rate in upscale assets, at 97.7%, one of the widest gaps in the nation.
- The overall occupancy rate in stabilized properties was 97.0% as of February. Although significantly higher than a year ago when the rate stood at 93.0%, occupancy is still lower than pre-pandemic performance. An accelerated outmigration in the wake of health-crisis-induced restrictions has further exacerbated an already slowing demographic trend in New York City.
- No Manhattan submarkets recorded rent losses on a year-over-year basis as of March, with 14 of the 33 submarkets tracked by Yardi Matrix seeing double-digit improvement.

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 employment is in recovery mode, with 389,600 jobs added in the metro in the 12 months ending in February, a 5.4% rate of growth and 70 basis points higher than the national rate. Despite positive numbers, with unemployment at 6.1% as of January, NYC has a steep climb ahead before it can claim a return to pre-pandemic levels. Decreases in the 2020 to 2021 interval were significantly higher than they were nationally, with the impact of the pandemic and subsequent restrictions driving residents to less dense areas that promised more lax preventive measures.
- All but one employment sector, construction at -600 positions, saw jobs added on a year-over-year basis, as efforts continue to get the workforce to return to the Big Apple.
- New York's leisure and hospitality sector has been severely disrupted, and a complete bounce back will be arduous. Despite having regained some 155,400 jobs in the 12 months ending in February, for a 39.5% improvement, the sector had some 548,000 active jobs at that time. That's still a deficit of more than 125,000 positions compared to February 2020. With the market set to see the opening of 48 new hotels in 2022, totaling roughly 6,500 rooms, the sector's testing period is likely to continue

New York Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	548	8.0%
60	Professional and Business Services	1138	16.6%
40	Trade, Transportation and Utilities	1116	16.3%
65	Education and Health Services	1543	22.5%
50	Information	279	4.1%
80	Other Services	277	4.0%
90	Government	903	13.2%
30	Manufacturing	186	2.7%
55	Financial Activities	617	9.0%
15	Mining, Logging and Construction	239	3.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- New York City's population has been in flux for the entirety of the past decade, although the second half has seen a slow decline, to 1,611,989 residents, down 1.0% year-over-year. We assert that the pandemic only exacerbated this downward trend.

Manhattan vs. National Population

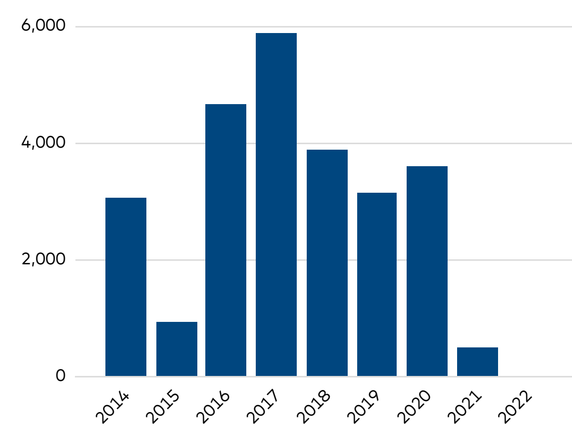
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
New York County (NY)	1,629,780	1,628,701	1,628,706	1,611,989

Source: U.S. Census

SUPPLY

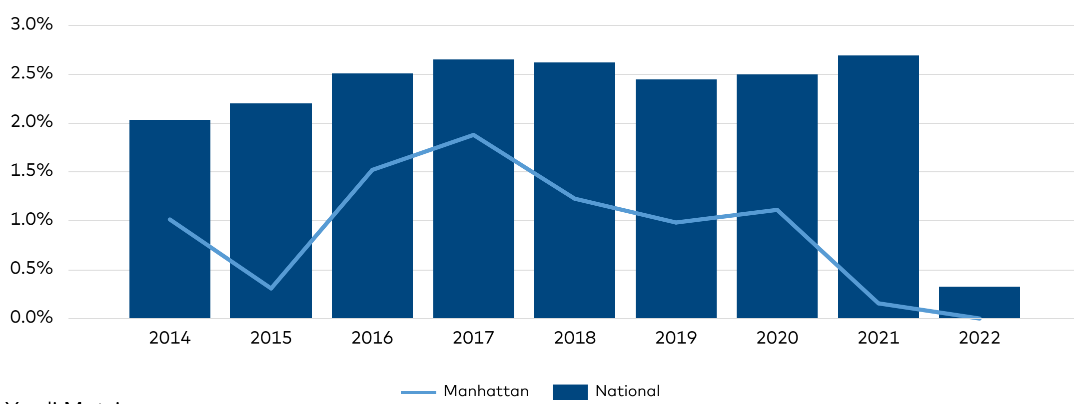
- There were 6,897 units under construction in Manhattan as of March. Inventory expansion in the borough has been largely sluggish throughout the past decade, having never even come close to outperforming the national rate of delivery. Only 506 units came online in 2021, 0.2% of existing inventory.
- Another 26,400 units were in the planning and permitting stages in Manhattan, pointing to a potential increase in multifamily construction in the borough.
- Construction activity is largely focused on upscale stock, with 69% of units underway set to be added to the Lifestyle segment. Construction in the Renter-by-Necessity segment is very limited, while fully affordable projects account for 1,665 units, or 25%.
- Despite far greater construction activity in the Lifestyle segment, average occupancy in stabilized Lifestyle assets was 97.7% as of February, far outpacing the rate in working-class assets, which stood at 96.1%.
- Development was highest in Chelsea (1,807 units under construction), East Harlem (1,136 units) and Hell's Kitchen (1,124 units).
- The largest multifamily project underway in Manhattan is 601 W. 29th St. in the Chelsea submarket. The upscale development is being built by Douglaston Development and Lalezarian Developers. The project is also the largest asset set for delivery by the end of 2022.

Manhattan Completions (as of March 2022)



Source: Yardi Matrix

Manhattan vs. National Completions as a Percentage of Total Stock (as of March 2022)



Source: Yardi Matrix

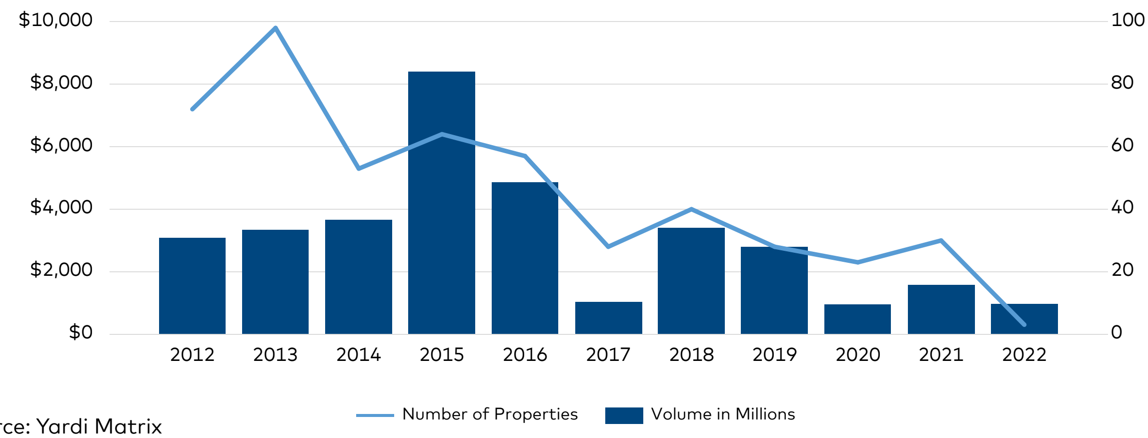
TRANSACTIONS

- Through the year's first quarter, Manhattan multifamily properties have claimed a combined $980 million, already outpacing 2020's overall sales total. With the bulk of that volume coming from the sale of a single asset, actual deal frequency has not seen any significant boost.

- Per-unit prices in Manhattan have been on a largely downward trajectory since 2019, when the average stood at $717,386. The decrease comes as investors targeted assets in the working-class Renter-by-Necessity segment, which accounted for roughly 83% of sales since then.

- In the 12 months ending in March, six submarkets recorded investment activity above the $100 million threshold: Murray Hill, Financial District, Carnegie Hill, Upper West Side, Harlem and Yorkville. Black Spruce's acquisition of the American Copper Buildings in Murray Hill for $837 million is one of the largest multifamily deals in recent memory.

Manhattan Sales Volume and Number of Properties Sold (as of March 2022)



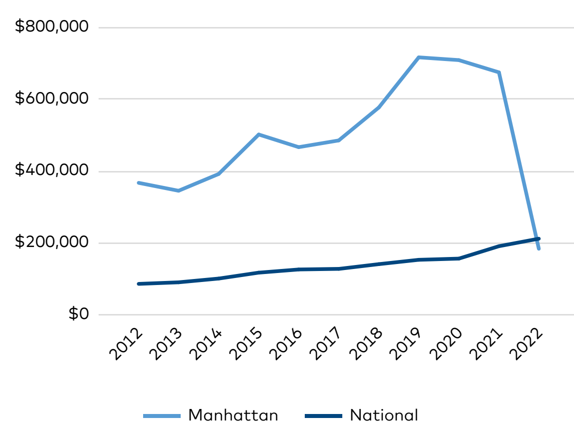
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Murray Hill	870
Financial District	248
Carnegie Hill	135
Upper West Side	134
Harlem	131
Yorkville	128
Central Midtown	92

Source: Yardi Matrix
[1] From April 2021 to March 2022

Manhattan vs. National Sales Price per Unit



Source: Yardi Matrix

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Meredith Marshall on the Need for Housing to Reflect Society

By Denile Doyle

Meredith Marshall's career spans 20-plus years in commercial real estate development. As the co-founder & managing partner of BRP Cos., Marshall is active in all phases of origination, construction and development of affordable, mixed-income and market-rate housing developments. Marshall calls for more naturally occurring affordable housing and discusses the need for more Black and Brown housing developers.

Have you seen meaningful progress when it comes to diversity in the industry?

Four years ago, I was the only African American at a conference with the top 50 developers in the affordable housing space. Last year at that conference, there were two African Americans and one Hispanic developer. Yes, that's progress, but there were almost 50 other people there, so we are still underrepresented.

Affordable housing, especially, is a space where we should have more representation because we represent many of the low-income neighborhoods.

Tell us about the barriers housing developers face.

The approval process is extremely lengthy. I worked on a transaction with the City of New York that took four years to break ground on because we were waiting. That's an issue because so many people need construction jobs to feed their families. Besides needing a lot of capital, NIMBYism and other

pressures are working against you that prevent you from closing that deal.

You have been a big proponent of mixed-income developments. Why are these buildings successful?

Building a 100 percent low-income development and getting all the available subsidies is not what's best for these neighborhoods. I would rather build a mixed-income project.

The alternative is a neighborhood where there's concentrated poverty. It's better to increase the density of units and have market-rate and low-income together. It contributes to social mobility.

Apart from changing tax policies, what else needs to be done to fill the gap?

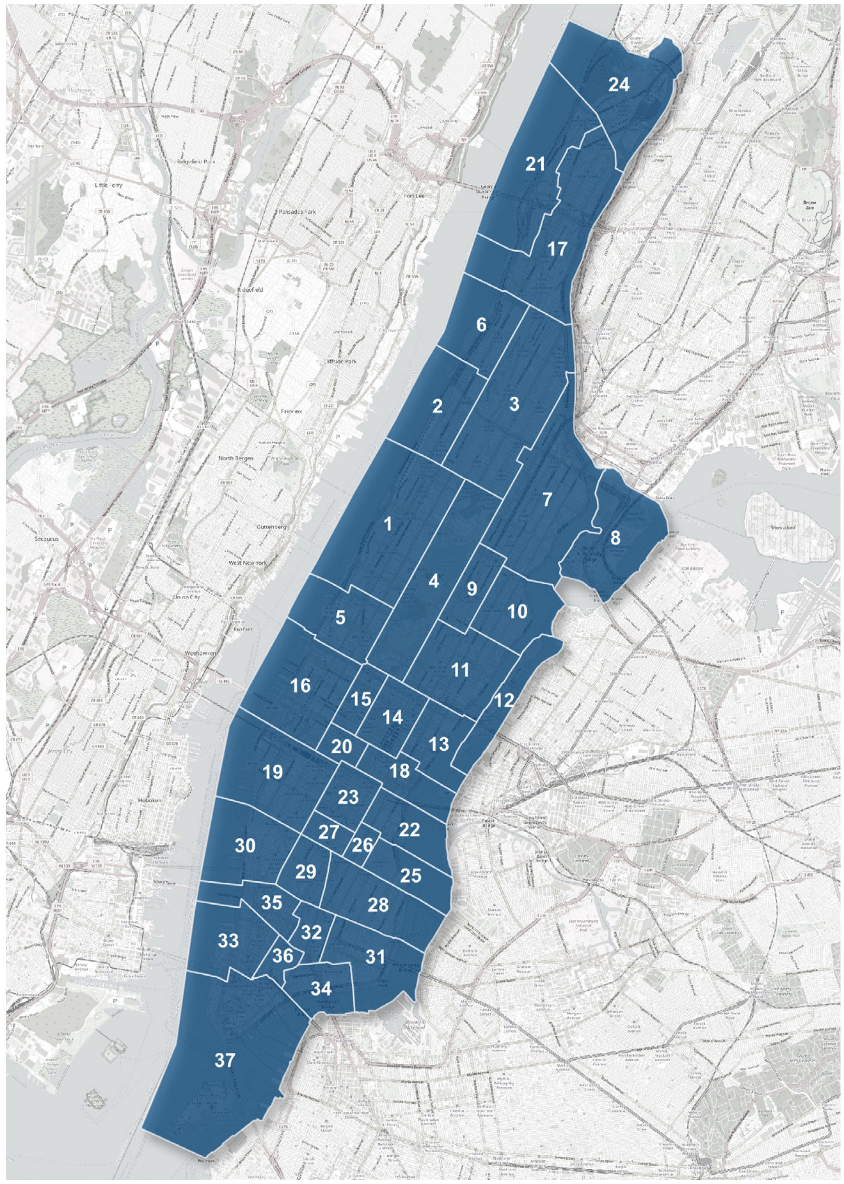
We need 500,000 additional housing units by 2030 in New York City, and we're building 20,000. Of that, 6,000 to 8,000 is affordable. The math doesn't add up. We need to put $25 billion a year over a 10-year period into the market. We should be able to source that because we are the financial capital of the world. That's where naturally occurring affordable housing comes in, but we also need a system.

Housing units are part of a city's infrastructure. And how are we benefiting from that? We have 100,000 of our children in the public-school system who are in shelters—most of them are Black and Brown. I think you'll see smarter policies coming to the fore and that's my hope. I'm optimistic about that glass being half full.

(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

- Manhattan is still the most expensive office market in the nation, despite significant decreases since the onset of the pandemic. According to a CommercialEdge national office report, the average listing rate in Manhattan was $74.20 per square foot, following a 13.5% decrease on a year-over-year basis.
- Despite some price corrections, the borough is still the site of a number of ambitious office projects, with its development pipeline totaling 19.2 million square feet under construction as of February.
- The largest project under construction in Manhattan is the 50 Hudson Yards tower, a 2.9 million-square-foot office asset developed by Mitsui Fudosan. The project topped out at the end of 2021.

Industrial

- The New Jersey logistics market has improved over the past year, the latest CommercialEdge national industrial report shows. The market is one of the few in the nation to see the value of average leases signed over the past 12 months in the double digits, at $10.51 per square foot.
- The area's average vacancy rate was at 3.7%, 150 basis points below the U.S. average, showcasing strong demand for industrial space in New York-New Jersey.
- With rents moving higher and vacancy tight, the industrial market is also recording deals. Recently, a seven-property industrial portfolio scored a $61 million refinancing deal from Chase. Owner Seagis Property Group worked with JLL Capital Markets to secure the funding.

Self Storage

- New York is the nation's most dynamic self storage market, with more than $3.5 billion in transactions recorded in 2021. As a high-density market, storage space comes at a premium and is consistently in demand, especially in conditions as those brought by the pandemic. The average price per square foot for storage space in NYC was roughly 4 times higher than other top markets for self storage sales in the U.S.
- New York also led the nation for planned and under construction storage space as a percentage of existing inventory, at 19.0% as of March, the latest Yardi Matrix national self storage report shows.

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 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 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, 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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MULTIFAMILY KEY FEATURES

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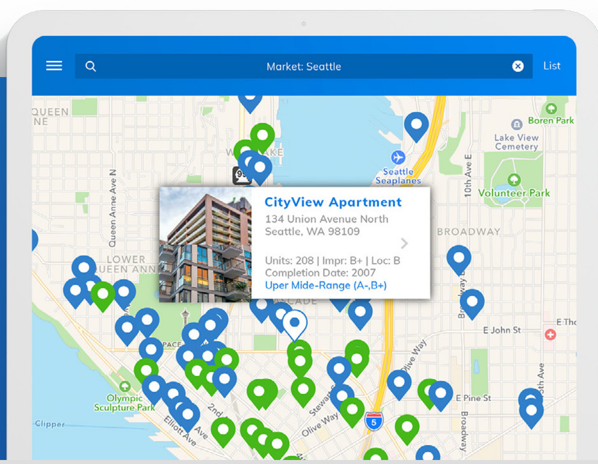
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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