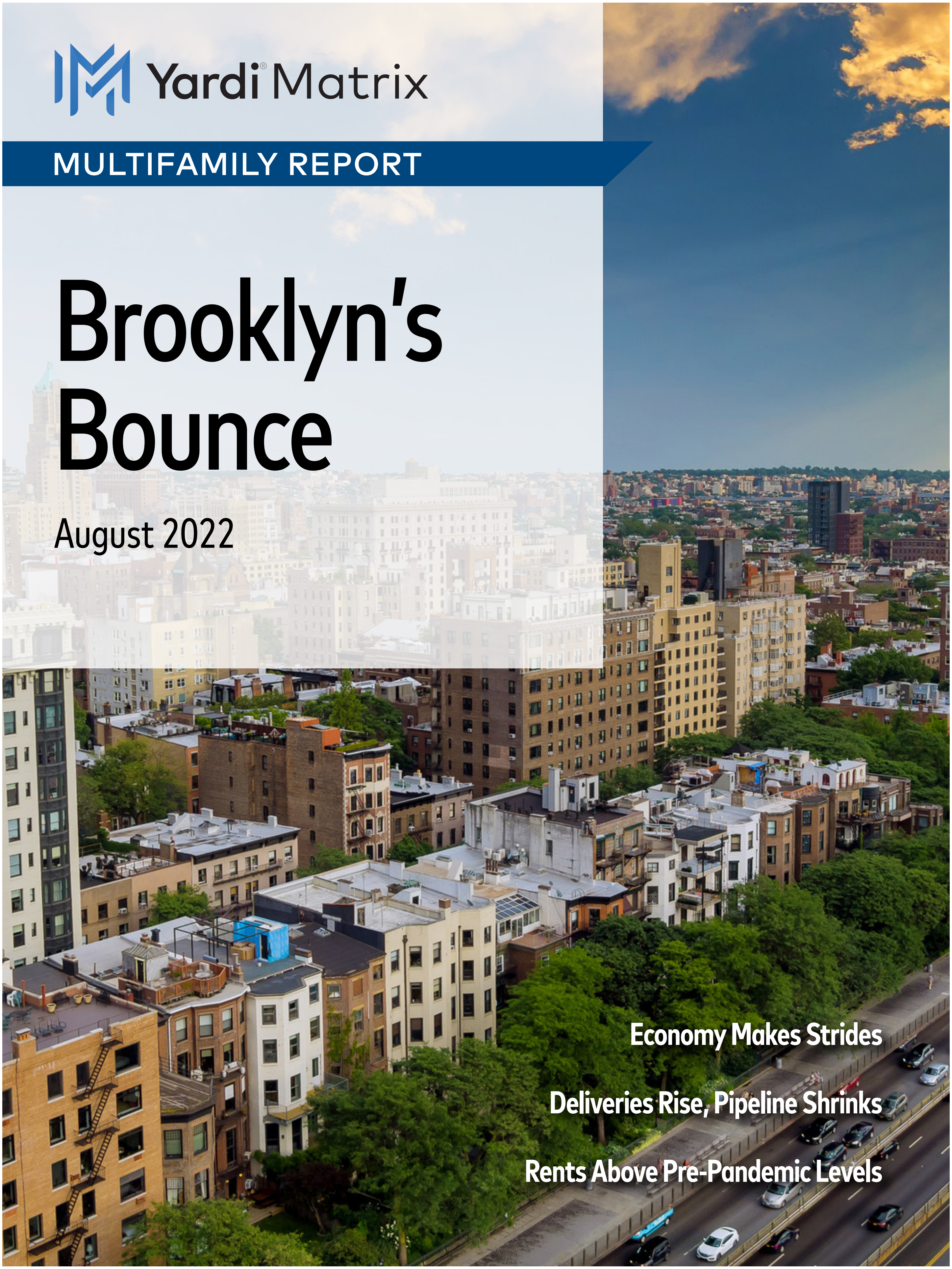
Yardi Matrix

MULTIFAMILY REPORT

Brooklyn's Bounce

August 2022



Economy Makes Strides

Deliveries Rise, Pipeline Shrinks

Rents Above Pre-Pandemic Levels

Yardi Matrix

Brooklyn Regains Some Luster

New York's economic recovery accelerated later, in line with other large coastal cities, but it is now gaining ground fast, with boosting multifamily fundamentals. Year-over-year, Brooklyn rents grew by 11.2% to an average of $3,178, some $200 above the borough's pre-pandemic figure. Meanwhile, the already tight occupancy rate was up 60 basis points year-over-year through May, to 98.5%.

New York City added 403,000 jobs in the 12 months ending in May, for a 5.8% expansion, outperforming the 4.7% U.S. figure. Meanwhile, unemployment reached 4.6%, still above the national average but marking a 150-basis-point improvement since the beginning of the year. Even so, out-migration and economic turbulence have left their mark. Metro New York still had 560,000 fewer employees in April 2022 than it did before the pandemic hit.

Investor interest followed improving fundamentals and transactions gained steam in the first half of 2022, with the total at $705 million for single-asset sales. This, however, does not capture the Federal Reserve's most recent interest rate hikes, which are likely to widen the bid-ask spread and dampen capital flowing into the sector. Meanwhile, completions accelerated, with 1,747 apartments coming online during the first two quarters, and an additional 13,677 units under construction as of June.

Market Analysis | August 2022

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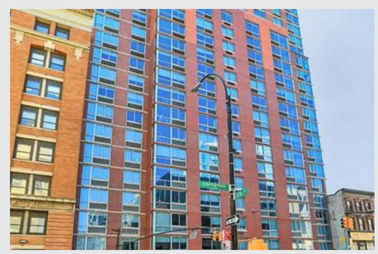
Recent Brooklyn Transactions

The Vitagraph

City: New York City
Buyer: Dermot Co.
Purchase Price: $180 MM
Price per Unit: $526,026

The Addison

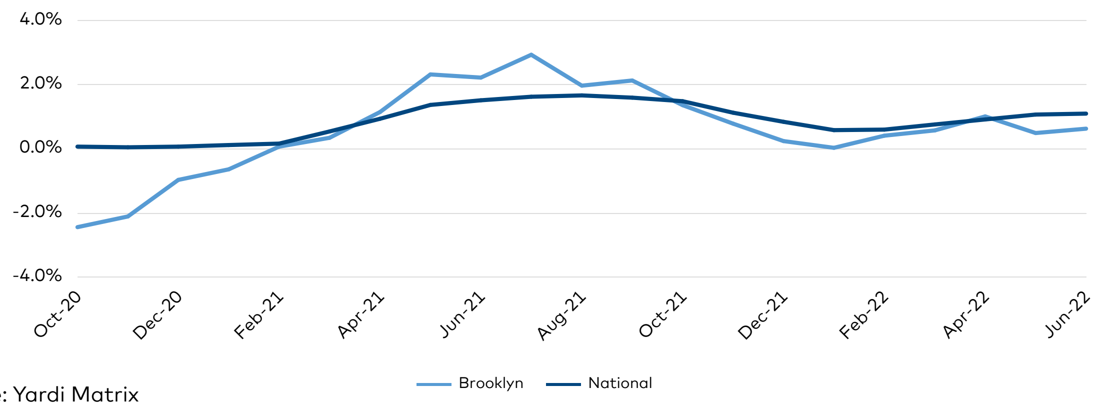


City: New York City
Buyer: Dermot Co.
Purchase Price: $142 MM
Price per Unit: $525,092

RENT TRENDS

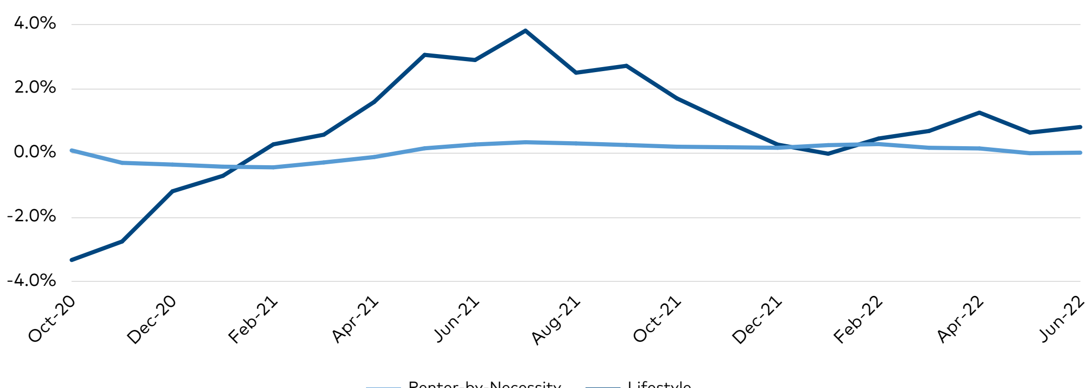
- Brooklyn rents were up 0.6% on a trailing three-month (T3) basis as of June, roughly half the 1.1% national rate. Even so, the average overall rate reached $3,178 in the borough, well above the $1,706 U.S. figure. Year-over-year, Brooklyn rents improved 11.2%, trailing Manhattan (14.1%) and the national average (13.7%). Rates have not only recovered since the COVID-19 pandemic started but also shot past previous figures. The borough's $3,178 average is some $200 above the rate recorded at the beginning of 2020.
- As working-class Renter-by-Necessity rates were flat on a T3 basis, Lifestyle assets continued to lead growth, with upscale rents up 0.8% as of June. This trend has been apparent for some time: Year-over-year, the average Brooklyn Lifestyle rate rose 14.2%, while figures in the RBN segment were up a mere 1.8%.
- While many areas recorded solid gains in the 12 months ending in June, submarkets close to Manhattan led the pack. The list included Fort Greene (20.5% to $3,545), Downtown Brooklyn (19.9% to $4,073), Greenpoint (15.0% to $4,698) and Dumbo (11.9% to $4,643). None of the borough's 30 submarkets tracked by Yardi Matrix registered rent contractions year-over-year as of June.
- While occupancy in stabilized assets has always been high across New York, Brooklyn's rate has bounced back since the early days of the pandemic, up 60 basis points in the 12 months ending in May, to 98.5%. In line with a decade-long trend, occupancy remained tighter in RBN assets (98.9%) than in Lifestyle units (97.9%).

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

- Metro New York City unemployment clocked in at 4.6% as of May, according to preliminary data from the Bureau of Labor Statistics. That was 100 basis points above the U.S. average and 70 basis points above the state's.

- The metro added 403,000 jobs in the 12 months ending in May, which marked a 5.8% employment expansion, above the 4.7% U.S. figure. Following national trends, leisure and hospitality gained the most positions (139,200 jobs) for a 29.0% hike, followed by professional and business services (79,500 jobs) and education and health services (57,500 jobs).

- Construction was the only sector to lose positions on a year-over-year basis, shedding 3,700 jobs. As of May 2022, the sector employed some 252,400 people across the metro, 17,700 fewer than it did before the pandemic hit.

- While the city is making significant strides in its recovery, it still has some catching up to do, having been one of the hardest hit, if not the hardest hit, large cities during the COVID-19 aftermath. Despite its relatively tight labor market, metro New York City still had roughly 560,000 fewer employees as of April 2022 than it did at the beginning of 2020. This is in no small part due to the sudden demographic shifts brought by the COVID-19-induced wave of migration.

New York Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	620	8.8%
60	Professional and Business Services	1176	16.7%
65	Education and Health Services	1577	22.4%
40	Trade, Transportation and Utilities	1130	16.0%
80	Other Services	286	4.1%
50	Information	283	4.0%
90	Government	910	12.9%
55	Financial Activities	624	8.9%
30	Manufacturing	188	2.7%
15	Mining, Logging and Construction	252	3.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Following a trend observed across large coastal markets, New York City's population recorded a significant contraction in 2021, and Brooklyn was no exception. The borough lost 86,341 people last year, which accounted for a 3.1% downtick, while the U.S. population went up 0.1%.

Brooklyn vs. National Population

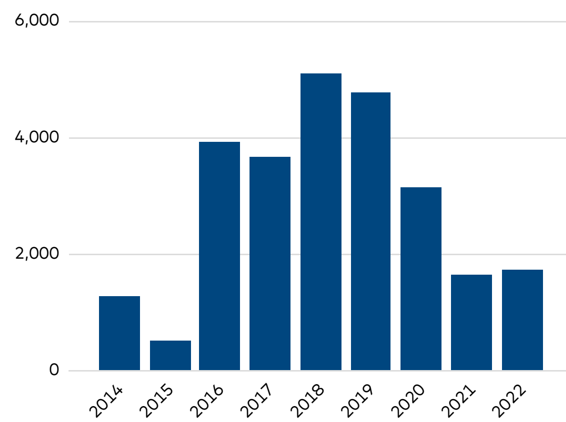
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Brooklyn	2,580,088	2,562,329	2,727,393	2,641,052

Source: U.S. Census

SUPPLY

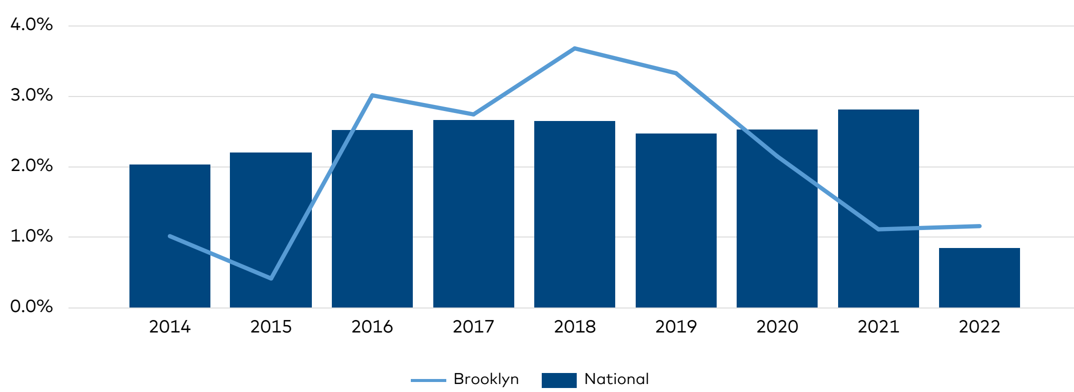
- Brooklyn had 13,677 units under construction as of June 2022, with an additional 39,000 in the planning and permitting stages. While the majority of projects underway are upscale, some 4,000 units in fully affordable communities are also under construction across the borough.
- Projects that broke ground in the first half of the year totaled 2,117 units, marking a slowdown from the 3,682 apartments registered in the same interval of 2021.
- A total of 1,747 apartments came online in the borough in the first two quarters of 2022. That already surpassed the 1,659 units in 2021, which marked Brooklyn's slowest year for deliveries since 2015. Bucking nationwide trends, the majority of projects completed this year were fully affordable, with 1,188 units in such developments coming online through June.
- The largest project to be delivered in the first half of 2022 was Plank Road, a 316-unit high-rise in Prospect Heights that also includes 94 apartments designated as affordable. The development, owned by The Brodsky Organization, came online with help from a $144 million construction loan originated by Bank of New York Mellon.
- As of June, Greenpoint led development, with 2,806 apartments underway. Most construction is concentrated in areas close to the East River, with other submarkets sporting significant pipelines, including Prospect Heights (1,658 units under construction) and Downtown Brooklyn (1,558 units).

Brooklyn Completions (as of June 2022)



Source: Yardi Matrix

Brooklyn vs. National Completions as a Percentage of Total Stock (as of June 2022)

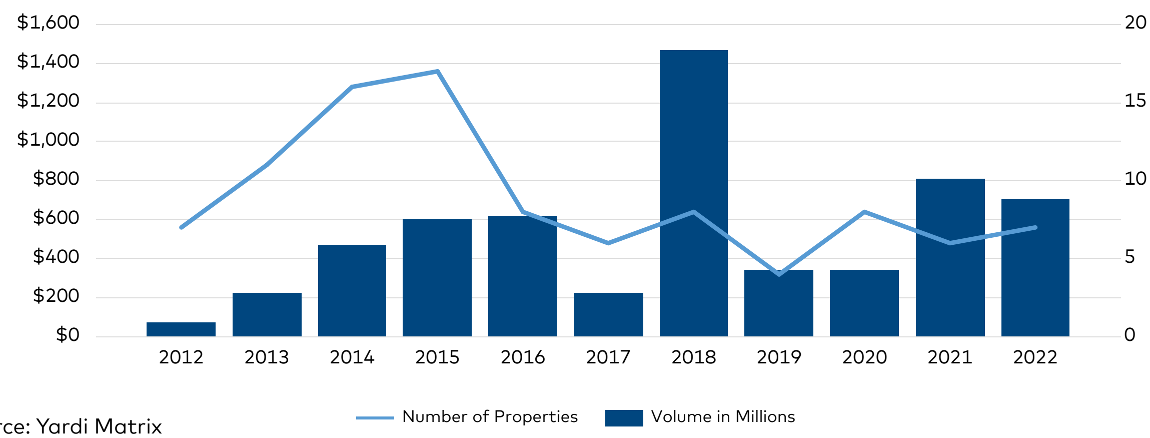


Source: Yardi Matrix

TRANSACTIONS

- Some $705 million in single-asset multifamily properties of 50 or more units traded in Brooklyn in the first half of 2022. In contrast, no such deals closed during the first two quarters of last year, when market recovery was still in its early stages. As large coastal cities gained steam during 2021 and onward, investor interest also returned, and Brooklyn was no exception.
- The largest single-asset deal of 2022 through June was Kohlberg Kravis Roberts & Co.'s acquisition of 250 Gold from Bruman Realty for $225 million. The recently completed 286-unit downtown upscale tower also includes 86 units reserved as affordable.
- Another high-profile deal of 2022 was Avanath Capital Management's $315 million portfolio buy of 535 Carlton and 38 Sixth, two Prospect Heights assets totaling 601 units. Greenland USA was the seller.

Brooklyn Sales Volume and Number of Properties Sold (as of June 2022)



Source: Yardi Matrix

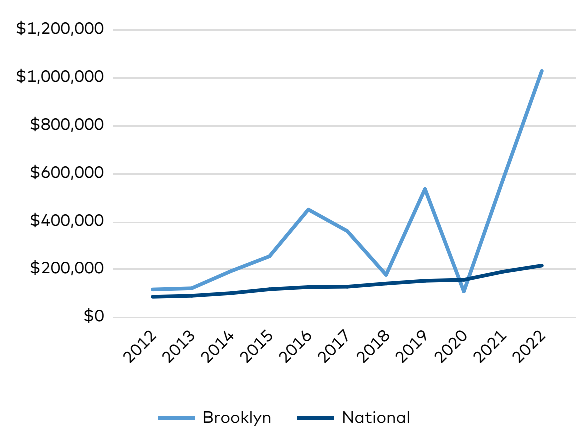
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Bushwick	506
Downtown Brooklyn	367
Williamsburg	274
Midwood	180
Bedford-Stuyvesant	126
East New York	60

Source: Yardi Matrix

[1] From July 2021 to June 2022

Brooklyn vs. National Sales Price per Unit



Source: Yardi Matrix

Why Building Affordable Housing in NYC Has Rarely Been More Difficult

By Corina Stef

For more than four decades, Douglaston Development has been on a mission to ease the New York City's affordable housing crisis. Active within the market-rate, affordable housing and senior affordable housing sectors across the five boroughs, the developer has been extremely busy. CEO Jed Resnick weighs in on both the challenges and the development opportunities arising across the five boroughs.

How would you describe the multifamily climate in NYC today?

Currently, demand across the multifamily industry has never been stronger, with both rental prices and occupancy rates continuing to soar as the city continues its post-pandemic resurgence.

With the expiration of the 421-a tax abatement, ongoing COVID-19-related supply chain issues, and rising construction costs, creating new rental housing has seldom been more difficult.

What is hindering affordable housing development in the metro?

For developers working to create affordable housing offerings in NYC, a myriad of challenges presents itself throughout the development and construction process. The City has limited capital and staff capacity to close proposed projects within the development pipeline. Due to this, many proposed projects remain backlogged in the city's systems, slowing the development of affordable housing.

Elaborate on the development opportunities arising in the industry on a local level.

The demand for affordable housing remains as strong—if not stronger—as ever. It is crucial to the vitality of New York City that quality and affordable living options are available to the entirety of our city's workforce across all industries.

On the market-rate side of the industry, we see opportunity in developing for-sale projects that are not reliant on tax abatements to be financeable.

To what extent have you felt the impact of rising inflation and high interest rates?

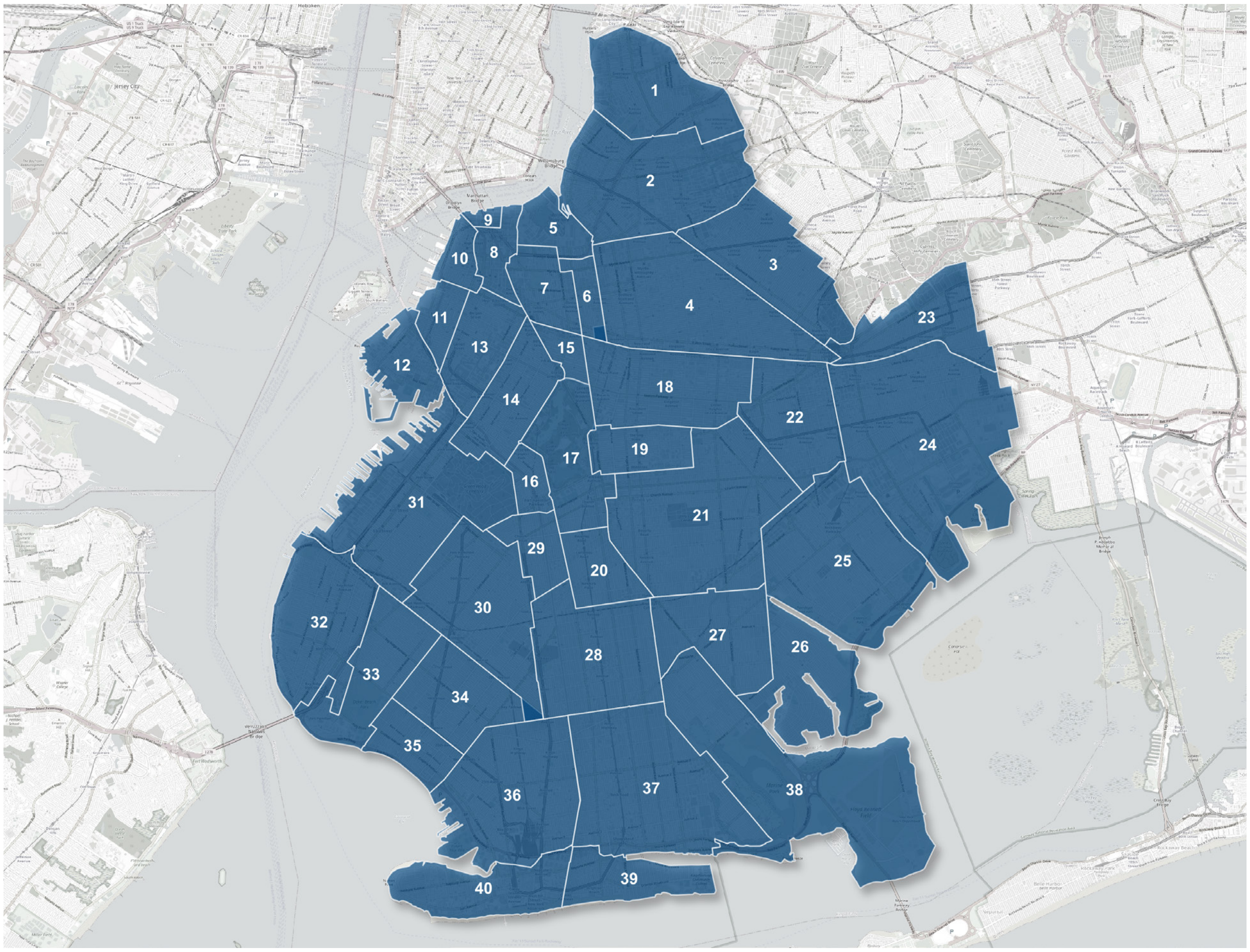
The impact of rising inflation and high interest rates has affected us primarily as it impacts our projects' construction costs. The cost of building materials has risen substantially, and the timeframes for delivery of materials has significantly increased.

How do you see NYC's affordable housing sector going forward?

As New York City continues growing coming out of the pandemic, we as a city and a region need to be increasingly aggressive in developing housing options for households at all income levels. That means we need more affordable housing and more market-rate housing, too. Otherwise, we are in danger of pricing ourselves out of competition with other cities in the other parts of the country.

(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

- The New York office market continues to be caught in the crosswinds of the new hybrid work experiment, with overall fundamentals still underperforming against pre-pandemic levels. Nonetheless, the office vacancy rate decreased by the end of the second quarter of 2022, with the figure at 14.1%, according to CommercialEdge data. Still, due to last year's pain points, vacancy remained up on a year-over-year basis, the rate rising 330 basis points.

- Manhattan office rents were down 13.4% year-over-year as of June to $72.59, by far the largest drop among major U.S. markets, even as cities such as Los Angeles (1.4%), San Francisco (1.6%) and Seattle (3.7%) recorded gains. Meanwhile, Brooklyn fared better, with rates up 0.5% year-over-year, to an average of $48.40, according to a recent CommercialEdge report.

- While the country's largest office market is also the slowest to recover, a flight-to-quality trend has brought several large long-term leases over the past months for projects underway. Tishman Speyer's The Spiral in Midtown Manhattan landed a 265,000-square-foot tenant, with international bank HSBC moving its U.S. headquarters from 452 Fifth Ave. The bank is joining NewYork-Presbyterian, which inked a 20-year, 75,000-square-foot lease at the upcoming tower. Brookfield Properties also scored two large tenants this summer: Macquarie Group will occupy 221,764 square feet at 660 Fifth Ave., while law firm Clifford Chance took 144,000 square feet at the 58-story Two Manhattan West.

- While some new projects are getting anchor tenants, Manhattan continues to have the country's largest office pipeline, with 20.8 million square feet underway as of June, or 4.3% of total stock, nearly double the 2.2% U.S. average.

Industrial

- Despite some clouds on the horizon, the U.S. industrial market continued to outperform, with rent growth, sales and development reaching new highs while occupancy tightened. Port markets recorded some of the strongest gains, and New Jersey was no stranger to this. The average rent was up 5.4% year-over-year as of June, to $8.35, outpacing the 4.9% national improvement rate, a recent CommercialEdge report shows. Meanwhile, industrial vacancy stood at 2.8% in New Jersey, one of the country's lowest.

- New Jersey was also one of the country's top metros for industrial transactions in the second half of the year, ranking fifth with a total of $1.8 billion. The market also has a sizeable pipeline, with 13.5 million square feet of industrial space under construction. Recently, Crow Holdings broke ground on a 126-acre, 1.2 million-square-foot industrial campus in Northern New Jersey. The speculative project is expected to reach completion in the first quarter of next year.

- On the New York side, Innovo Property Group recently secured $435 million for The Borden Complex, an upcoming multistory property in Queens' Long Island City.

Self Storage

- Nationally, the self storage sector's prospects remain largely positive, with rents still on the rise even amid record development. New York is a good example of this. Even though the five boroughs continue to sport the largest self storage pipeline, at 2.3 million square feet as of late June, rents for 10x10 non-climate-controlled units were up 2% on a year-over-year basis and 0.5% month-over-month, according to Yardi Matrix data.

- In July, Invesco paid $44 million for a 74,452-rentable-square-foot facility in Brooklyn. The asset, which was completed in 1993, last traded in 2007, for just $10.8 million.

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.

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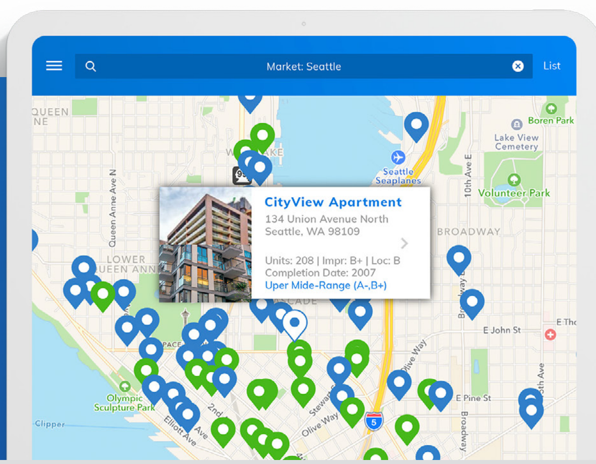
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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