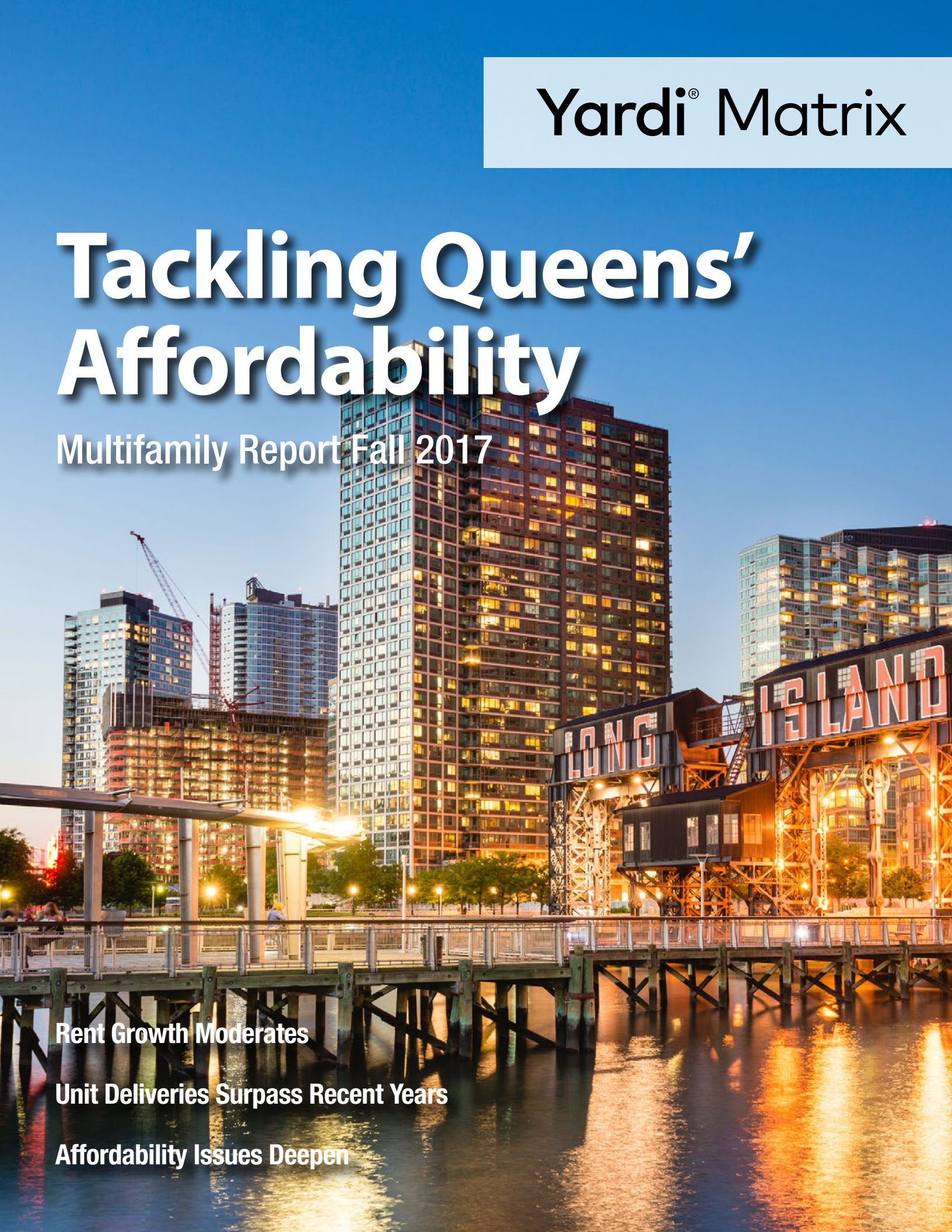
Yardi® Matrix

Tackling Queens' Affordability

Multifamily Report Fall 2017



Rent Growth Moderates

Unit Deliveries Surpass Recent Years

Affordability Issues Deepen

Market Analysis

Fall 2017

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Transit-Oriented Development Accelerates

An expanding pipeline and affordability issues are putting pressure on rent growth in Queens, but the borough's multifamily market continues to show signs of long-term stability, due to New York's overall strong fundamentals. Bucking nationwide trends, Queens rents dropped 1.0% in the 12 months ending in September, while upcoming decisions on rent stabilization may soon reshape the borough's market.

Despite decelerating, New York City's economy continues to add jobs across most sectors, with high-paying fields growing at a faster rate. While still losing manufacturing jobs, the city added 45,000 positions in office-using sectors in the year ending in July. And as more renters are being priced out of Manhattan, many of them are trading longer commutes for lower housing costs. This trend, in turn, is fueling construction in Queens, especially on the East River waterfront and in transit-oriented locations. Long Island City is dominating the pipeline, with Tishman Speyer's JACX and Jackson Park leading the pack. The two projects are slated to add 1.2 million square feet of office space and nearly 1,800 rental units.

Queens delivered 1,580 units in the first nine months of 2017, surpassing the number of completions for the previous two years combined. As the borough has almost 10,000 units under construction, the surge is slated to continue. But, with Manhattan affordability issues spilling over to the outer boroughs, we expect rents across New York City to contract 1.0% in 2017.

Recent Queens Transactions

Queens Pointe

City: Elmhurst, N.Y.
Buyer: Standard Properties
Purchase Price: $125 MM
Price per Unit: $868,056

71-05 37th Avenue

City: Jackson Heights, N.Y.
Buyer: Persaud Rajmattie
Purchase Price: $32 MM
Price per Unit: $297,170

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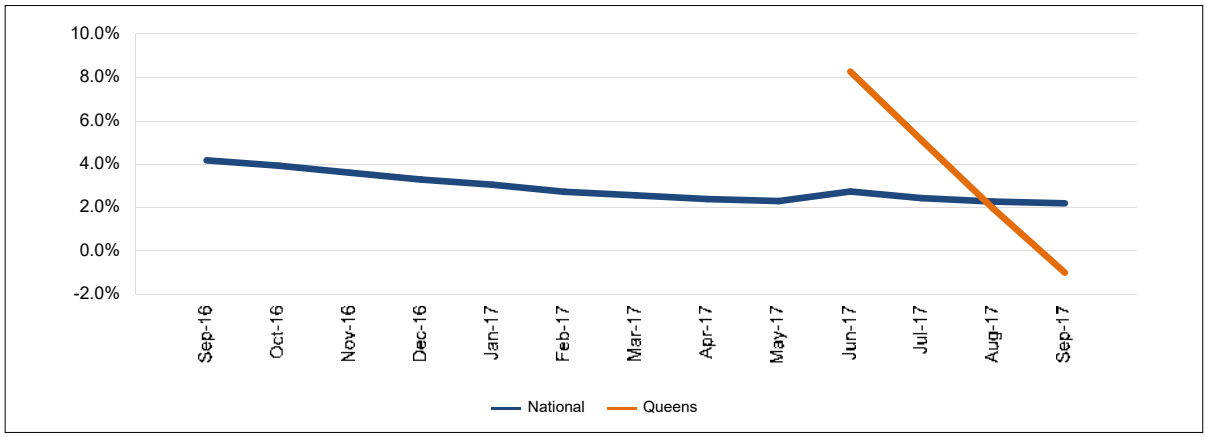
Rent Trends

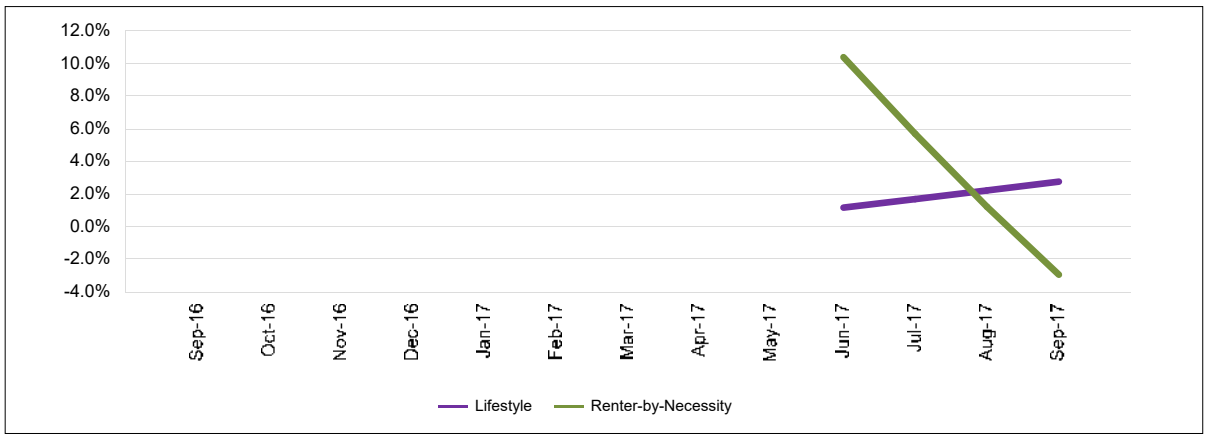
- Queens rents dropped 100 basis points year-over-year through September, bucking the 2.2% U.S. growth rate. At $2,150, rents in Queens were roughly $800 above the U.S. average. Nonetheless, the borough remains much more affordable than Manhattan ($4,089 average rent) and Brooklyn ($2,713).
- In the year ending in September, the working-class Renter-by-Necessity segment contributed most to the dip in rents, with a 2.9% decrease to $1,914. Meanwhile, the Lifestyle segment saw rents rise 2.8%, to $2,945. Queens' tightening rent-control regulations, compounded by slightly softening demand—due to deliveries accelerating in transit-oriented areas—are widening the disparity. Furthermore, an upcoming decision in the widely cited Altman case could revert the status of many apartments that have been deregulated in the past few years, a move that could create a massive ripple effect across New York's multifamily market.
- Due to its proximity to Manhattan and consistent pipeline, Long Island City continues to dominate the Queens multifamily market. The submarket is expanding its stock very quickly, but demand is still outpacing supply, pushing rents up by 1.8% in the year ending in September. At $3,408, Long Island City rents were the highest by far, followed by Astoria ($2,387), Forest Hills–Rego Park ($2,311) and Rockaway ($2,111). As affordability issues continue to deepen across the metro, we expect New York City rents to drop 1.0% in 2017.

Queens vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Queens Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

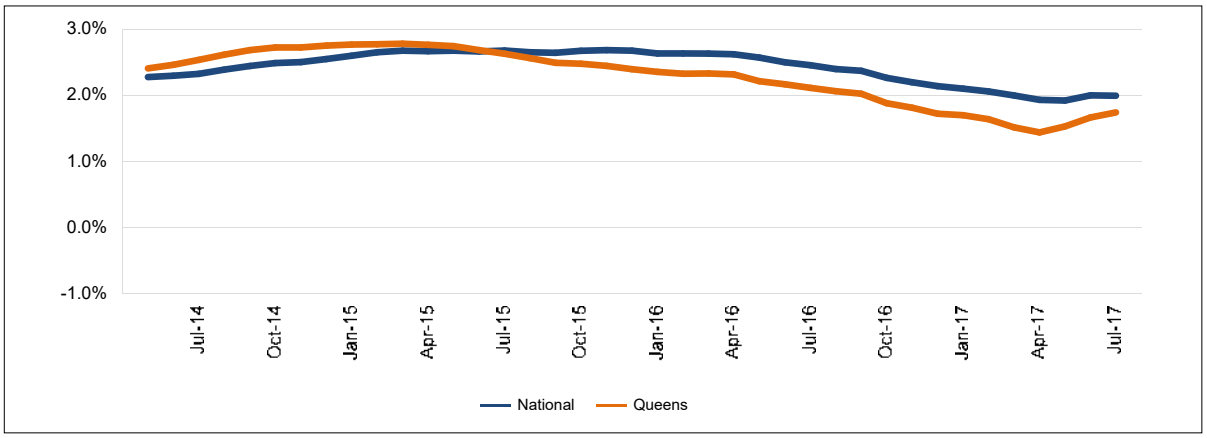


Source: YardiMatrix

Economic Snapshot

- The Greater New York area added 157,100 jobs in the year ending in July, marking a 1.7% increase, 30 basis points below the U.S. average. Economic expansion has decelerated to some extent, but the city remains in growth mode, generating consistent increases across most sectors. The unemployment rate was 4.8% as of July, 40 basis points below the U.S. trend, after roughly matching the national average for most of 2017.
- As the financial capital of the U.S., New York continues to be the country's strongest office market, with the metro adding some 45,000 jobs in office-using sectors in the year ending in July. According to Yardi Matrix data, there were more than 26 million square feet of office space underway across Manhattan and Brooklyn as of October, with an additional 34.5 million square feet in the planning and permitting stages. In Queens, Tishman Speyer's JACX remains the largest office project underway. The 1.2 million-square-foot development is located across the street from another large Tishman Speyer project, the 1,789-unit Jackson Park community.
- The list of large Queens developments also includes Flushing Commons, a $1 billion mixed-use, multi-phase project under construction in Downtown Flushing; TF Cornerstone's Hunter's Point South Phase II, a partially affordable pair of residential towers on the East River waterfront; as well as large renovations at JFK and LaGuardia airports, which could cost as much as $14 billion.

New York vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

New York Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	1413	20.1%	67,000	5.0%
60	Professional and Business Services	1165	16.6%	41,300	3.7%
70	Leisure and Hospitality	716	10.2%	27,900	4.1%
55	Financial Activities	638	9.1%	11,800	1.9%
40	Trade, Transportation and Utilities	1175	16.7%	6,800	0.6%
80	Other Services	303	4.3%	5,500	1.8%
90	Government	905	12.9%	4,400	0.5%
15	Mining, Logging and Construction	266	3.8%	3,000	1.1%
30	Manufacturing	210	3.0%	-1,800	-0.9%
50	Information	240	3.4%	-8,800	-3.5%

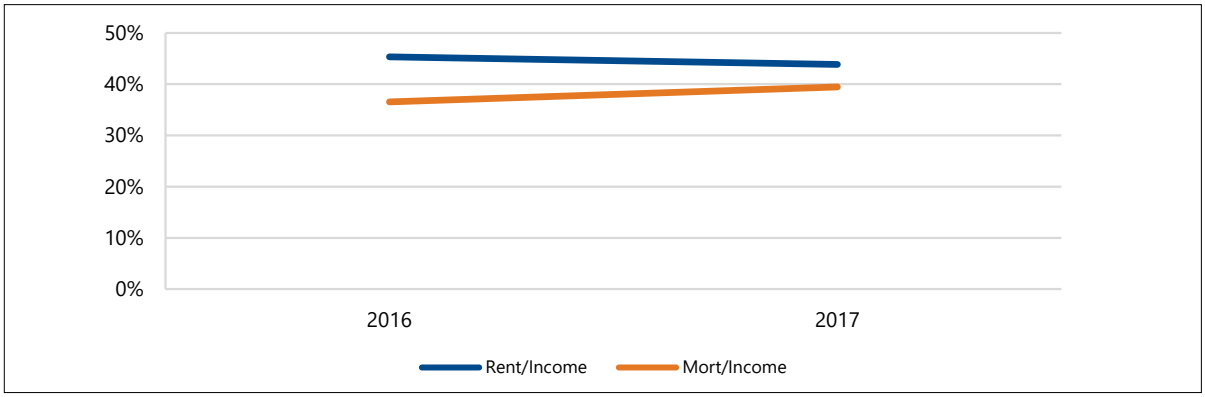
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

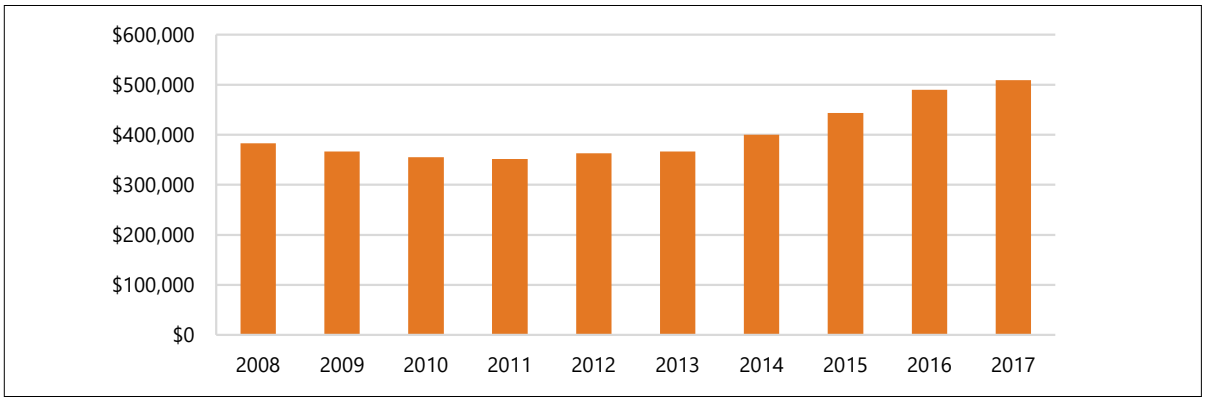
- Though Queens is more affordable than Manhattan and Brooklyn, its residents continue to feel the pressure of mounting living costs. In the borough, median home prices hit $509,132 in the first half of 2017, up 45% since 2011. Owning remains the more affordable option: The average mortgage payment accounts for roughly 39% of the area's median income, while, at $2,150, rent accounts for 44%.
- In a bid to tackle the city's rising housing costs, Gov. Andrew Cuomo launched a $20 billion affordability program and is also pushing for stricter rent control. Affordability could also be strongly influenced by the outcome of the Altman case, which could revert some 100,000 New York City units to rent-stabilized status.

Queens Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Queens Median Home Price



Source: Moody's Analytics

Population

- Queens County added 55,000 residents between 2012 and 2016, representing a 2.4% uptick, 50 basis points below the U.S. growth rate.
- The borough's population grew by 5,826 in 2016, marking a 0.3% expansion.

Queens vs. National Population

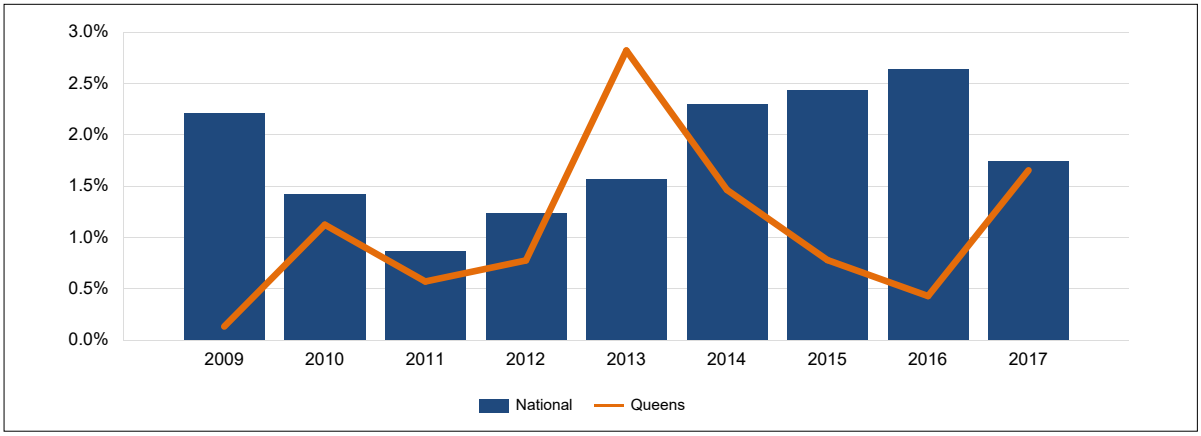
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Queens Metro	2,278,024	2,297,598	2,314,149	2,327,228	2,333,054

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

Supply

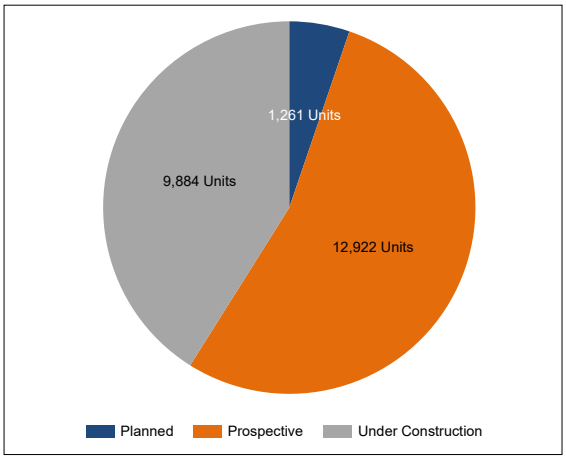
- Development is accelerating: Queens added 1,580 units in 2017 through September, nearly 40% more than total deliveries from 2015-2016. As many renters are being priced out of Manhattan, development in the outer boroughs continues to be focused in waterfront and transit-oriented locations.
- There were almost 10,000 units under construction in Queens as of September, roughly two thirds of which are slated to come online in 2018. This puts the borough on track to reach a new cycle high next year, besting the 2,579 units completed in 2013.
- Due to its position, zoning and transport connections, Long Island City continues to be Queens' most active submarket. Of the roughly 2,700 units delivered in the borough since the beginning of 2015, more than 80% are located within Long Island City transit-oriented developments. With 6,588 units under construction, the submarket also dominates the pipeline, followed by Jamaica (1,613 units) and Astoria (912).
- Tishman Speyer's three-tower, 1,789-unit Jackson Park development in Long Island City is the borough's largest multifamily project underway. Pre-leasing is scheduled to begin in November, and the first of the three towers is slated to be ready for occupancy by the end of this year.

Queens vs. National Completions as a Percentage of Total Stock (as of September 2017)



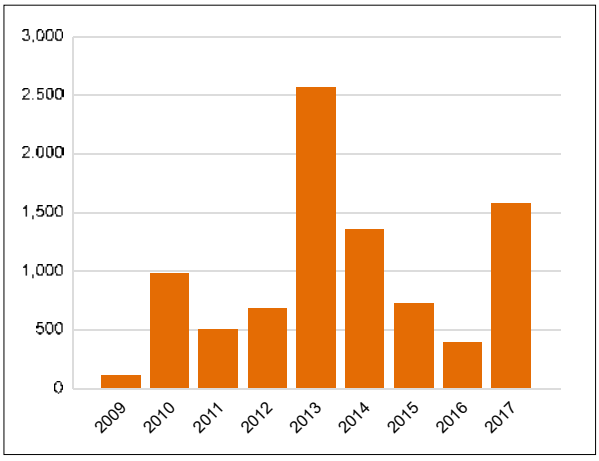
Source: YardiMatrix

Development Pipeline (as of September 2017)



Source: YardiMatrix

Queens Completions (as of September 2017)

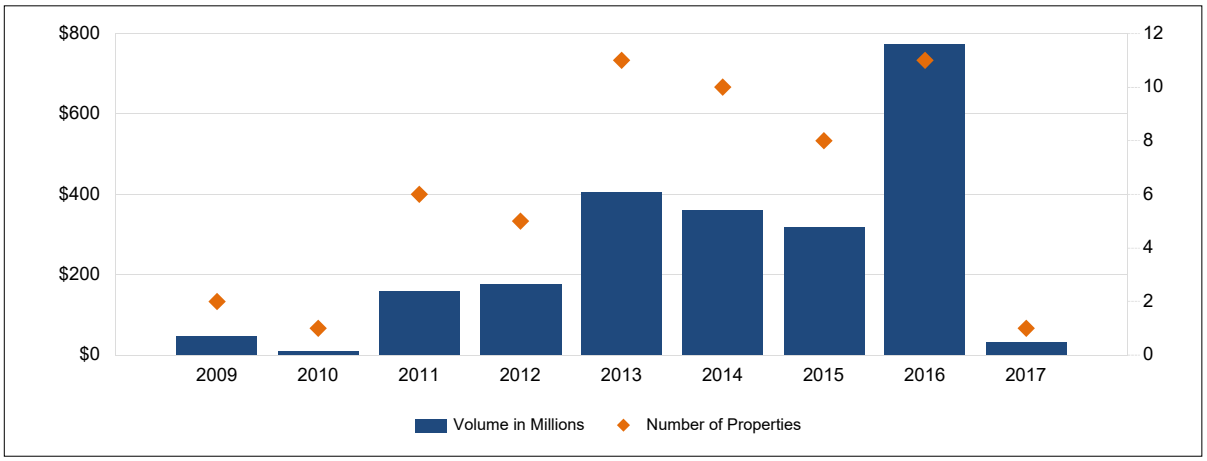


Source: YardiMatrix

Transactions

- After reaching a cycle high of $773 million in 2016, Queens multifamily transactions have slowed considerably in the first three quarters of 2017. Reasons include a growing gap between buyers and sellers, fears of oversupply in key locations and a sense of caution around tightening rent stabilization policies.
- Taking advantage of the borough's aging stock, most investors continue to focus on value-add Class B and C assets, a prevalent tendency throughout the entire cycle. Of the more than 9,000 units traded since 2011, almost 80% are within workforce, rent-stabilized and fully affordable communities.
- Despite investment activity moderating, the metro is still one of the nation's stablest, with acquisition yields for the first half of 2017 among the lowest in the U.S., ranging from 4.0-5.0% for Class A stabilized properties and 5.5-6.0% for Class C value-add assets.

Queens Sales Volume and Number of Properties Sold (as of September 2017)



Source: YardiMatrix

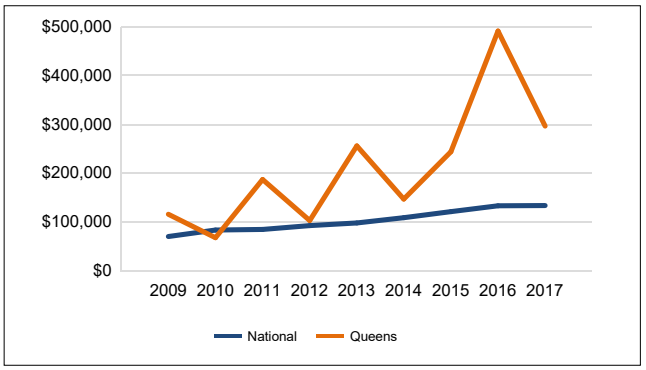
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Elmhurst	125
Woodside	32

Source: YardiMatrix

[1] From September 2016 to August 2017

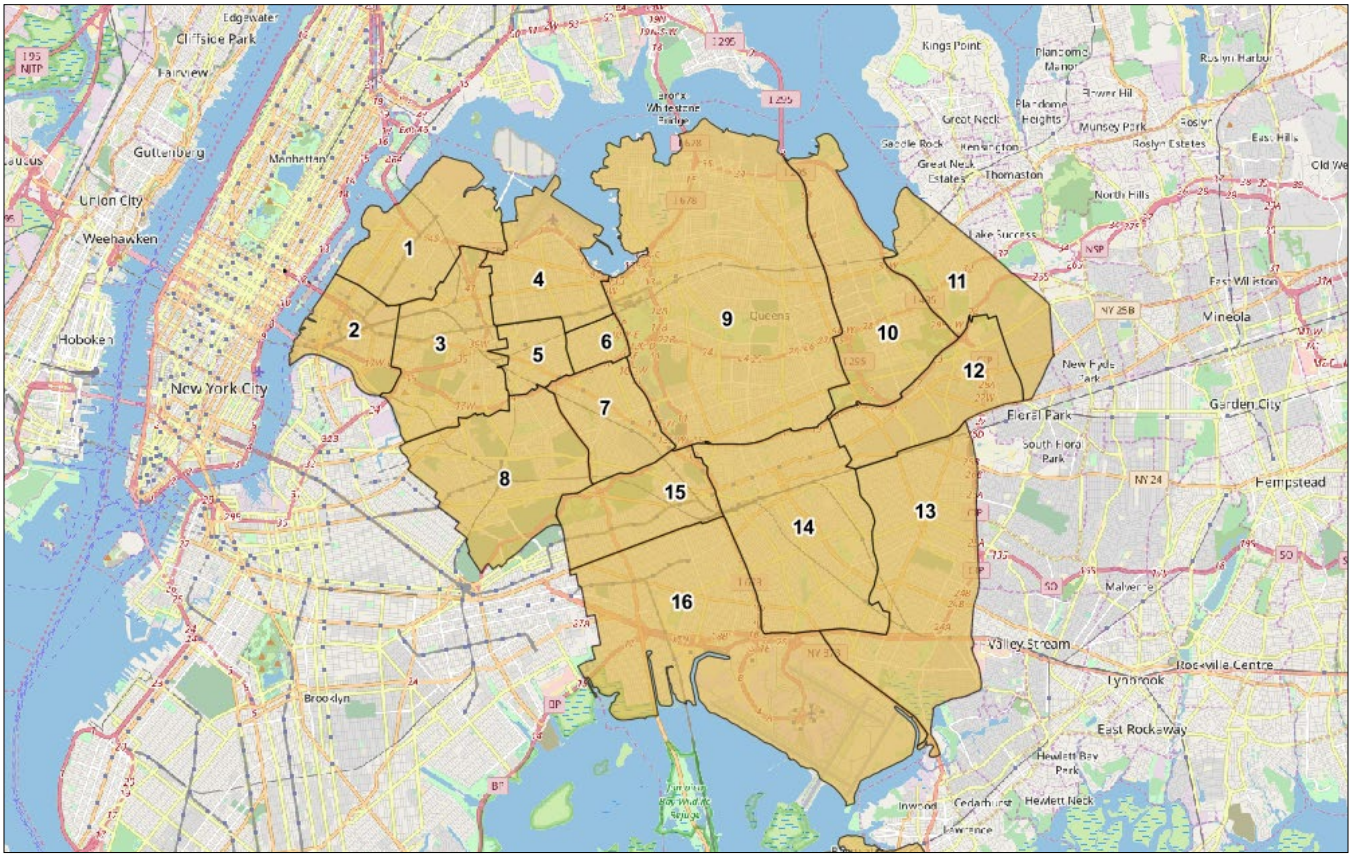
Queens vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!

Queens Submarkets



Area #	Submarket
1	Astoria
2	Long Island City
3	Woodside
4	Jackson Heights
5	Elmhurst
6	Corona
7	Forest Hills - Rego Park
8	Middle Village
9	Flushing

Area #	Submarket
10	Bayside
11	Little Neck
12	Queens Village
13	St. Albans
14	Jamaica
15	Kew Gardens
16	Ozone Park - JFK
17	Rockaway

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 may 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 may 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, may 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.

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