

An aerial photograph of the Manhattan skyline at sunset. The sky is filled with vibrant orange and red clouds, transitioning to a darker blue as it meets the horizon. The city below is densely packed with skyscrapers, many of which have their windows lit up, creating a warm, golden glow. The Empire State Building is prominent on the right side of the frame. The overall scene captures the bustling energy of the city during the "golden hour" of the day.

Yardi® Matrix

Made in Manhattan

Multifamily Report Fall 2017

Transaction Volume Tumbles

Supply Moderates Sale Price, Rent Growth

Employment Expansion Pushes Through

Market Analysis

Fall 2017

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Supply Compresses Rent Growth

Manhattan rents are gradually fizzling amid significant supply increases and high prices, which have left many tenants unable to afford typical rates. Although rents have fallen 2.5% year-over-year, the decrease has done little to address the market's dearth of affordable apartments. Meanwhile, investment activity has also started to slow: Some investors have begun balking at consistently high prices, befitting the borough's status as a top core market in the U.S.

Employment growth persisted this year, despite some significant losses in the information and manufacturing industries. Development at Hudson Yards and Waterline Square continues to generate construction activity, while public transit on the island received a boost at the beginning of the year from the opening of the Second Avenue subway line, an East Side project nearly one century in the making.

Roughly 11,500 rental units are under construction in Manhattan, and another 24,000 units are in the planning and permitting stages, pointing to continued inventory expansion. Meanwhile, condo and co-op sales surged in 2017, with new supply compressing prices and pushing more household creation through both renting and owning. As New York City keeps expanding and affordable housing units start hitting the market in areas like Hell's Kitchen and East Harlem, we predict that rents will continue to moderate, decreasing by 1.0% for the year.

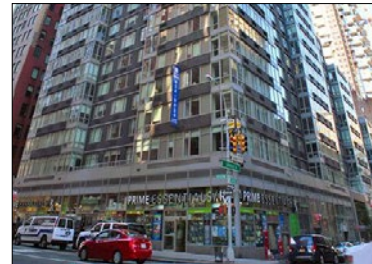
Recent Manhattan Transactions

Kips Bay Court



City: New York
Buyer: Blackstone Group
Purchase Price: \$620 MM
Price per Unit: \$695,512

88 Leonard Street



City: New York
Buyer: Jamestown
Purchase Price: \$242 MM
Price per Unit: \$683,898

63 Wall Street



City: New York
Buyer: Rockpoint Group
Purchase Price: \$239 MM
Price per Unit: \$502,341

67 Wall Street



City: New York
Buyer: Rockpoint Group
Purchase Price: \$182 MM
Price per Unit: \$551,032

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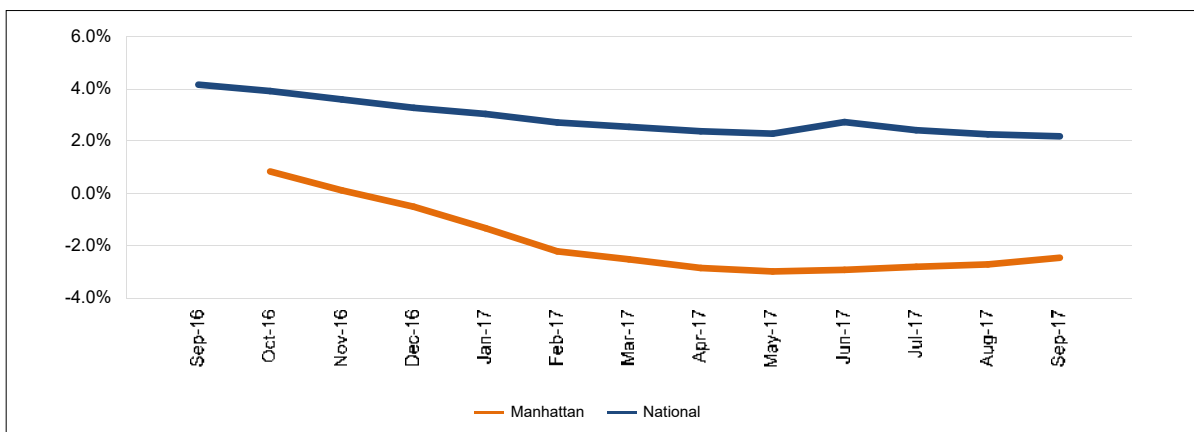
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Rent Trends

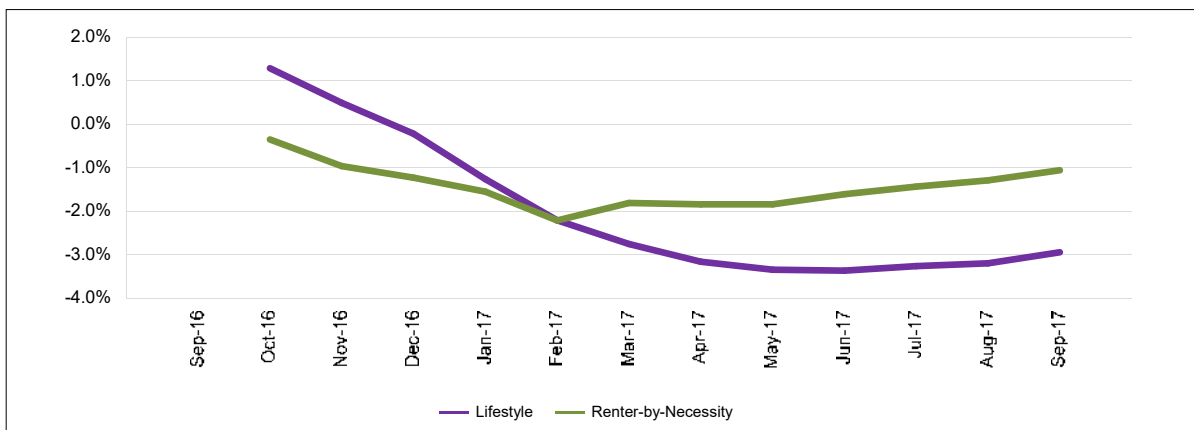
- Manhattan rents were down 2.5% year-over-year in September, underperforming the national rate, which was up 2.2%. The average rent in Manhattan was \$4,089 in September, nearly triple the national average.
- The working-class Renter-by-Necessity segment slid 1.1% year-over-year to an average of \$3,364, as affordability and growing development in neighboring boroughs continue to attract low- and middle-income residents away from Manhattan. Growing supply, especially for smaller units, has diluted the market, leading to the first major rental rate slowdown in years. Rents for Lifestyle units have taken an even larger hit, down 2.9% year-over-year, due to similar reasons.
- Growth occurred in Midtown East (4.2%), East Village (2.5%) and Flatiron (1.7%), where placement continues to ensure demand is high. Submarkets that took the most significant tumbles rank highly for upcoming inventory, which points to further moderation: Hell's Kitchen (-11.8%, 2,534 units under construction), East Harlem (-11.0%, 506 units), and Lower East Side (-10.7%, 1,083 units).
- As completions continue to rise across the five boroughs, we expect New York City rents to continue to moderate, at -1.0% for the year.

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



Source: YardiMatrix

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

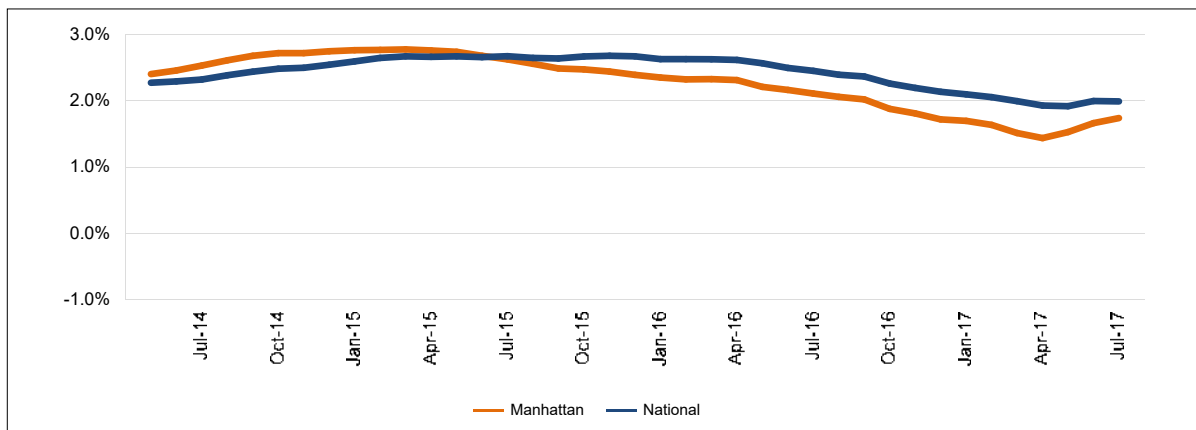


Source: YardiMatrix

Economic Snapshot

- New York City added 157,000 jobs in the 12 months ending in July, a 1.7% uptick, trailing the national rate by 30 basis points. As the financial hub of the U.S., the city relies on its cornerstones, as its thriving financial sector continues to generate high-paying jobs and demand in upscale rentals. Growth in education and health services (67,000 jobs) and professional and business services (41,300 jobs) more than made up for the contracting information and manufacturing sectors—which jointly lost 10,600 jobs—and sluggish growth in trade and the public sector.
- A number of high-profile development projects continue to bolster the city's job market, maintaining the need for construction jobs on the island and creating future demand in other sectors. The ongoing development at Hudson Yards, the most expensive real estate development project in America, is just the tip of the spear. This year also marked the addition of a new and important transit hub in the \$4.5 billion Second Avenue subway line, while opportunities continue to appear on the island's waterfront.
- The unemployment rate has fallen 50 basis points year-over-year as office-using employment continues to strengthen in Greater New York. Average office asking rents have plateaued starting with the second half of 2016, coming in just under the \$73 mark as of 3Q17.

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)

Code	Employment Sector	Current Employment		Year Change	
		(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%

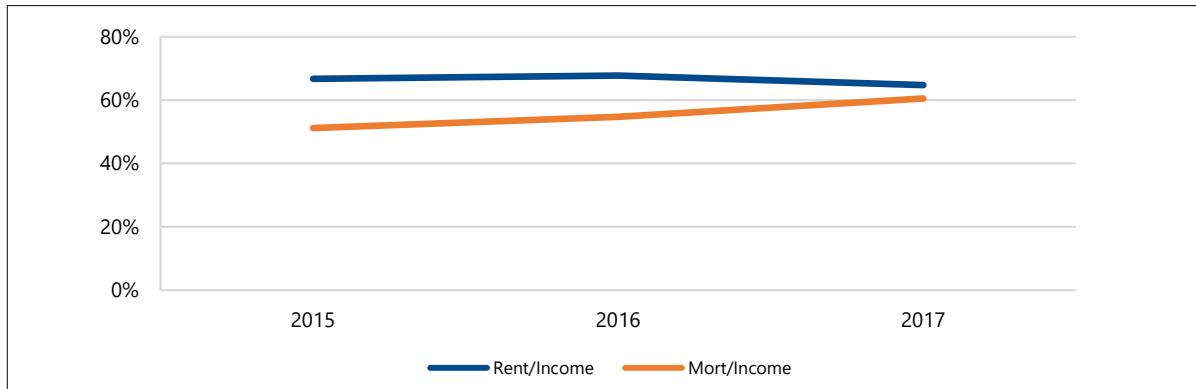
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

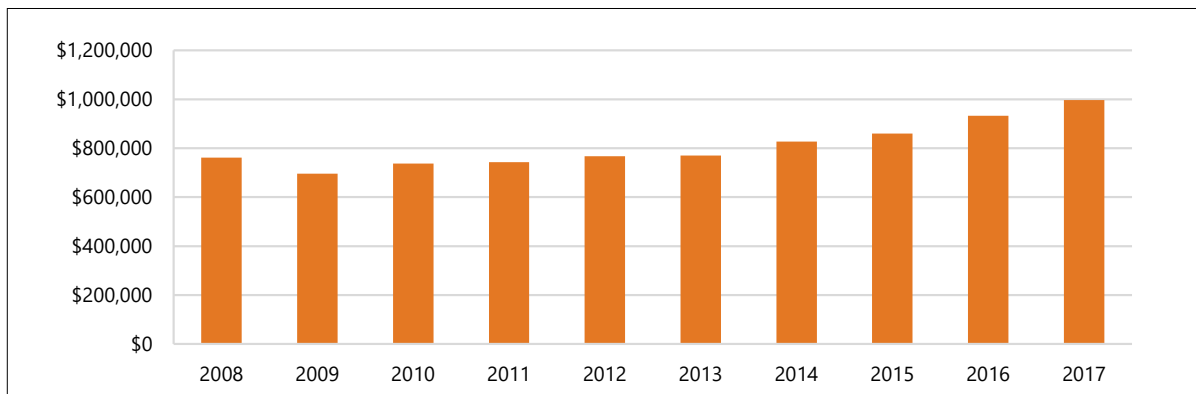
- Home values have ballooned throughout the cycle, hitting a median value of \$996,571 during the year's first half, 43% higher than it was in 2009, when the market reached its nadir. Escalating home prices have exacted significant pressure on area residents, pushing the average mortgage payment to 61% of average incomes.
- With the average rent at \$4,089, Manhattan-level rents are tough to manage. Although growth hasn't been in the cards for the better part of the last 18 months, lack of affordability is still very much in the market's fabric. As a result, a push for more affordable housing is underway, bolstering development in submarkets like Hell's Kitchen and East Harlem.

Manhattan Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Manhattan Median Home Price



Source: Moody's Analytics

Population

- Manhattan gained 2,566 residents in 2016, at a rate of 0.2%, well below the U.S.'s 0.7% average population growth.
- Much of this growth is due to foreign nationals, as domestic migration continues to drop.

Manhattan vs. National Population

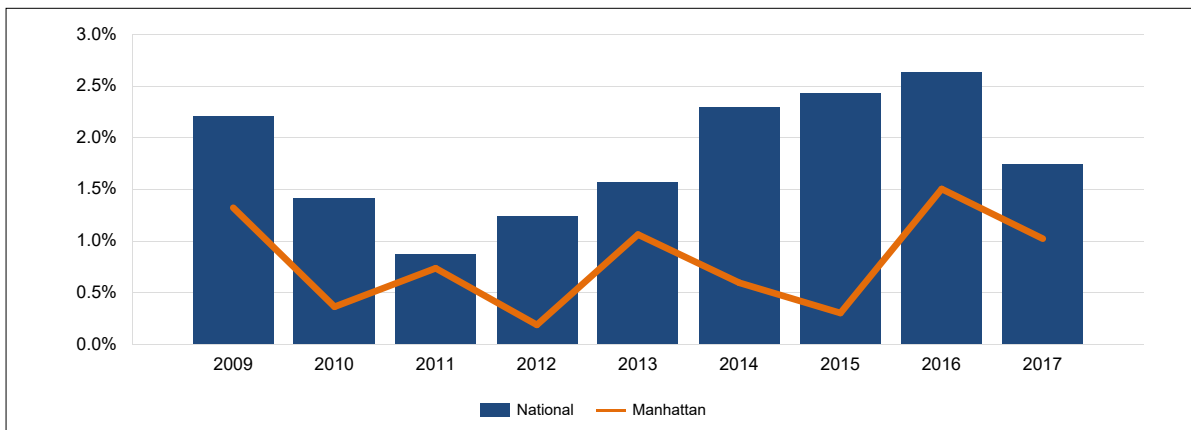
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Manhattan Metro	1,625,121	1,630,453	1,634,468	1,641,168	1,643,734

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

Supply

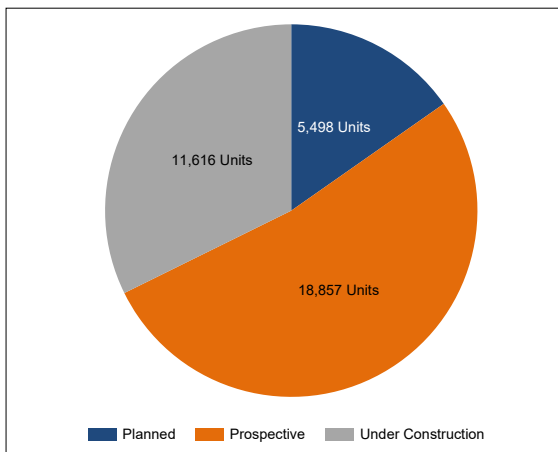
- Roughly 3,100 units were delivered in 2017 through September, representing 1.0% of total stock. Inventory expansion is high by current cycle standards, with condominiums remaining a significant part of the picture. Although the labor shortage facing the construction sector is putting a damper on completions, opportunities for multifamily development continue to appear in what is a very dense market.
- With 11,600 units under construction and another 24,300 in the planning and permitting stages, the development pipeline is robust. The city's acute need for affordable housing has led to the development of a number of affordable communities: Nine projects totaling 1,300 units are now under construction.
- Although 7,800 rental units have come online since the beginning of 2016, occupancy in stabilized assets has been very high throughout the cycle—at 98.0% as of August, the same level as 12 months prior.
- Developers are most active in Hell's Kitchen (2,534 units), Murray Hill (2,067), Financial District (1,570), East Harlem (1,083) and Lincoln Square (1,065). The largest project underway in Manhattan is the 1,028-unit 606W57 community, which was financed through a \$360 million loan originated by the New York State Housing Finance Agency in Hell's Kitchen, where 216 units will be designated as affordable.

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



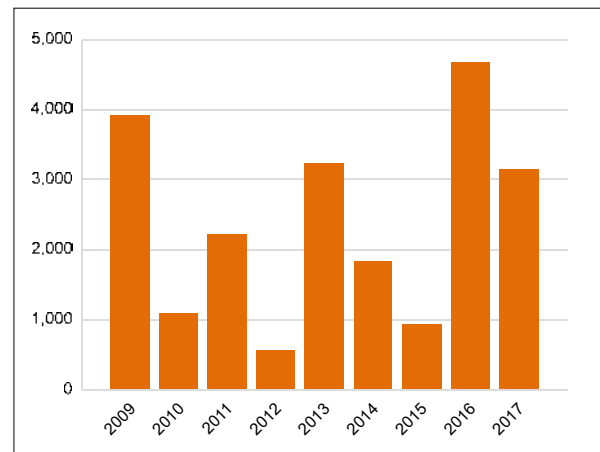
Source: YardiMatrix

Development Pipeline (as of September 2017)



Source: YardiMatrix

Manhattan Completions (as of September 2017)

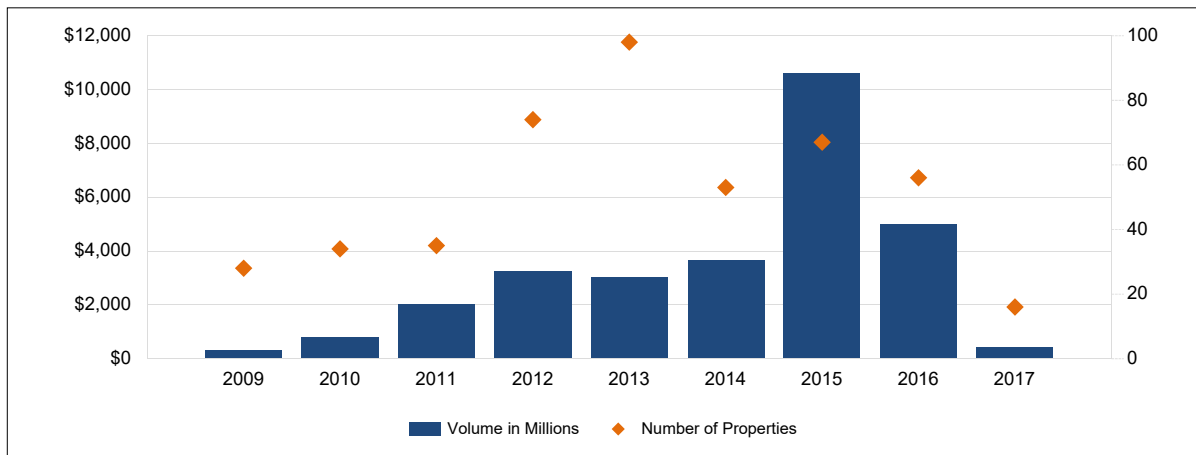


Source: YardiMatrix

Transactions

- Roughly \$431 million in multifamily properties traded in Manhattan this year through August, signaling that investment activity has moderated. In 2015, investment volume exceeded \$10 billion—the current cycle high—leading the market to pivot to lower-price assets. As a result, the per-unit price has dropped by \$55,000, to \$411,084.
- Although still highly attractive to institutional investors, Manhattan’s market has one of the highest barriers to entry in the world, leading some buyers to make purchases in other markets, where acquisition yields aren’t quite as low. Decreasing cap rates approached the 3.0% mark for Class A stabilized properties in 2017.
- In the 12 months ending in August, investment was highest in the Kips Bay submarket, where Blackstone Group paid Phipps Houses \$620 million for Kips Bay Court, an 894-unit Class B community at 520 Second Ave.

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



Source: YardiMatrix

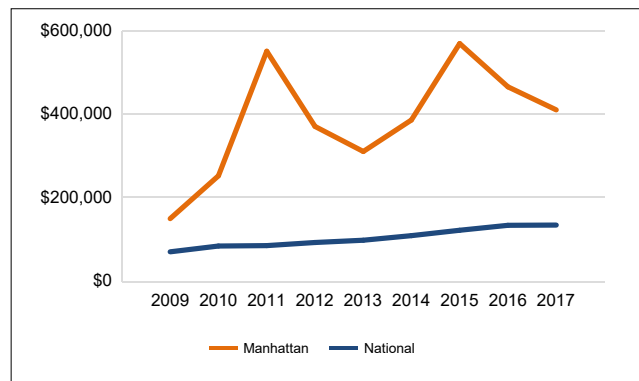
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Kips Bay	672
Financial District	422
Upper West Side	259
Tribeca	242
East Village	234
East Harlem	199
Washington Heights	141
Hudson Heights	73

Source: YardiMatrix

¹ From September 2016 to August 2017

Manhattan vs. National Sales Price per Unit



Source: YardiMatrix

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Largest Private Residential Rooftop Solar Project Planned for NYC



Manhattan Tower Lands \$479M Construction Financing



Brooklyn Residential Tower Lands \$218M Refi

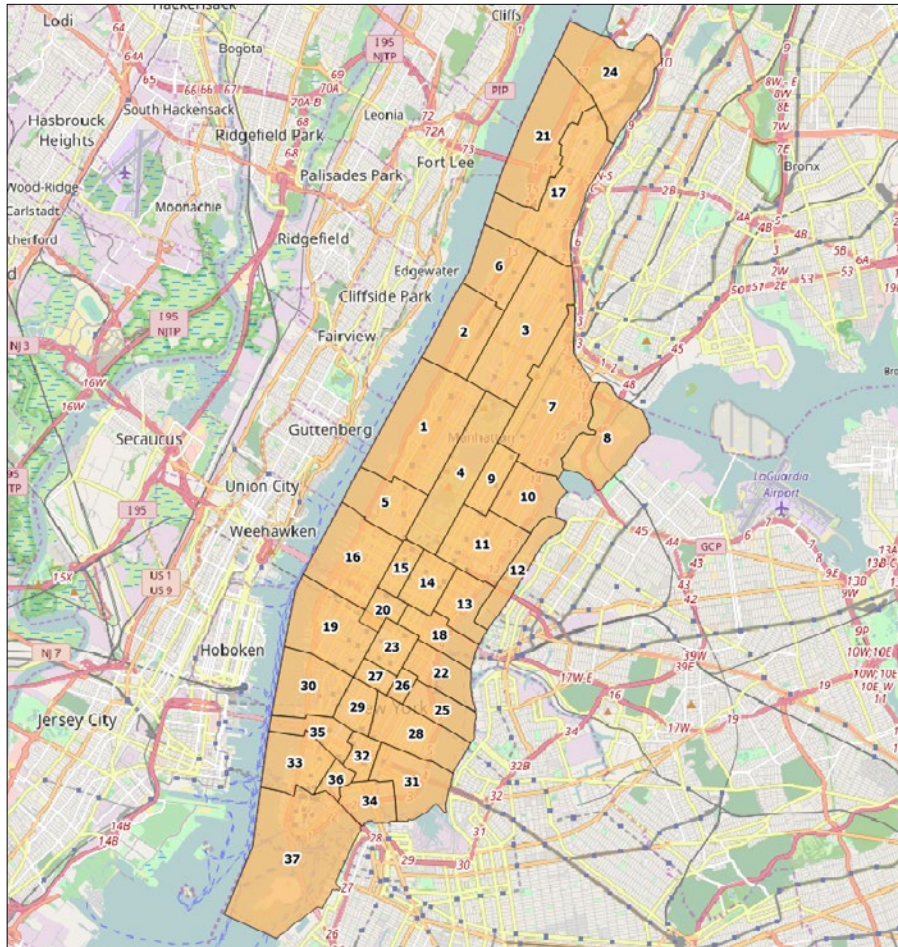


Apollo Commercial Provides \$250M For Manhattan Office Project

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Manhattan Submarkets



Area #	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	Lenox 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

Area #	Submarket
22	Garment District
23	Hudson Heights
24	Kips Bay
25	Nomad
26	Inwood
27	Stuyvesant Town
28	Gramercy Park
29	Flat Iron
30	East Village
31	Greenwich Village
32	West Village
33	Lower East Side
34	Chinatown
35	Tribeca
36	Two Bridges
37	Soho
38	Civic Center
39	Financial District

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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