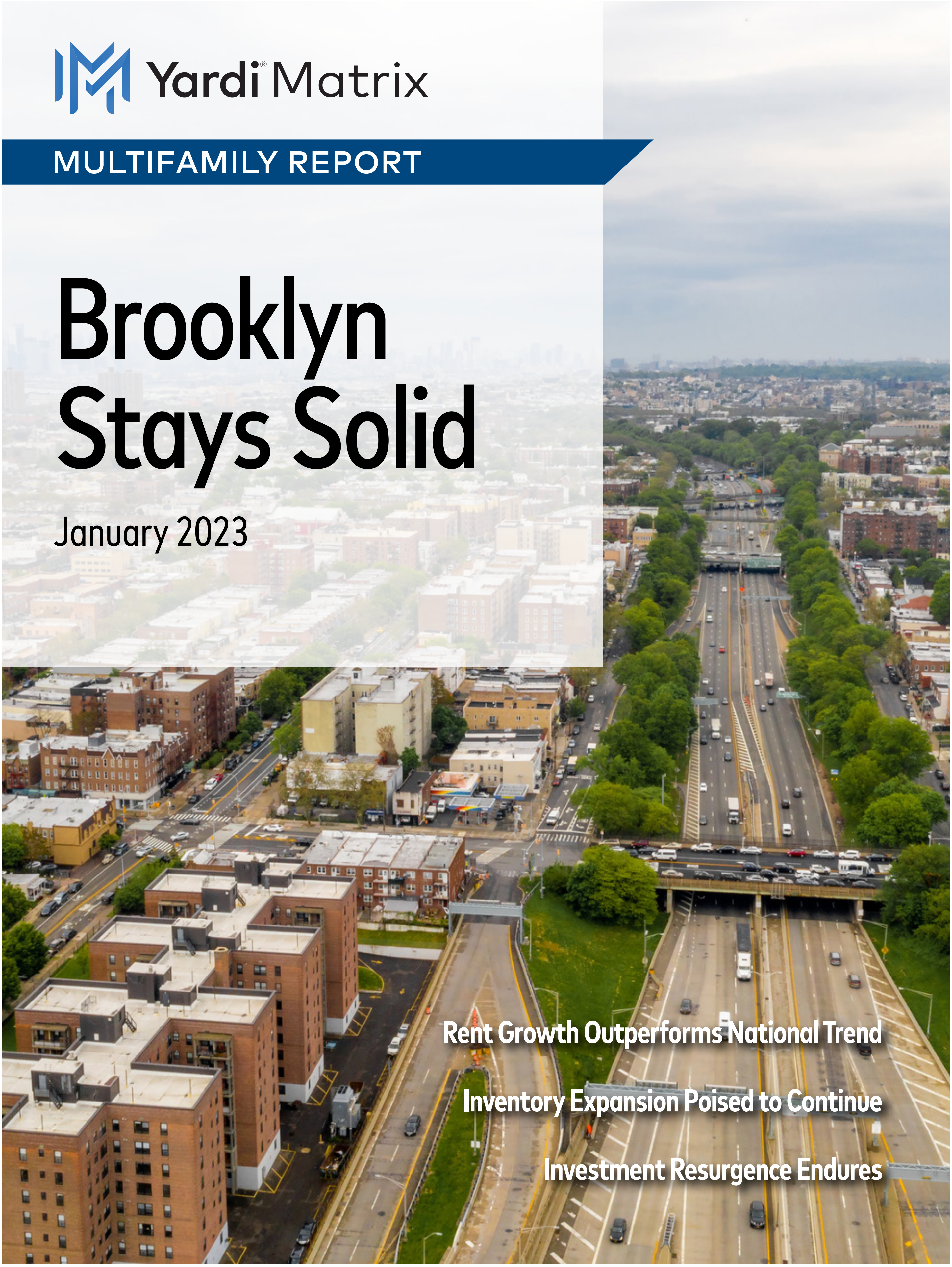
Yardi Matrix

MULTIFAMILY REPORT

Brooklyn Stays Solid

January 2023



Rent Growth Outperforms National Trend

Inventory Expansion Poised to Continue

Investment Resurgence Endures

BROOKLYN MULTIFAMILY

Yardi Matrix

Brooklyn: Outlier In Cooling Rental Market

Brooklyn's multifamily market recorded strong performance at a time when most U.S. markets began seeing the effects of a slowing economy. Anchored by a New York City market that has proved more resilient than expected following pandemic-induced struggles, the borough's average rent rose 0.3% on a trailing three-month basis as of November, as the national rate contracted 0.1%. Meanwhile, occupancy was at one of the highest rates in the nation, with the average rate in stabilized assets at 98.6%.

New York City's job market is still recovering positions lost during the early stages of the pandemic, having added 359,200 jobs in the 12 months ending in September, up 5.8% year-over-year. That's well above the 4.2% national rate of employment growth. The $1.2 billion redevelopment of the Brooklyn Development Center campus in East New York will add some 2,400 units of affordable housing to the borough, further boosting the local economy.

While heavily oscillating in average sales prices, Brooklyn's investment volume has had a fairly consistent 24 months, as 2022 kept pace with the prior year. Development in the borough has slowed down, with 2,067 units delivered in the first 11 months of the last year, accounting for 1.4% of existing rental inventory. Brooklyn has a mix of housing inventory including condos, co-ops and apartment buildings of fewer than 50 units, so trends will likely fluctuate due to the smaller sample size.

Market Analysis | January 2023

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Recent Brooklyn Transactions

250 Gold

City: New York City
Buyer: Kohlberg Kravis Roberts & Co.
Purchase Price: $225 MM
Price per Unit: $2,616,279

The Addison

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

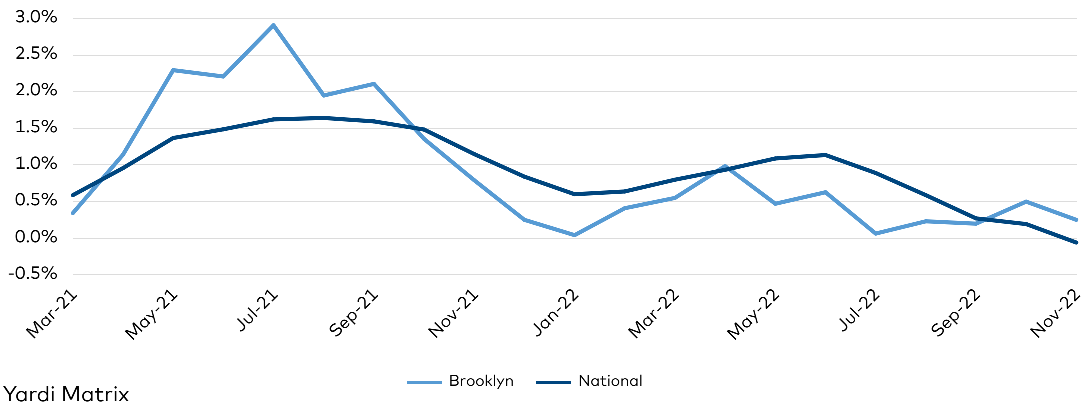
Tilden Hall

City: New York City
Buyer: Signature Investment Group
Purchase Price: $46 MM
Price per Unit: $392,308

RENT TRENDS

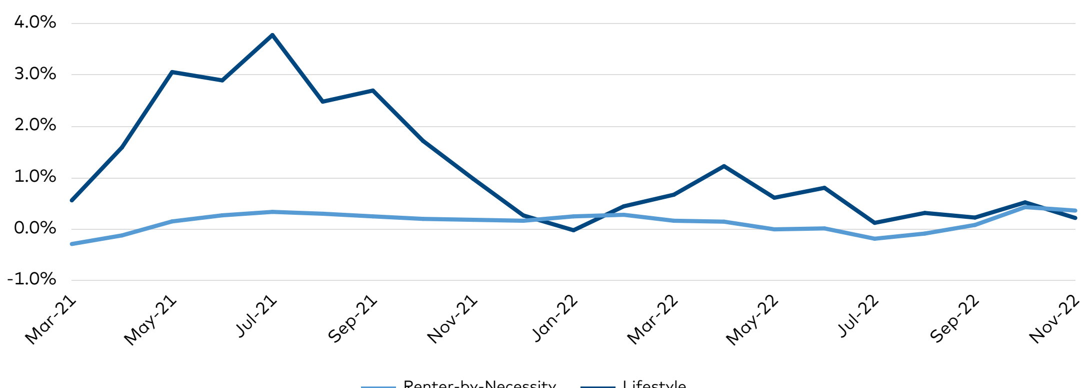
- Brooklyn rents rose 0.3% on a trailing three-month (T3) basis as of November, as national rents saw an initial 0.1% decrease. As a result, the borough's overall average rent was $3,214, nearly twice the national figure. U.S. rates began decelerating earlier in 2022, but continued economic instability has already dented demand in some markets. Brooklyn, a market with a diverse housing inventory, has experienceds the slowest growth out of the major New York City boroughs, at 4.2% on a year-over-year basis. Queens and Manhattan have both seen rents rise above the 7.0% mark.
- The working-class Renter-by-Necessity segment drove improvement in the market, up 0.4% on a T3 basis to $2,033, doubling the upscale Lifestyle segment's performance, up 0.2% to $3,822.
- The average occupancy rate in stabilized properties is one of the highest in the nation, at 98.6%. The rate trails Queens' average by just 10 basis points but leads Manhattan occupancy by 60 basis points.
- Submarkets with the highest rent growth on a year-over-year basis were Fort Greene (11.9%), Downtown Brooklyn (8.8%), Dumbo (4.3%), Williamsburg (3.6%) and Boerum Hill-Gowanus (3.3%). The only submarket in the borough where rates decreased was Greenpoint, down 1.9%. During 2022, the submarket ceded its place as the neighborhood with the highest average rent to Dumbo, where the figure rose to $4,690.

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

- New York City added 359,200 jobs in the 12 months ending in September, a year-over-year growth rate of 5.8%, 160 basis points higher than the U.S. average. The city's economy has been reeling through the pandemic recovery, with its employment market shedding jobs at a far higher rate than the nation. Although the metro has been adding positions faster than the U.S. for the past 16 months, it still trails its pre-pandemic job total by nearly 150,000 positions.

- Professional and business services added the most jobs, with 83,200 positions, while leisure and hospitality continued its fight back from pandemic-induced woes, with 81,600.

- The only employment sector to record a contraction in total volume was construction, down 400 jobs.

- A significant driver in the mid- and long-term for Brooklyn's construction market will be the ongoing redevelopment underway at the Brooklyn Development Center. Known as Alafia, the project is set to add roughly 2,400 affordable housing units and walkable areas to the East New York neighborhood. Developed by a partnership consisting of several companies, the master planned community will be built in several phases and will cost somewhere around $1.2 billion.

New York Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	1198	16.8%
70	Leisure and Hospitality	637	9.0%
65	Education and Health Services	1574	22.1%
40	Trade, Transportation and Utilities	1139	16.0%
80	Other Services	287	4.0%
50	Information	293	4.1%
55	Financial Activities	633	8.9%
90	Government	906	12.7%
30	Manufacturing	190	2.7%
15	Mining, Logging and Construction	259	3.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The borough lost more than 86,000 residents in 2021, down 3.2% year-over-year, while the country inched up 0.1%. Brooklyn's population has fluctuated over the past few years, a trend that was exacerbated by the pandemic.

Brooklyn vs. National Population

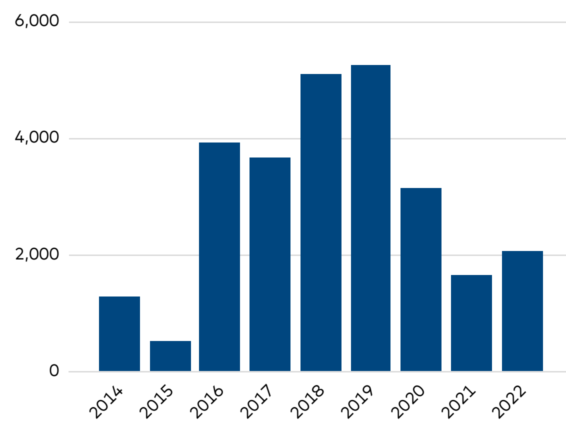
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Brooklyn	2,580,088	2,562,329	2,727,393	2,641,052

Source: U.S. Census

SUPPLY

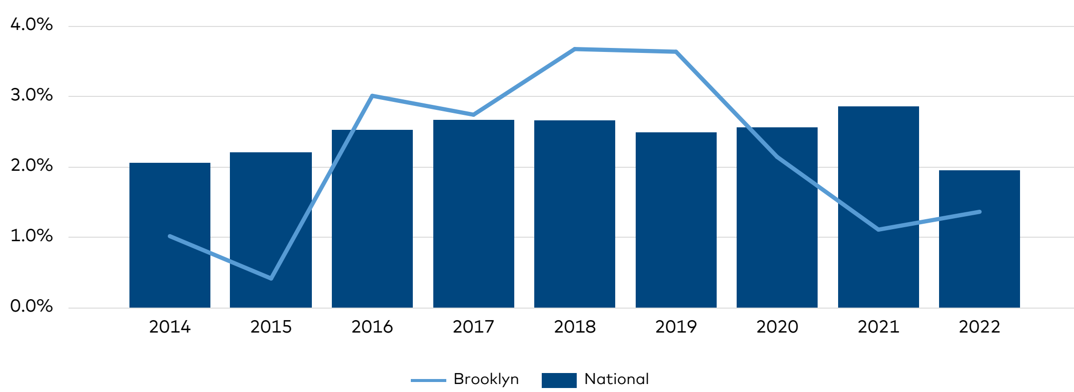
- Developers had 13,915 units under construction as of November, as the borough lines up more inventory for the multifamily rental sector. Affordability issues and rising interest rates will likely push those hesitant to buy but who still want to be in the New York City market. Another 39,500 units were in the planning and permitting stages.
- Through the first 11 months of 2022, the borough saw the addition of 2,067 units. While that's already 25% more than 2021's total deliveries, development activity in the borough has dwindled, with the previous five-year average at 3,777 units. Deliveries accounted for 1.4% of existing multifamily stock.
- Limited development activity and a general propensity for Lifestyle stock from developers pushed the average occupancy rate in stabilized assets in the Renter-by-Necessity segment up 30 basis points year-over-year, to 99.1% as of October.
- Multifamily construction activity was highest in four submarkets, each with more than 1,000 units underway: Greenpoint (2,806 units under construction), Prospect Heights (1,658 units), Coney Island-Sea Gate (1,562 units) and Downtown Brooklyn (1,558 units).
- The largest development underway is Brooklyn Crossing in Prospect Heights. Greenland USA and The Brodsky Organization are building the 858-unit project targeting LEED Gold certification. The project will also feature an affordable component.

Brooklyn Completions (as of November 2022)



Source: Yardi Matrix

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

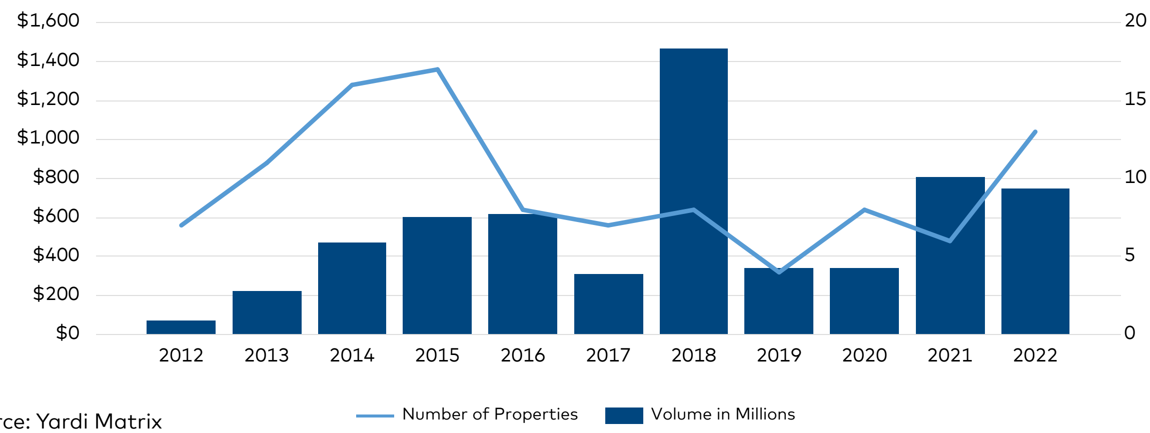


Source: Yardi Matrix

TRANSACTIONS

- With one month left in 2022, Brooklyn recorded $750 million in multifamily transactions, roughly on track to match 2021's $808 million figure.
- The average per-unit price reached $871,730, nearly $300,000 higher than the 2021 figure. That's largely due to the four Lifestyle assets that traded, which sold for an average per-unit price of just under $2 million.
- Per-unit prices have oscillated throughout the past decade in Brooklyn, due to a still-limited multifamily rental inventory. The bulk of the borough's housing stock is still very much in condominium, co-op and properties with lower unit counts.
- In the 12 months ending in November 2022, Brooklyn saw $1.3 billion in deals, essentially highlighting how strongly investment activity ended the prior year. In the interim, investment activity was highest in Bushwick ($506 million), Downtown Brooklyn ($367 million) and Williamsburg ($274 million).

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



Source: Yardi Matrix

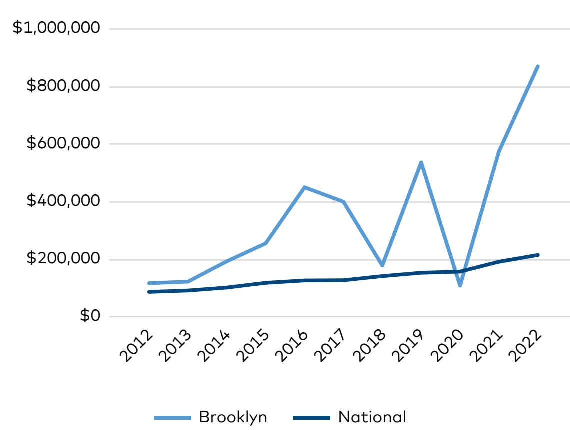
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Bushwick	506
Downtown Brooklyn	367
Williamsburg	274
Midwood	180
East Flatbush	46

Source: Yardi Matrix

[1] From December 2021 to November 2022

Brooklyn vs. National Sales Price per Unit



Source: Yardi Matrix

An Insider's Perspective on Financing Affordable Development in NYC

By Anda Rosu

Black and Brown developers involved in low-income housing in New York City have experienced firsthand all the difficulties that one needs to overcome to gain access to critically needed capital and resources. Carthage Real Estate Advisors CEO Ed Poteat talked about the barriers he constantly needs to break down to see his projects come to fruition, and shared his thoughts on ways to induce systemic change for minority-owned companies.

How difficult is it for Black developers to obtain capital for affordable housing developments?

Over the past five to seven years, the City and State have done a good job finding incentives within existing programs to make the process as simple as possible for Black and Brown developers. There's been a lot of progress since I began my career in the industry. However, barriers do still exist regarding access to capital. People prefer to work with people that look like them. It's human nature. Today, capital markets are mostly made up of non-Black and Brown people. It's no one's fault but does explain why Black developers are constantly fighting for access to funding.

How do you expect the affordable housing industry to move on without the 421a program?

The 421a program provided a good incentive to bring affordable units to expensive neighborhoods such as Flatiron, Midtown and downtown Brooklyn. With the elimination of the program, we'll

no longer see affordable housing development in Manhattan, downtown Brooklyn and Long Island City. Legislature leaders believe the $1.7 billion-a-year developer tax break can be used to build pure affordable housing, but the mechanisms aren't there yet. We'll lose mixed-income units in better parts of the city and won't be successful in building units elsewhere.

How can minority-owned companies shape the future of NYC's affordable housing market?

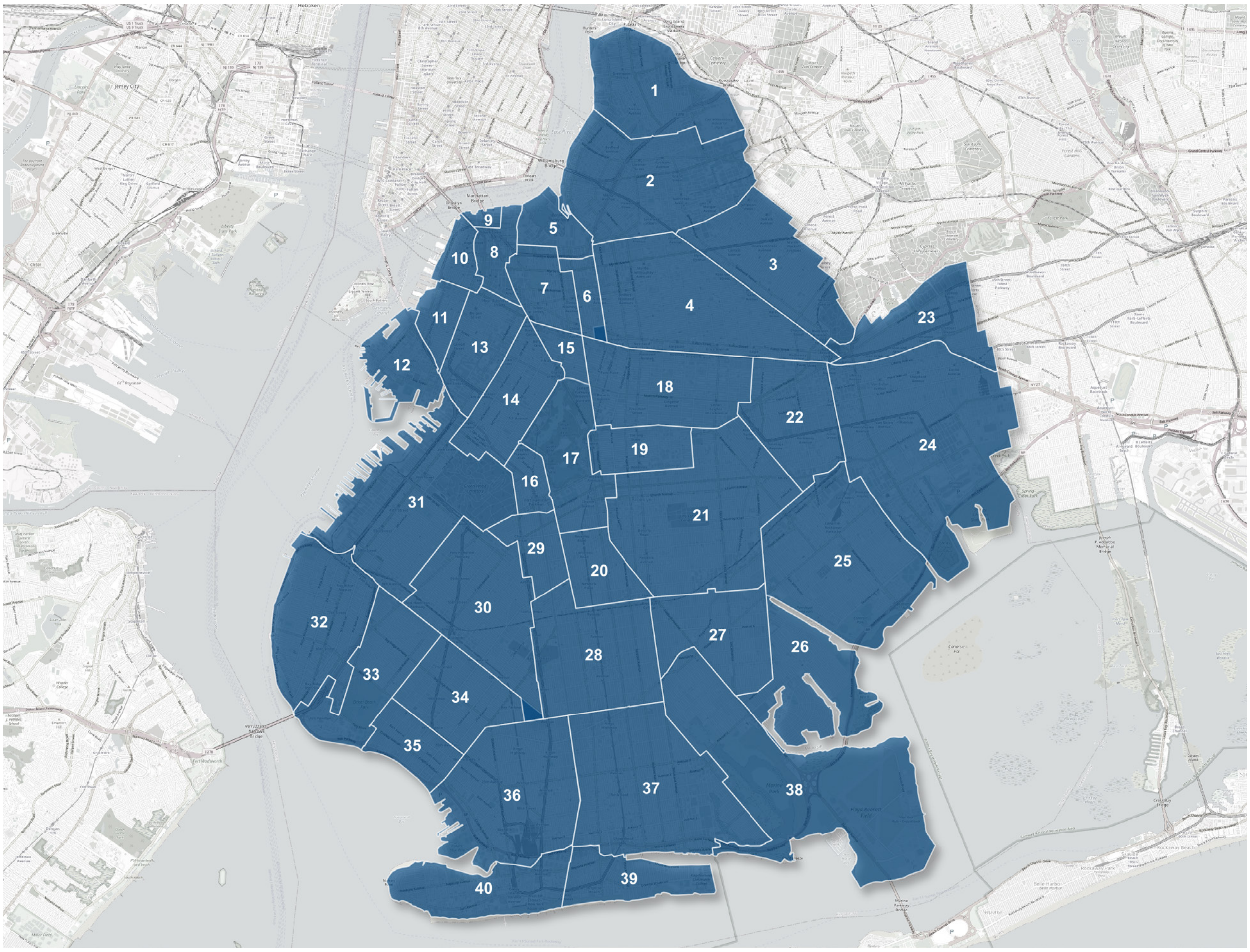
Black and Brown developers understand the full impact affordable housing can have in empowering communities. Everyone recognizes that affordable housing benefits low-income tenants, but I like to argue there's a short-term economic stimulus that comes from it. New affordable developments create jobs through construction and staffing but can also introduce social good into a community.

Is there anything else you would like to add about the future of affordable housing development in the New York City area?

There's a lot of talk now about the need for more affordable housing. I've had conversations with politicians who really want to act, but don't know how. The answer is simple: We must build more densely. There should be large zoning bonuses in place for affordable housing development. On the state level, we need to allocate more money to affordable housing. We've done it before and it's not complicated. We need to convert the will into policy.

(Read the full interview at www.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

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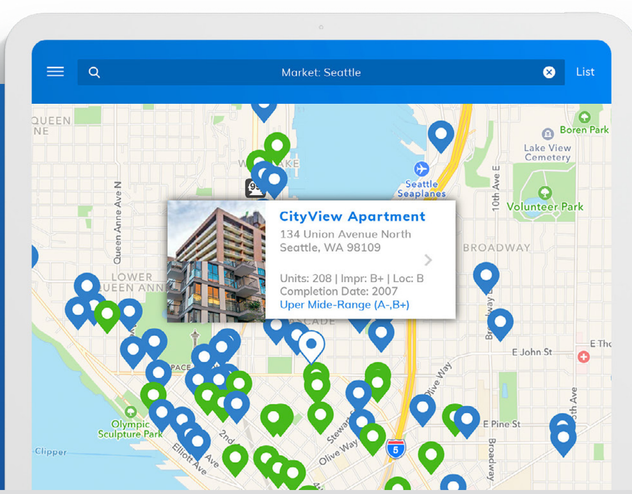
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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