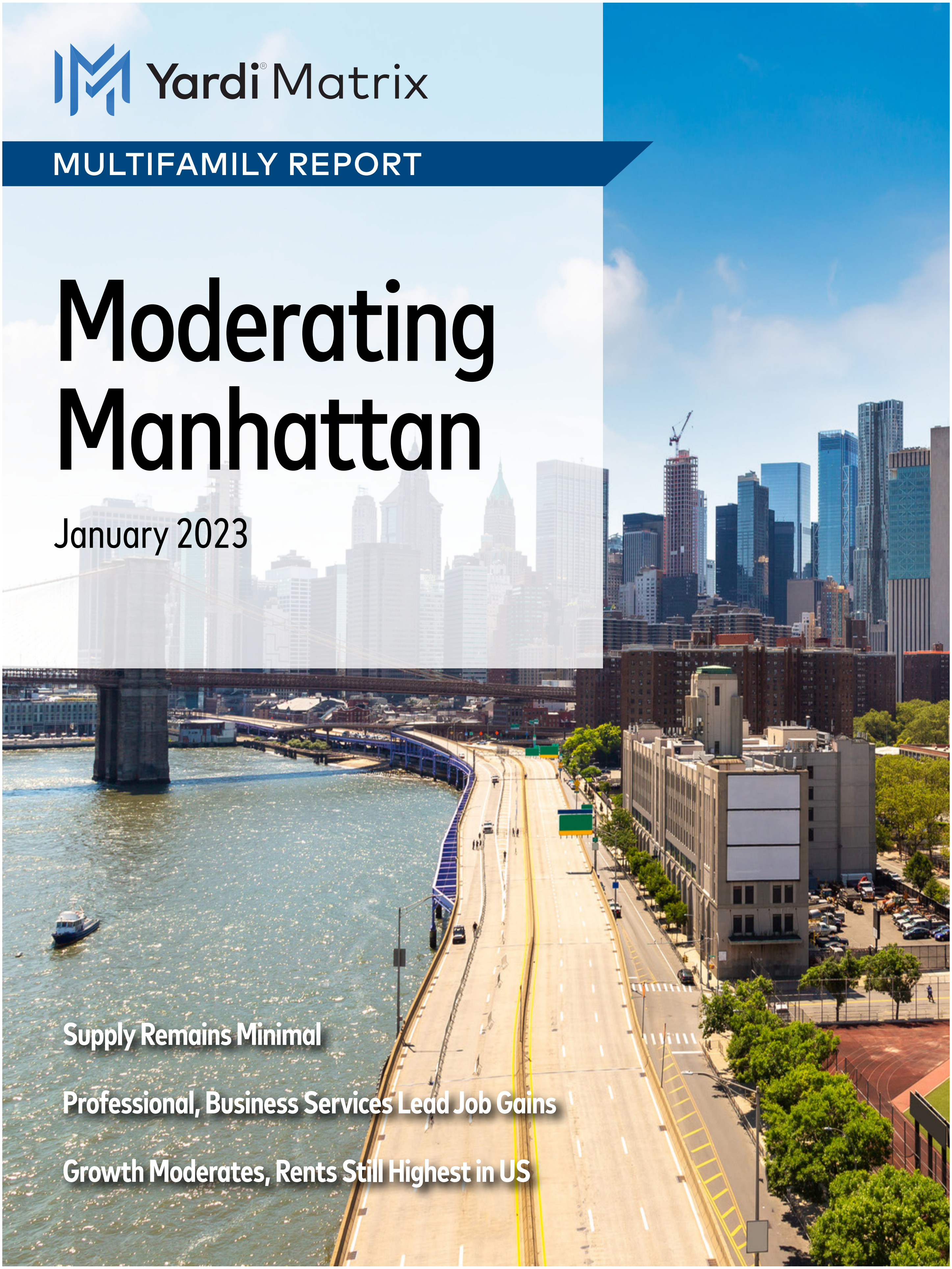
Yardi Matrix

MULTIFAMILY REPORT

Moderating Manhattan

January 2023



Supply Remains Minimal

Professional, Business Services Lead Job Gains

Growth Moderates, Rents Still Highest in US

MANHATTAN MULTIFAMILY

Yardi Matrix

Manhattan Multifamily Levels Off

After a sharp drop and a swift recovery, New York City multifamily is now looking ahead toward more sustainable levels of growth. Hit by a double whammy of seasonal deceleration and inflation woes, the market is slowing down though not dramatically. Manhattan rents were flat on a trailing three-month basis as of November, at $4,504, while the U.S. average dropped 10 basis points, to $1,719. The borough's occupancy growth has also slowed significantly, at just 20 basis points in the 12 months ending in October.

Despite a slower start, New York City's economic recovery remained in full swing. The metro added 359,200 jobs in the 12 months ending in September 2022, with all but one sector gaining positions. That accounted for a 5.8% rise, outperforming the national rate of growth. Professional and business services (83,200 jobs), leisure and hospitality (81,600) and education and health services drove growth, while construction contracted by 400 jobs. Meanwhile, the unemployment rate dropped to 4.1% as of October 2022, above the state but trailing the national figure.

Nearly $3.9 billion in multifamily assets traded in Manhattan in the first 11 months of 2022, marking the strongest year for deals since 2016. Meanwhile, the borough's pipeline slowed down, as Manhattan had 7,528 apartments under construction, with only 1,529 of them in projects that kicked off in 2022.

Market Analysis | January 2023

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Recent Manhattan Transactions

160 Riverside Blvd.

City: New York City
Buyer: A&E Real Estate Holdings
Purchase Price: $415 MM
Price per Unit: $912,088

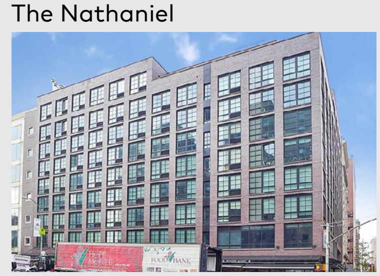
780 Greenwich St.

City: New York City
Buyer: Stonehenge Partners
Purchase Price: $80 MM
Price per Unit: $893,711

66 Avenue A

City: New York City
Buyer: Derby Copeland Capital
Purchase Price: $64 MM
Price per Unit: $842,105

The Nathaniel

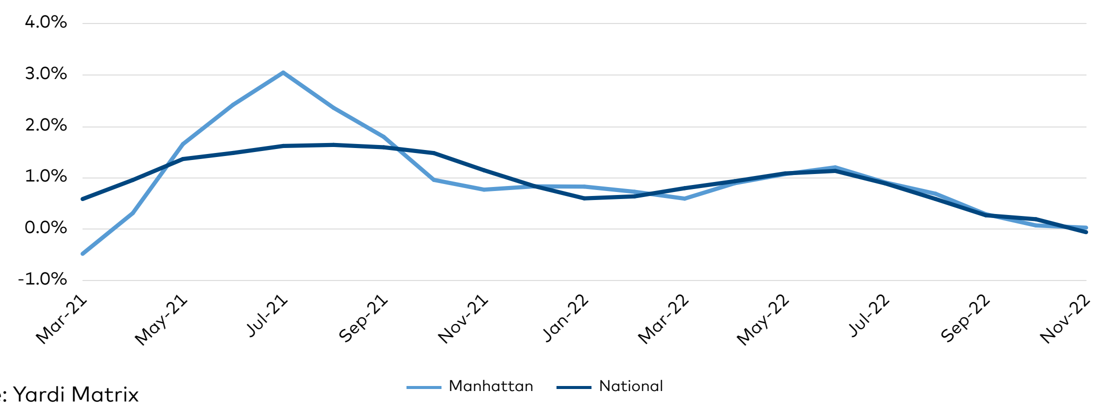


City: New York City
Buyer: Westover Cos.
Purchase Price: $57 MM
Price per Unit: $667,647

RENT TRENDS

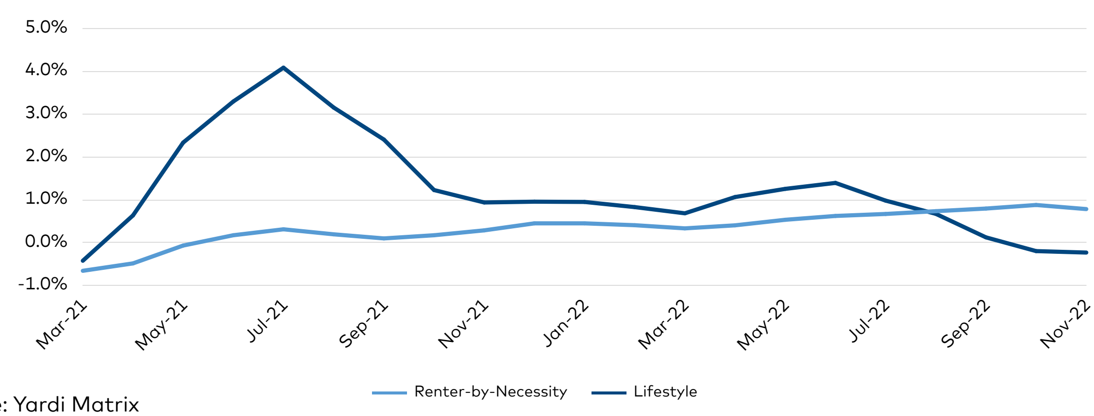
- Manhattan rents were flat on a trailing three-month (T3) basis as of November, reflecting both the beginning of a seasonal slowdown and the results of economic turmoil brought by inflation and subsequent interest-rate hikes. After a strong 2021 run, rates returned to more sustainable levels of growth, matching national averages. Year-over-year as of November, the average rent improved 7.8% to $4,504, while the national figure climbed 7.0% to $1,719.
- While Manhattan rents and occupancy were in free fall after the first shocks of the pandemic, the metro's performance has significantly improved. The average rate is now more than $250 above the February 2020 figure, prior to COVID-19. Manhattan also boasts the country's highest average rent, followed by Brooklyn, the Bay Area, Queens, Los Angeles, Orange County and Boston.
- After leading growth for the better part of two years, Lifestyle rents have taken a back seat as of late. On a T3 basis, working-class Renter-by-Necessity rates were up 0.8%, to $3,474. Meanwhile, Lifestyle figures dropped 0.2%, to $5,009.
- Six submarkets registered double-digit growth year-over-year through November. The list is led by Carnegie Hill (14.2% to $4,667), the Lower East Side (12.6% to $4,778) and the Theater District (12.0% to $4,692).
- Meanwhile, the occupancy rate in stabilized Manhattan assets was up 20 basis points in the 12 months ending in October 2022, to 97.5%.

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

- After hitting a deep trough in 2020, New York City employment started regaining jobs at a relatively fast clip. In the 12 months ending in September 2022, the city added 359,200 positions across most sectors, which marked a 5.8% rise, above the 4.2% national figure.
- Even so, out-migration, early retirement and other socioeconomic factors kept total employment in the metro significantly below pre-pandemic levels. As of October 2022, New York City had 355,000 fewer employees than it did right before the pandemic hit.
- In a show of broad-based economic strength, professional and business services led growth, adding 83,200 positions for a 7.5% expansion. Leisure and hospitality (81,600), education and health services (78,400) and trade, transportation and utilities (50,600) followed. Construction was the only sector to shed jobs in New York City, down 400 positions in the 12 months ending in September.
- Metro New York unemployment stood at a relatively tight 4.1% as of October 2022, according to preliminary data from the Bureau of Labor Statistics. That's just below the state's 4.3% but above the 3.7% national figure.

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

- Manhattan lost 110,958 residents in 2021, reflecting the height of out-migration fueled by pandemic restrictions and work-from-home or hybrid work arrangements. This equated to a 6.6% slide, while the U.S. population inched up 0.1%.

Manhattan vs. National Population

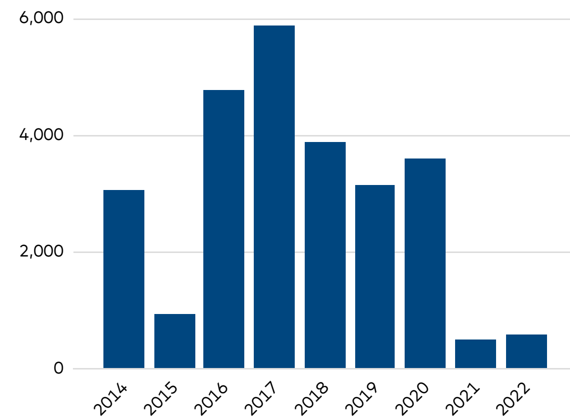
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Manhattan	1,632,393	1,632,326	1,687,834	1,576,876

Source: U.S. Census

SUPPLY

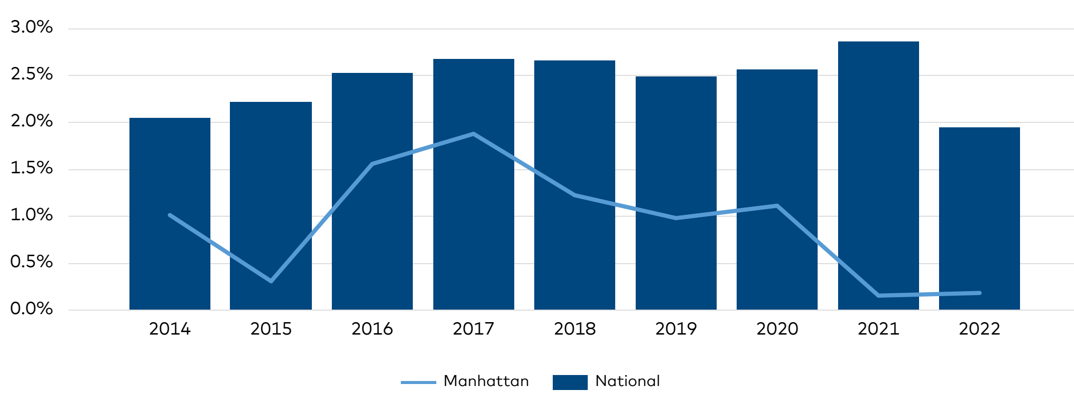
- Manhattan had 7,528 apartments underway as of November, only 1,529 of which started construction in 2022. By comparison, construction was started on 2,954 units in 2021, virtually double 2022's figure. While the vast majority of the current pipeline is in upscale projects, the borough still has almost 2,000 units in fully affordable developments. Apart from units underway, Manhattan has an additional 31,000 apartments in the planning and prospective stages.
- Only 597 units came online in Manhattan in 2022 through November, above 2021's 506 apartments, but significantly below pre-pandemic figures, with the previous five-year average at nearly 4,300 units. As expected, market conditions stemming from the COVID-19 crisis threw New York City's pipeline off balance, short-circuiting timelines, delaying or cutting down projects, and gutting deliveries.
- Three Manhattan submarkets had more than 1,000 units under construction as of November 2022: Chelsea (1,997 apartments underway), East Harlem (1,429) and the Lower East Side (1,032). The list of submarkets with consistent pipelines also included Hell's Kitchen (928) and Harlem (643).
- The largest project underway as of November was 3Eleven, a 938-unit development in West Chelsea, next to Hudson Yards and the High Line. The 60-story high-rise, spearheaded by Douglaston Development and Lalezarian Properties started preleasing earlier in 2022 and is expected to reach completion by the end of 2023.

Manhattan Completions (as of November 2022)



Source: Yardi Matrix

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

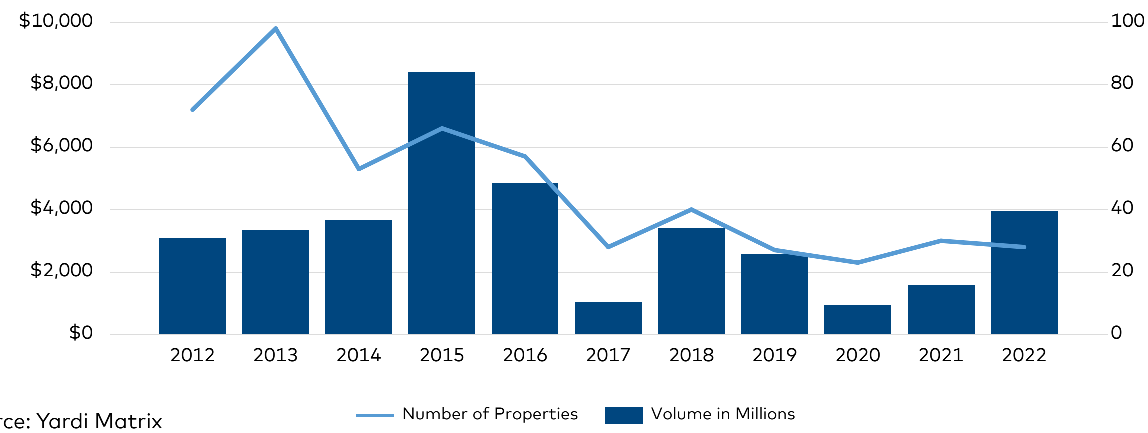


Source: Yardi Matrix

TRANSACTIONS

- Nearly $4 billion in multifamily assets of more than 50 units traded in Manhattan in 2022 through November. After taking an understandable hit in 2020, the transaction volume recovered hand-in-hand with the borough's overall fundamentals, recording the best year for sales since 2016.
- The price per unit jumped to $750,761 for the first 11 months of the year, the highest value on record and above the previous high of $717,386, registered in 2019. As expected, the borough's per-unit average remained well above the national figure, which clocked in at $215,443 in 2022 through November.
- Two high-figure transactions made headlines in 2022. In March, Black Spruce bought the 761-unit The Copper in Murray Hill from JDS Development Group, paying $837 million. Three months later, Blackstone shelled out $930 million for 8 Spruce, an 894-unit asset in the Financial District. Brookfield Properties was the seller.

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



Source: Yardi Matrix

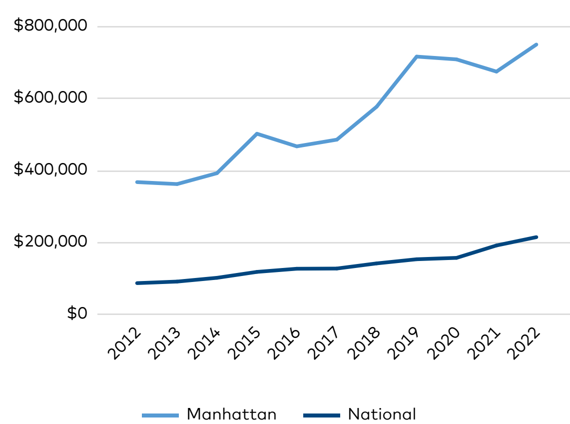
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Financial District	1,178
Murray Hill	837
Lincoln Square	681
Upper West Side	485
Yorkville	217
West Village	182
East Village	179

Source: Yardi Matrix

[1] From December 2021 to November 2022

Manhattan 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 talks about the barriers he constantly needs to break down to see his projects come to fruition, and shares 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 421 a 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 housing developments create jobs through construction and staffing but can also introduce social good into a community.

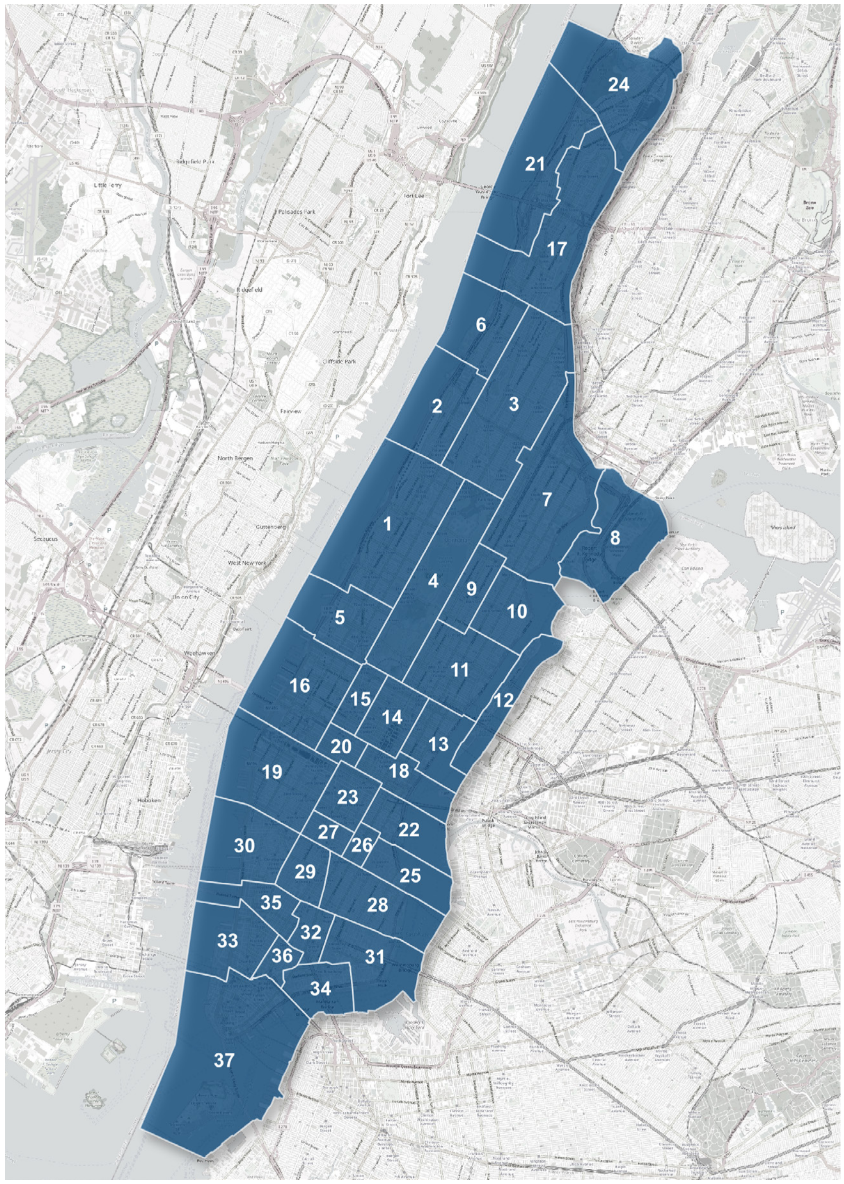
Is there anything else you would like to add about the future of affordable housing development in the New York City area?

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 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



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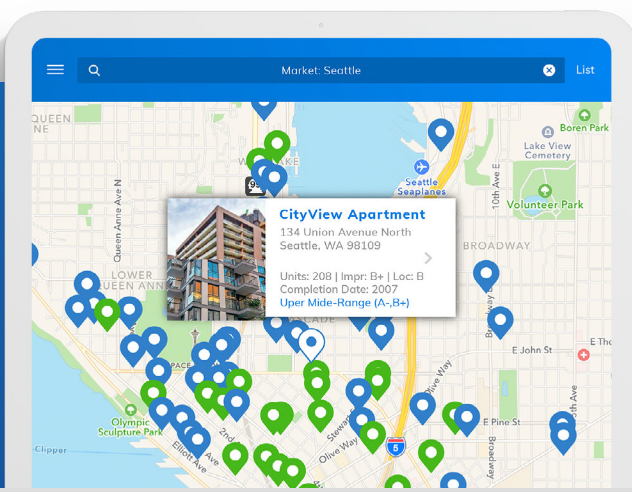
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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