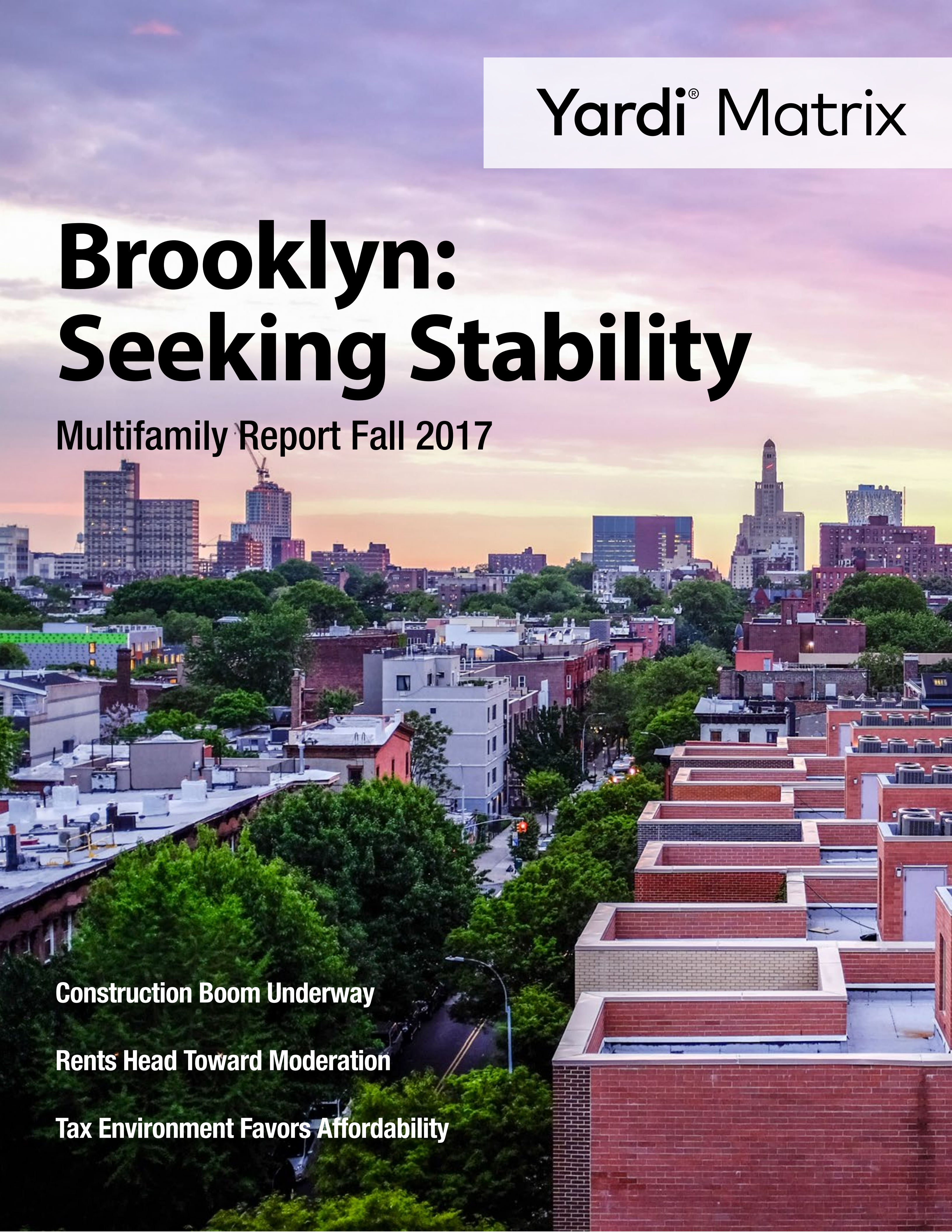
Yardi® Matrix

Brooklyn: Seeking Stability

Multifamily Report Fall 2017



Construction Boom Underway

Rents Head Toward Moderation

Tax Environment Favors Affordability

Market Analysis

Fall 2017

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Rents Contract as New Units Come Online

Brooklyn continues to be a hot destination for Millennials, with its burgeoning arts and music scene and proximity to Manhattan's offices. However, an explosion of new supply and a high cost of living have tempered rents. Investment activity is also in a slump, as potential buyers hesitate to accept prices at a cycle peak while sellers remain reluctant to discount.

Employment growth in New York remains strong, and Brooklyn is seeing an explosive expansion of office-using industries. More than 7 million square feet of new office space is scheduled to come online in upcoming years. Notable projects include Boston Properties' 675,000-square-foot Dock 72, Tishman Speyer's 620,000-square-foot development at 422 Fulton St. and Whale Square, a 500,000-square-foot building developed by Madison Realty.

The tax environment is having a positive effect on multifamily construction and on future affordable housing development. Roughly 1,800 rental units came online in the borough this year through September, while more than 6,000 are slated for completion by year-end. Furthermore, 12,800 units are scheduled for delivery through 2021. Legislation was put in place with the goal of supplying $2.5 billion to advance low-cost housing construction throughout New York City, as some 170,000 affordable units are projected to be added in the five boroughs. We expect rents in the market to continue to stabilize, at -1.0% for the year.

Recent Brooklyn Transactions

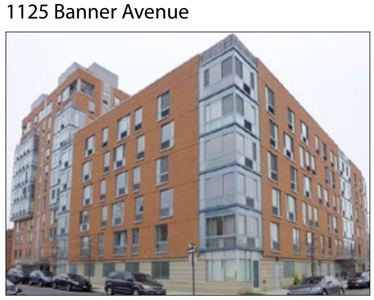
The Addison

City: Brooklyn
Buyer: Multi-Employer Property Trust
Purchase Price: $154 MM
Price per Unit: $569,188

475 Kent Avenue

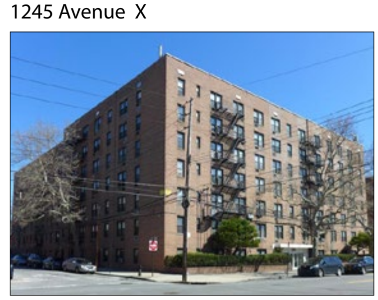
City: Brooklyn
Buyer: Copperline Partners
Purchase Price: $56 MM
Price per Unit: $540,534

1125 Banner Avenue



City: Brooklyn
Buyer: Abro Management
Purchase Price: $47 MM
Price per Unit: $459,804

1245 Avenue X



City: Brooklyn
Buyer: Dov Management
Purchase Price: $37 MM
Price per Unit: $596,774

To Subscribe

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On the cover: Photo by baranozdemir/iStockphoto.com

Rent Trends

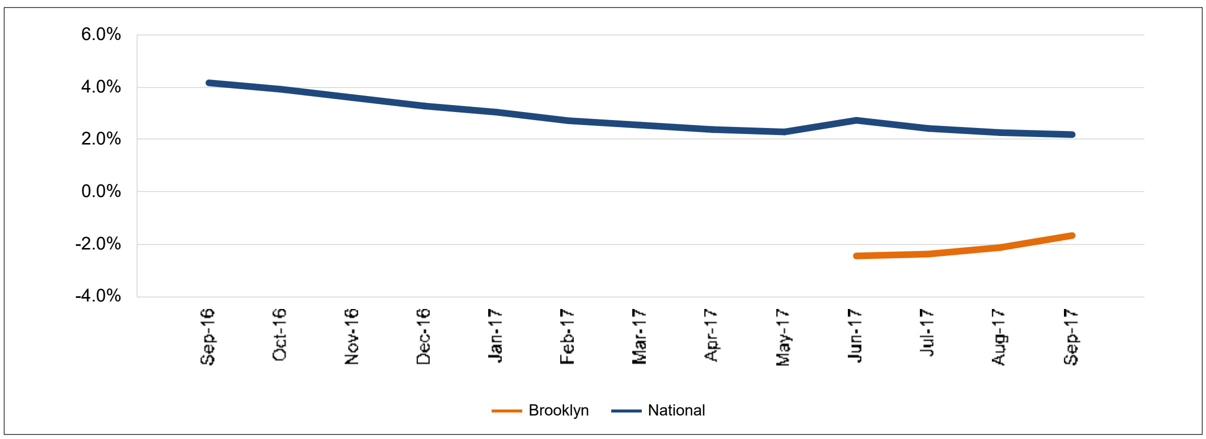
- Brooklyn rents were down 1.7% in the 12 months ending in September, well below the 2.2% national average increase. At $2,713, the borough's average rent was more than double the $1,354 U.S. rate.

- Both the working-class Renter-by-Necessity and Lifestyle segments experienced rent contraction. The Renter-by-Necessity sector fell 0.7% to $1,988, while luxury Lifestyle rents dropped 2.0% to $3,400. Demand for both asset classes is still strong, although new tax reforms are putting pressure on rents.

- The deceleration in New York rents comes after stricter enforcements to the J-51 tax abatement program, which enables owners to recover approximately 75% of property renovation costs in exchange for not raising rents. Moreover, landlords have to register units under the J-51program as rent-stabilized. As of August, average occupancy for stabilized properties was 98.0%.

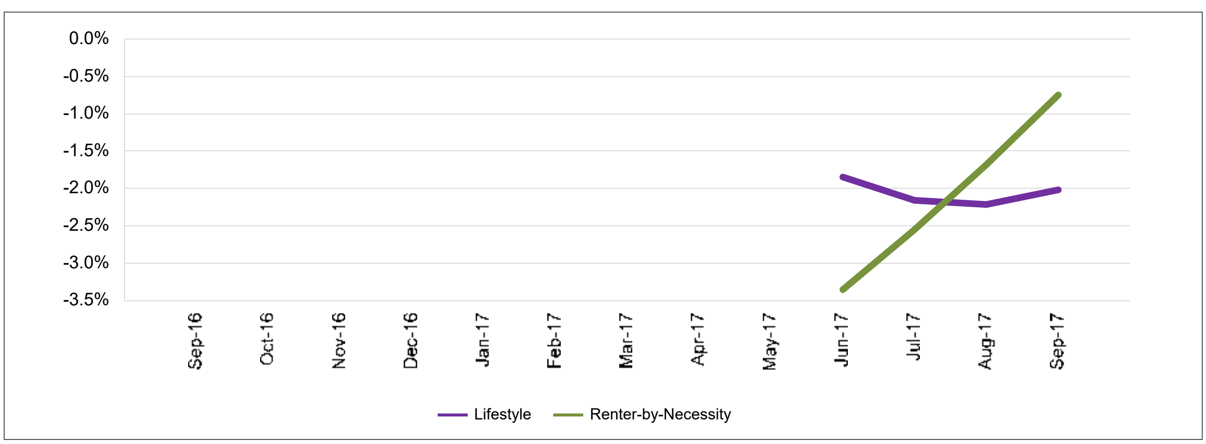
- Submarkets with the highest rent growth were Prospect-Leffert Gardens (16% increase year-over-year), Williamsburg (5.7%), Brighton Beach–Manhattan Beach (5.5%), Fort Greene (4.8%) and Sheepshead Bay–Gerritsen Beach (4.2%). The Midwood submarket had the largest rent drop (-16.2%), from $2,052 to $1,720 through that interval.

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



Source: YardiMatrix

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



Source: YardiMatrix

Economic Snapshot

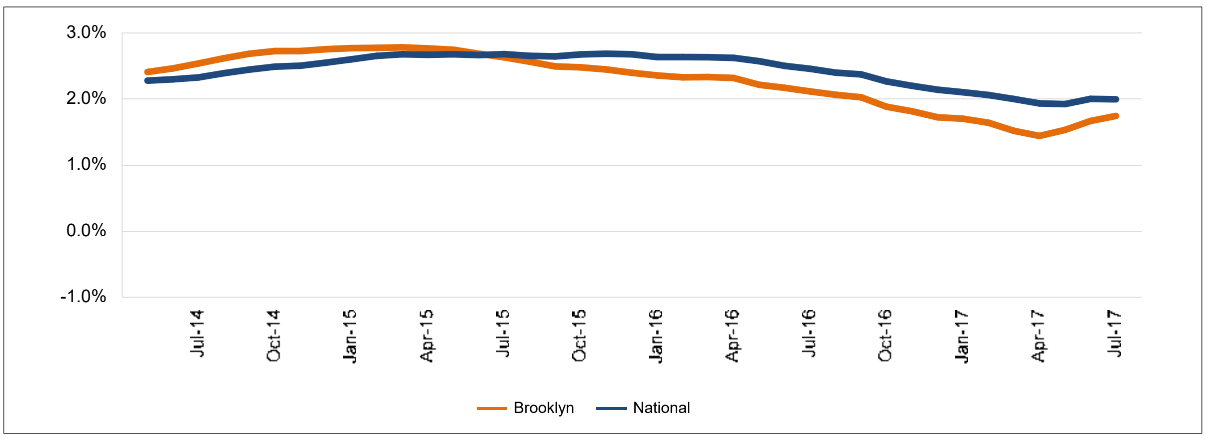
- The New York metro area added a total of 157,100 jobs in the 12 months ending in July 2017, up 1.7% year-over-year and 30 basis points below the national average. Employment growth has occurred across most industries, except in the manufacturing and information sectors, which jointly lost 10,600 jobs.

- Metro wide, gains were led by education and health services (67,000 jobs), professional and business services (41,300), leisure and hospitality (27,900) and financial activities (11,800). Although Manhattan still houses the most jobs of the five boroughs, Brooklyn has a niche of architecture and design jobs and overall creative employment, and a growing number of back-office jobs are moving there.

- Brooklyn's existing office inventory, coupled with the upcoming 20-plus office projects planned to come online by 2020—including Thor Equities' 800,000-square-foot Red Hook waterfront development—are slowly causing concerns of saturation. According to CBRE, leasing activity in the borough stood at 430,000 square feet in the first quarter of 2017, behind the 900,000 square feet of new space delivered over the same period.

- As the borough is in the midst of a building boom, with roughly 7 million square feet of planned office projects, Amazon has shortlisted Brooklyn as a possible candidate for the retail giant's upcoming second headquarters. One of the biggest draws for businesses is the young talent living in Brooklyn.

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

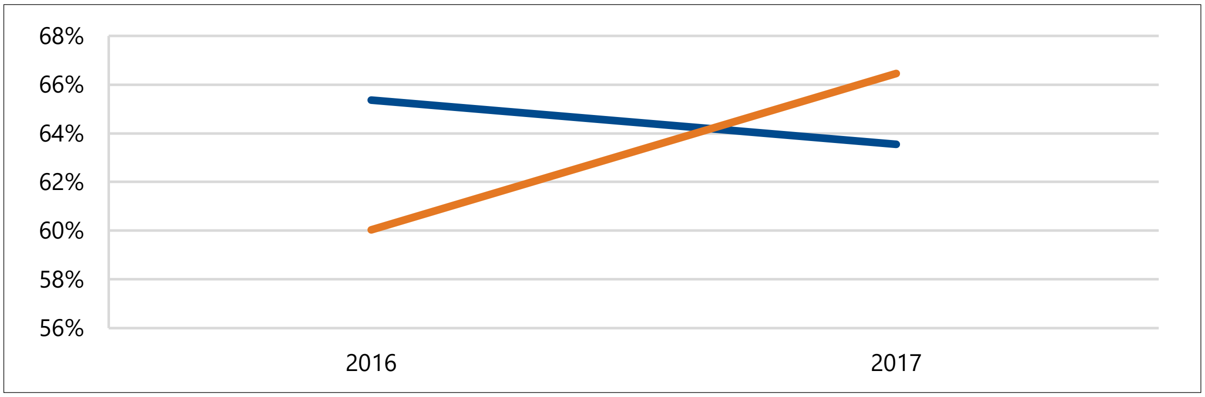
Demographics

Affordability

- Brooklyn's median home price rose to $745,357 in 2017, a new cycle high and $53,000 over the 2016 level. Compared to last year, owning has become the more expensive option, as the average mortgage payment accounts for two thirds of the metro's median income, while renting comprises 64%.

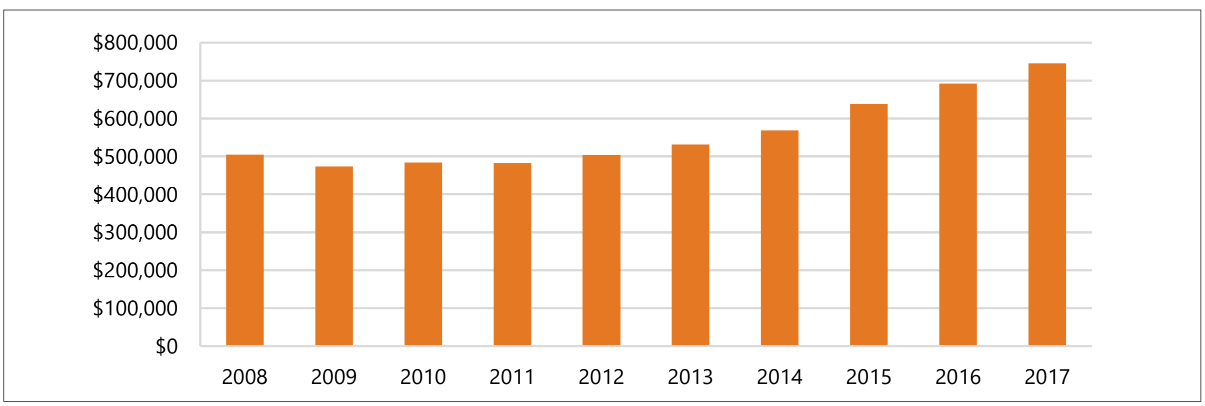
- The recently approved Affordable New York Housing Program, which offers developers a city tax break in return for building lower-price units, should moderate the price surge and make way for more reasonably priced projects. The program will generate 2,500 affordable units annually. Additionally, developers benefiting from the tax break are required to offer construction workers better wages: between $45 and $60 per hour.

Brooklyn Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Brooklyn Median Home Price



Source: Moody's Analytics

Population

- Brooklyn added more than 4,200 residents in 2016, a 0.2% increase, well below the national growth rate of 0.7%.

- The metro's population rose by 2.2% in the previous five years, adding roughly 56,900 people since 2012.

Brooklyn vs. National Population

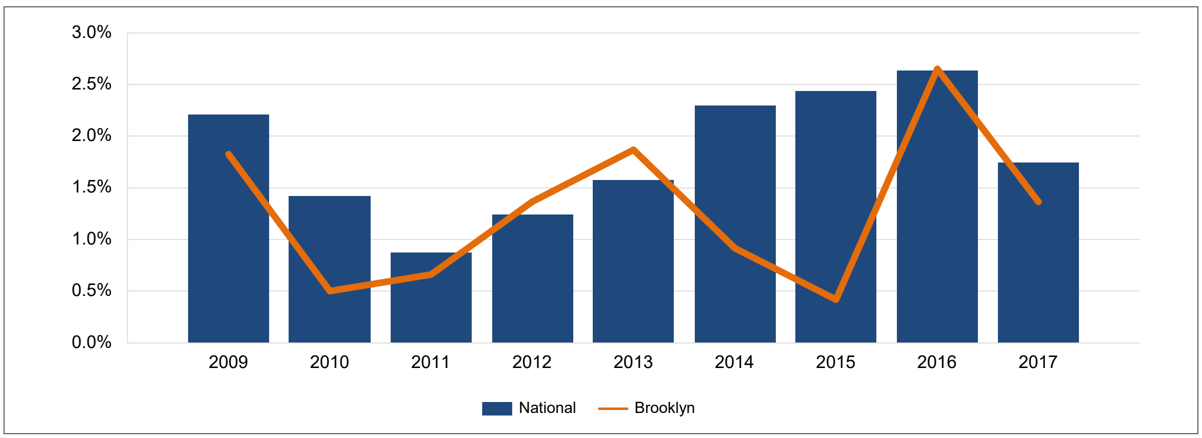
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Brooklyn Metro	2,572,282	2,595,344	2,612,544	2,624,941	2,629,150

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

Supply

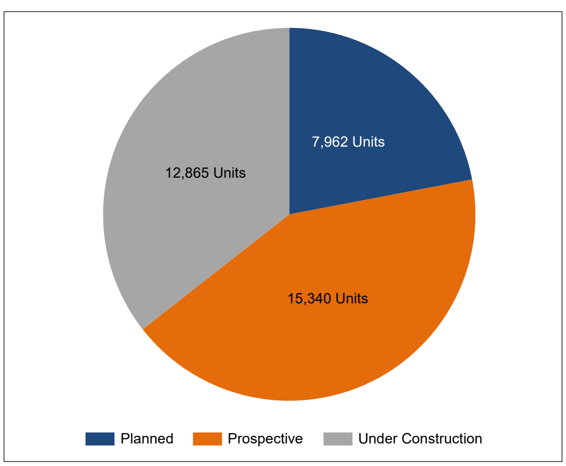
- About 1,800 multifamily units came online in the borough in 2017 through September, while more than 6,000 are slated for completion by year-end. The development surge is partly the result of the recently approved Affordable New York Housing Program.
- Brooklyn's multifamily development pipeline as of September consisted of more than 12,800 units under construction and more than 35,000 in the planning stages.
- Brooklyn also has a large pipeline of condominiums, although they are concentrated in the high end. There is a huge need for affordable housing, both rental and for-sale. Some developers have shifted under-construction projects—as well as rent-stabilized apartments—from rentals to condos.
- The downtown Brooklyn (3,039 units under construction) and Williamsburg (2,065 units) submarkets are seeing the most activity, followed by Fort Greene (1,230) and Bushwick (1,192). The largest project under way is the partially affordable, 856-unit 416–420 Kent Avenue. Built on a former industrial site, the development will feature three 24-story buildings, designed by ODA Architects. Completion is expected by year-end 2018.

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



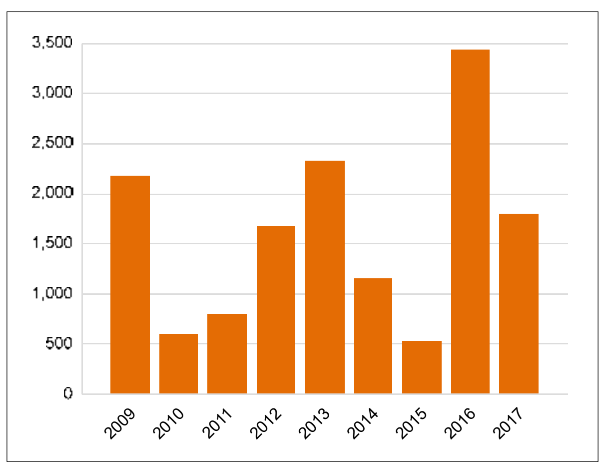
Source: YardiMatrix

Development Pipeline (as of September 2017)



Source: YardiMatrix

Brooklyn Completions (as of September 2017)



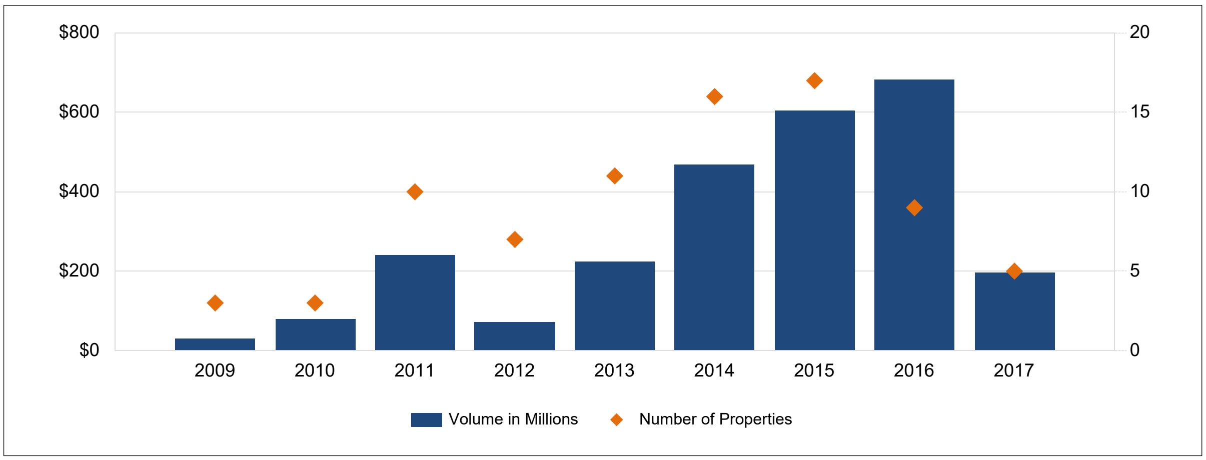
Source: YardiMatrix

Transactions

- Investment activity continued to drop in Brooklyn, with only $198 million in multifamily assets trading this year through August. Following more than a year of slow rent growth, investors are hesitant to match asking prices for properties. That has discouraged owners from putting their assets—particularly Lifestyle—on the market, knowing they're not likely to net what they expect. Multifamily deals were also affected by buyers' interest in emerging markets, where yields are more substantial.

- The average price per unit stood at $402,393, triple the national average of $134,227 and roughly $70,000 higher compared to 2016's average figure. Only eight properties traded as of August, more than half of them Renter-by-Necessity assets. The Addison, consisting of 271 units, was the most expensive community to change hands, for a price tag of $154 million. Multi-Employer Property Trust acquired the downtown Brooklyn asset from Waterton in December 2016. Built in 2011, the upscale property was 99.3% occupied.

Brooklyn Sales Volume and Number of Properties Sold (as of August 2017)



Source: YardiMatrix

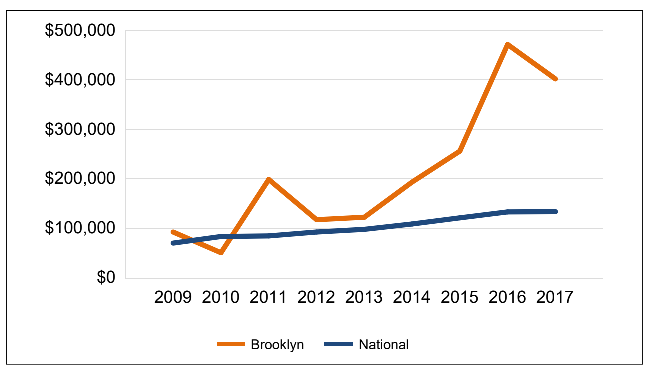
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown Brooklyn	154
Williamsburg	125
Sheepshead Bay Gerritsen Beach	89
Kensington & Parkville	33
Brighton Beach–Manhattan Beach	29
Prospect–Leffert Gardens	25

Source: YardiMatrix

[1] From September 2016 to August 2017

Brooklyn vs. National Sales Price per Unit



Source: YardiMatrix

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Supportive Housing Coming to Brooklyn
CIM Buys Brooklyn Office Building in $171M Deal
JV to Build 274 Affordable Units In Brooklyn
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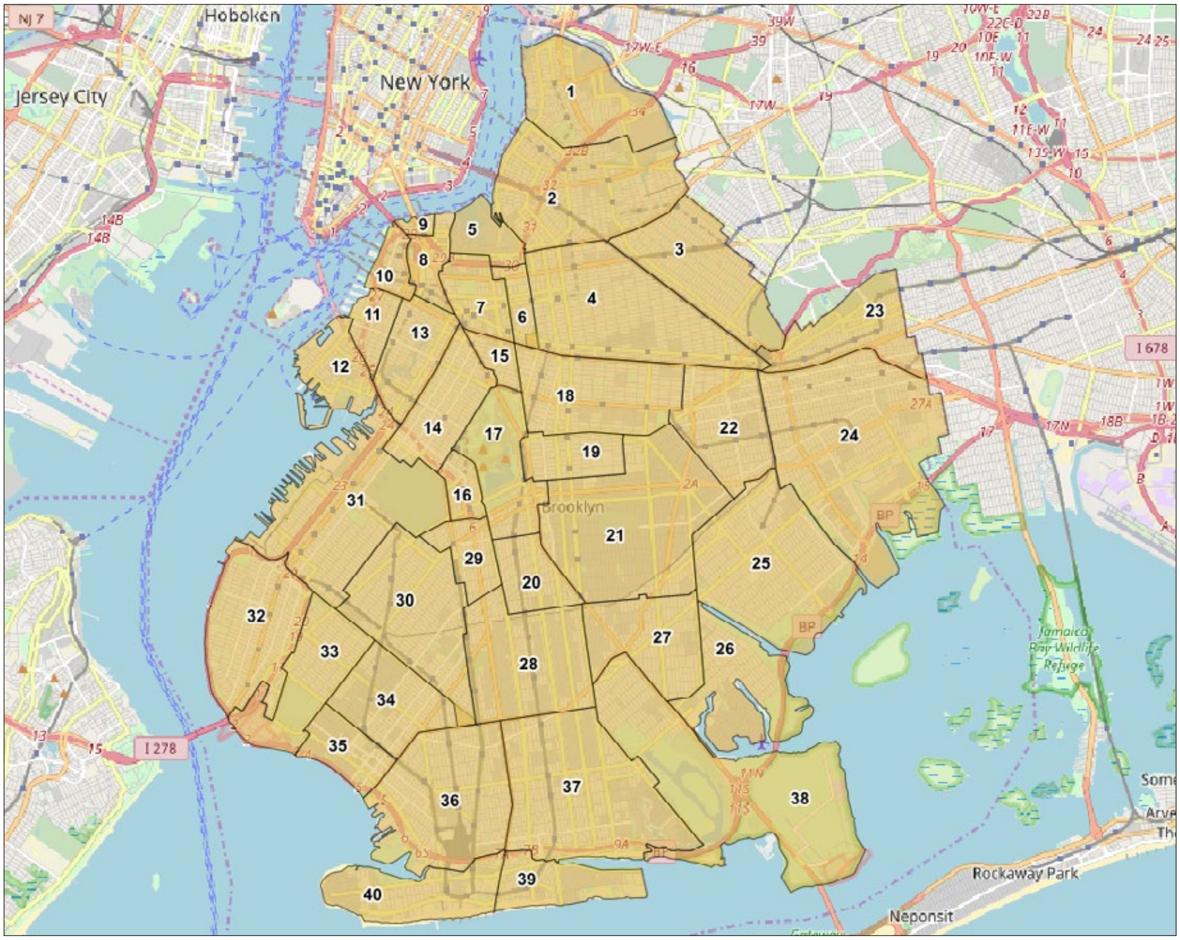
Brooklyn Submarkets



Area #	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
15	Prospect Heights
16	Windsor Terrace
17	Prospect Park - Prospect Park South
18	Crown Heights
19	Prospect-Leffert Gardens
20	Flatbush

Area #	Submarket
21	East Flatbush
22	Brownsville
23	Cypress Hills
24	East New York
25	Canarsie
26	Bergen Beach - Mill Basin
27	Flatlands
28	Midwood
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 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.