



MULTIFAMILY REPORT

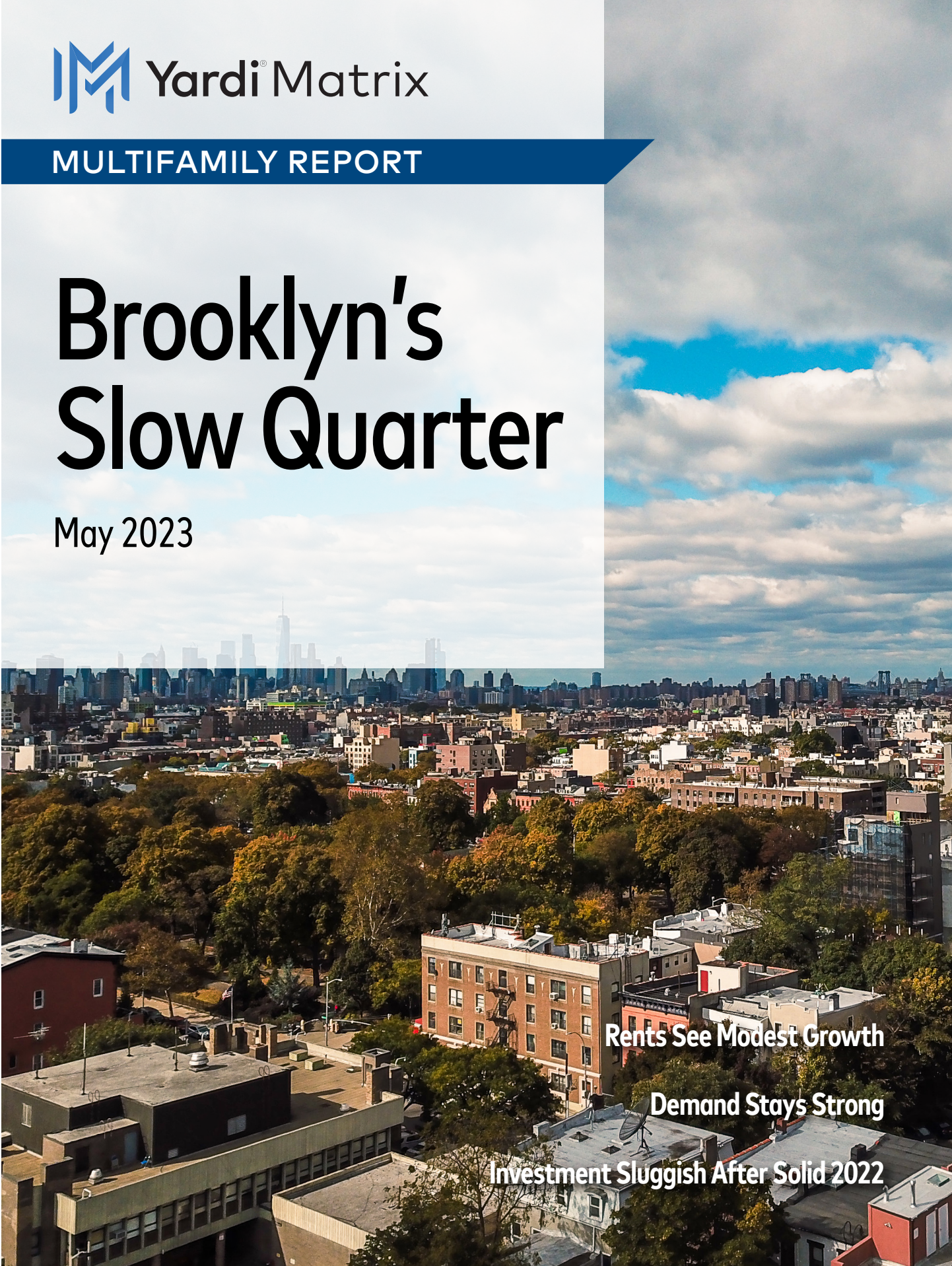
# Brooklyn's Slow Quarter

May 2023

Rents See Modest Growth

Demand Stays Strong

Investment Sluggish After Solid 2022



# BROOKLYN MULTIFAMILY



## Mixed Results In Early 2023

Brooklyn's multifamily market recorded a slight improvement in 2022, but ongoing economic challenges such as scarcer debt and inflation have made their mark. Year-over-year rent gains reached 4.3% as of March, to \$3,269. Demand remained strong, with occupancy in stabilized assets still one of the strongest in the nation, at 98.2% as of February, reaching 310 basis points above the U.S. figure.

After a year of strong gains, New York City job growth cooled slightly to a modest 5.0% expansion as of December, though still remaining above the national 3.7% rate. This accounted for 289,500 jobs gained across all sectors in 2022. According to the New York City Economic Development Corp., the city's private sector has returned to 99.5% of pre-pandemic job levels. Education and health services led job gains, with 86,700 jobs added, or a 5.6% expansion. Leisure and hospitality remained a strong performer, adding 66,300 jobs, or 11.7%. New York City's unemployment rate was 5.4% in February, 190 basis points higher than the nation and 120 basis points above the state.

Brooklyn had a slow first quarter, with only 17,169 units under construction as of March. Last year's completions were still below the five-year average, though starts were up and the borough's stock expanded by 2.0%. Investment activity has been low so far this year, though it ramped up last year, with \$778.5 million in sales, more than the previous two years combined.

## Market Analysis | May 2023

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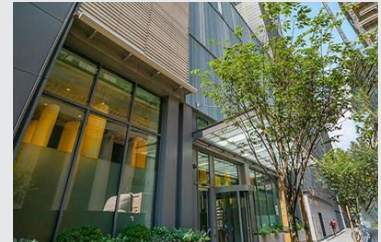
#### Author

#### Tudor Scolca-Seuşan

Associate Editor

### Recent Brooklyn Transactions

#### 7 Dekalb



City: New York City  
Buyer: Avanath Capital  
Management  
Purchase Price: \$101 MM  
Price per Unit: \$405,000

#### Tilden Hall



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

#### Bel Air

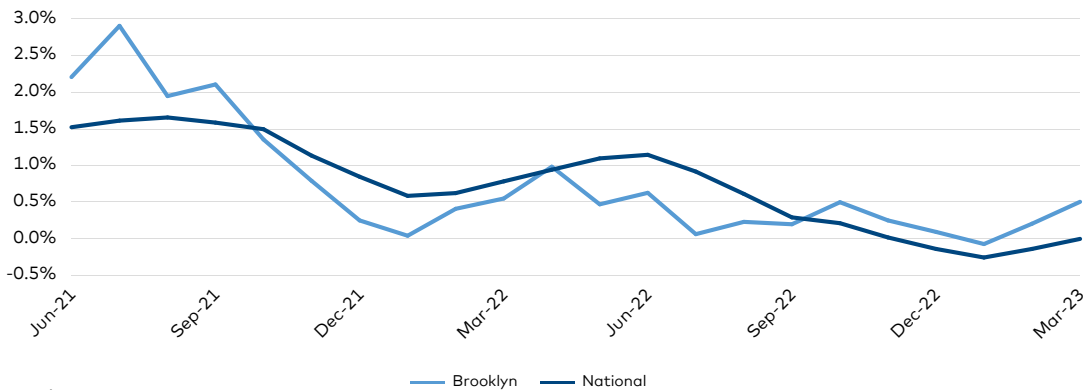


City: New York City  
Buyer: A&E Real Estate Holdings  
Purchase Price: \$39 MM  
Price per Unit: \$207,050

## RENT TRENDS

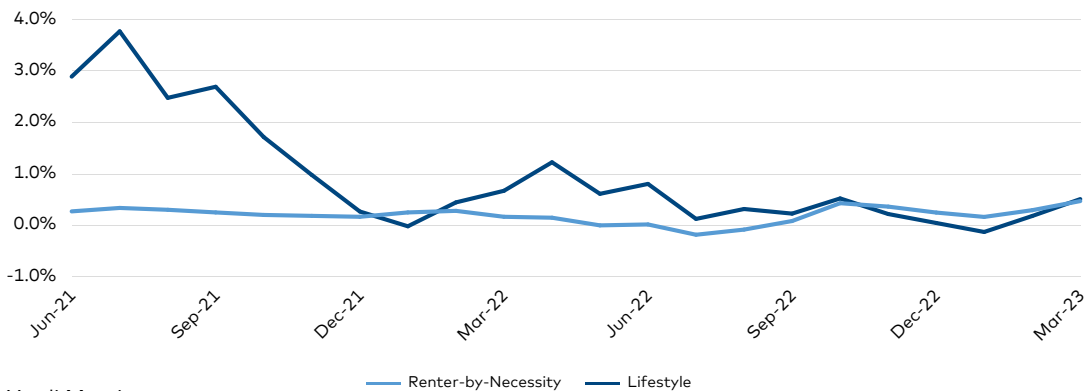
- ▶ Brooklyn rates were up 0.5% on a trailing three-month (T3) basis through March, while the national rate remained flat. Rent performance lagged the U.S. for the first half of 2022, even dropping into negative territory in July and August on a T3 basis, only to catch up in the last quarter. Year-over-year, Brooklyn rents were up 4.3% as of March—exceeding the 4.0% national rate, but below Manhattan’s 7.8%.
- ▶ The average in Brooklyn stood at \$3,269 as of March, almost double the national rate of \$1,706. Both the working-class Renter-by-Necessity and Lifestyle segments recorded T3 rent gains of 0.5%, to \$2,063 and \$3,899, respectively. Throughout 2022, the Lifestyle segment performed better, peaking at 0.8% in June, while RBN rates did not exceed 0.4%.
- ▶ Overall occupancy in stabilized assets in the borough decreased just 20 basis points over 12 months, to 98.2% as of February—310 basis points above the national average. Affordability issues led the Lifestyle segment to take a hit of 90 basis points, with occupancy at 97.2%. Meanwhile, RBN properties saw a 40-basis-point increase, to 99.1%, a rare feat among U.S. cities given current dynamics.
- ▶ Coney Island-Sea Gate led rent expansion, with rates up 11.0% year-over-year, to \$2,807. Only two other submarkets had above-average year-over-year growth: Downtown Brooklyn (up 7.6%, to \$4,124) and Boerum Hill-Gowanus (up 5.1%, to \$3,819).

**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 unemployment stood at 5.4% as of February, according to preliminary data from the Bureau of Labor Statistics. Although much improved from last year, the metro's rate was 190 basis points higher than the national figure, and 120 basis points above the state.
- ▶ In 2022, metro New York City gained 289,500 jobs across all sectors. This represented a 5.0% improvement, 130 basis points above the U.S. figure. Job growth remained ahead of the U.S. throughout the year but was still below pre-pandemic levels. According to the New York City Economic Development Corp., private-sector employment has returned to 99.5% of pre-pandemic levels, only 21,700 jobs away from full recovery.
- ▶ Education and health services led job growth, with 86,700 positions gained, or a 5.6% expansion year-over-year. The leisure and hospitality sector remained a strong performer, with 66,300 jobs added (11.7%), as did professional and business services (50,200 jobs, up 4.3%).
- ▶ Broadway Junction is slated to undergo major upgrades. The transit hub will receive updates to its entrance, elevators and escalators, open spaces and more. NYCEDC will invest \$84 million, while the Strategy for Equity and Economic Development Fund will provide an additional \$11 million.

### New York Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	1638	22.5%
70	Leisure and Hospitality	632	8.7%
60	Professional and Business Services	1218	16.8%
80	Other Services	296	4.1%
40	Trade, Transportation and Utilities	1185	16.3%
55	Financial Activities	637	8.8%
90	Government	924	12.7%
50	Information	290	4.0%
30	Manufacturing	190	2.6%
15	Mining, Logging and Construction	257	3.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ The population in Kings County declined by roughly 86,000 residents in 2021—for a 3.2% year-over-year contraction—driven by the pandemic and mirroring other large metros. However, the borough's population is still 3.9% higher than it was a decade ago.

### 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

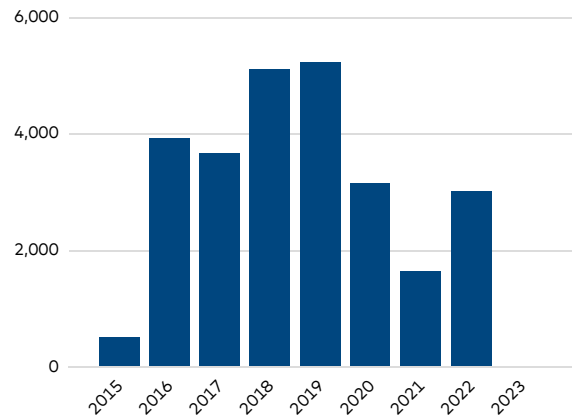
## SUPPLY

- ▶ As of March, Brooklyn had 17,169 units under construction—more than two-thirds of which were in upscale developments, while units in fully affordable properties amounted to 26.4% of the pipeline. An additional 37,500 units were in the planning and permitting stages.
- ▶ No rental properties of 50 units or more were completed in the first quarter. In 2022, Brooklyn added 3,034 units to the market, representing a 2.0% expansion of existing stock—30 basis points below the national rate. Although deliveries increased, 2022 still saw numbers below the annual average recorded in the market over the past five years—3,772 units. Last year, Brooklyn's affordable housing stock expanded by a significant margin, with more than 1,600 units completed in this category.
- ▶ No construction starts were recorded during the first quarter of 2023, but last year saw a rise in activity. In 2022, developers broke ground on 6,762 units across 21 properties, up 36.0% year-over-year.
- ▶ Submarkets with easy access to Manhattan and those with strong rent growth led development activity. Greenpoint had 2,806 units underway

as of March, followed by Williamsburg (2,023 units), Coney Island-Sea Gate (1,753), Prospect Heights (1,658) and Fort Greene (1,621).

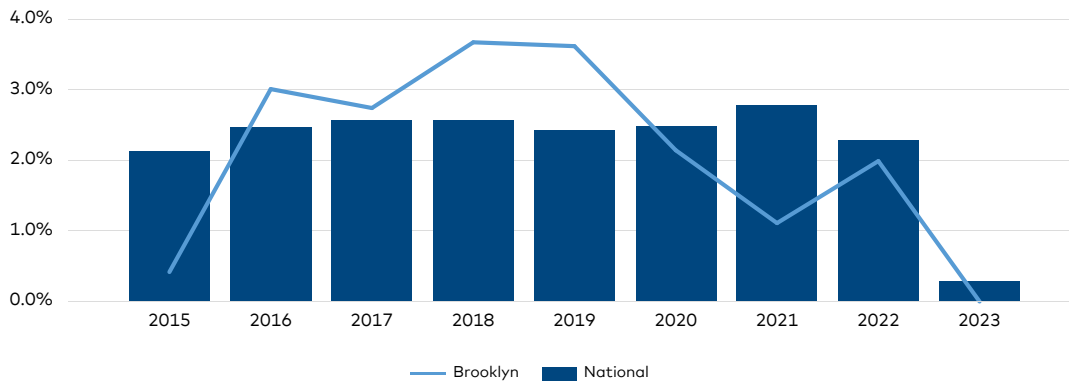
- ▶ At 1,098 units, 625 Fulton was the largest property under construction, developed by Rabsky Group. The 35-story tower will include 26,000 square feet of retail, and 30% of units will be affordable. The project is expected to reach completion in 2026.

**Brooklyn Completions** (as of March 2023)



Source: Yardi Matrix

**Brooklyn vs. National Completions as a Percentage of Total Stock** (as of March 2023)

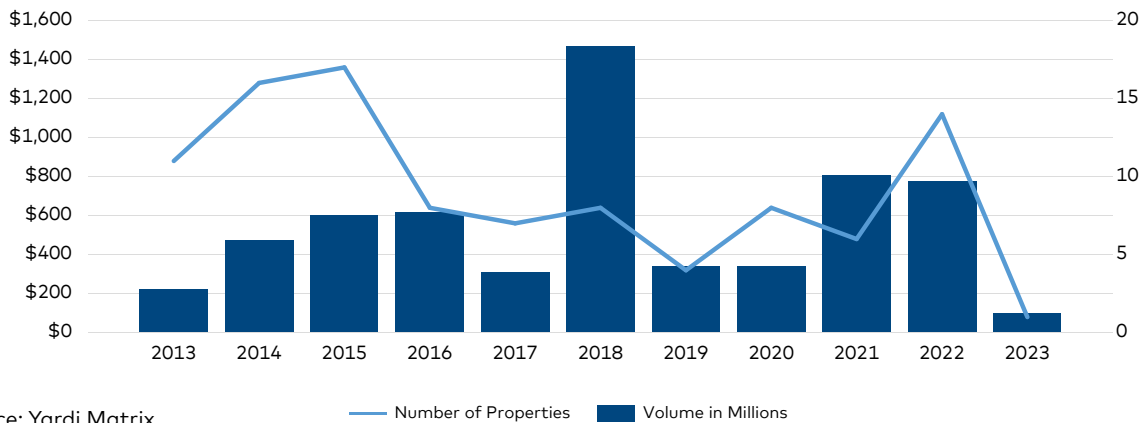


Source: Yardi Matrix

## TRANSACTIONS

- ▶ One property of more than 50 units changed hands in the borough during the first quarter of 2023. Last year, sales volume was strong, totaling \$778.5 million, more than double the year-over-year figure. Investor interest in the market resurged after the previous two years recorded modest results. Out of the total 14 sales last year, five were for Lifestyle properties and nine were Renter-by-Necessity assets.
- ▶ The overall price per unit in Brooklyn for 2022 sales was \$543,091, down 21.0% from the previous year. Prices in the borough were more than double the national average, which stood at \$211,072 in 2022.
- ▶ First-quarter volume was modest. The only confirmed transaction occurred in downtown Brooklyn. Avanath Capital Management acquired 7 Dekalb for \$101.3 million from BFC Partners. The property includes 200 affordable units.

### Brooklyn Sales Volume and Number of Properties Sold (as of March 2023)



Source: Yardi Matrix

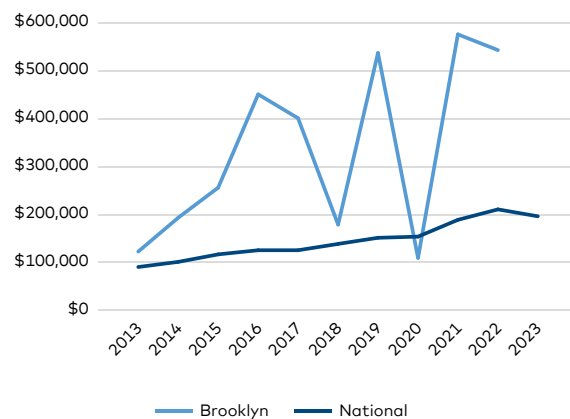
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Downtown Brooklyn	469
Midwood	180
Williamsburg	80
Sheepshead Bay-Gerritsen Beach	78
East Flatbush	46
Gravesend	28

Source: Yardi Matrix

<sup>1</sup> From April 2022 to March 2023

### Brooklyn vs. National Sales Price per Unit



Source: Yardi Matrix



## Easing NYC's Affordable Housing Crisis: A Construction Manager's Take

By Anda Rosu

In New York City, boosting the multifamily supply in the lower end of the quality spectrum has always been a pressing issue. The metro doesn't only need more affordable living options, but it also lacks enough transitional and supportive housing. Andy D'Amico, founding president & CEO of Urban Atelier Group, talks about all the headwinds the industry has been dealing with, and touches on building successfully in a tough environment.

*What are the top challenges for you today, considering the deteriorating economic conditions?*

On the heels of various stressors such as the pandemic, labor shortages, material increases and schedule uncertainty, the 2022-2023 cost of money and rising interest rates struck the same companies again, making it even harder to withstand the market financially. Several companies have closed their doors, while others have increased overall costs to mitigate these stressors, leading to high construction costs. And for developers, that challenge is compounded by the same rising interest rates and their ability to borrow money and finance new developments.

*How do you keep your projects on time and on budget?*

Since the onset of the pandemic, our team has cultivated a more holistic understanding of our partners' financial stability, including product and materials sourcing, allowing us to manage



client expectations and those risks. Construction companies can better manage their projects' time and budget constraints by planning for the supply chain, adding unforeseen delays, including shipping delays, and considering estimated lead times for materials and equipment.

Our team is actively involved at the front end of the pre-development process across our projects, which drives our ability to derive cost and schedule certainty for our clients.

*What do you think NYC lacks the most when it comes to addressing the homelessness crisis and making the city more inclusive?*

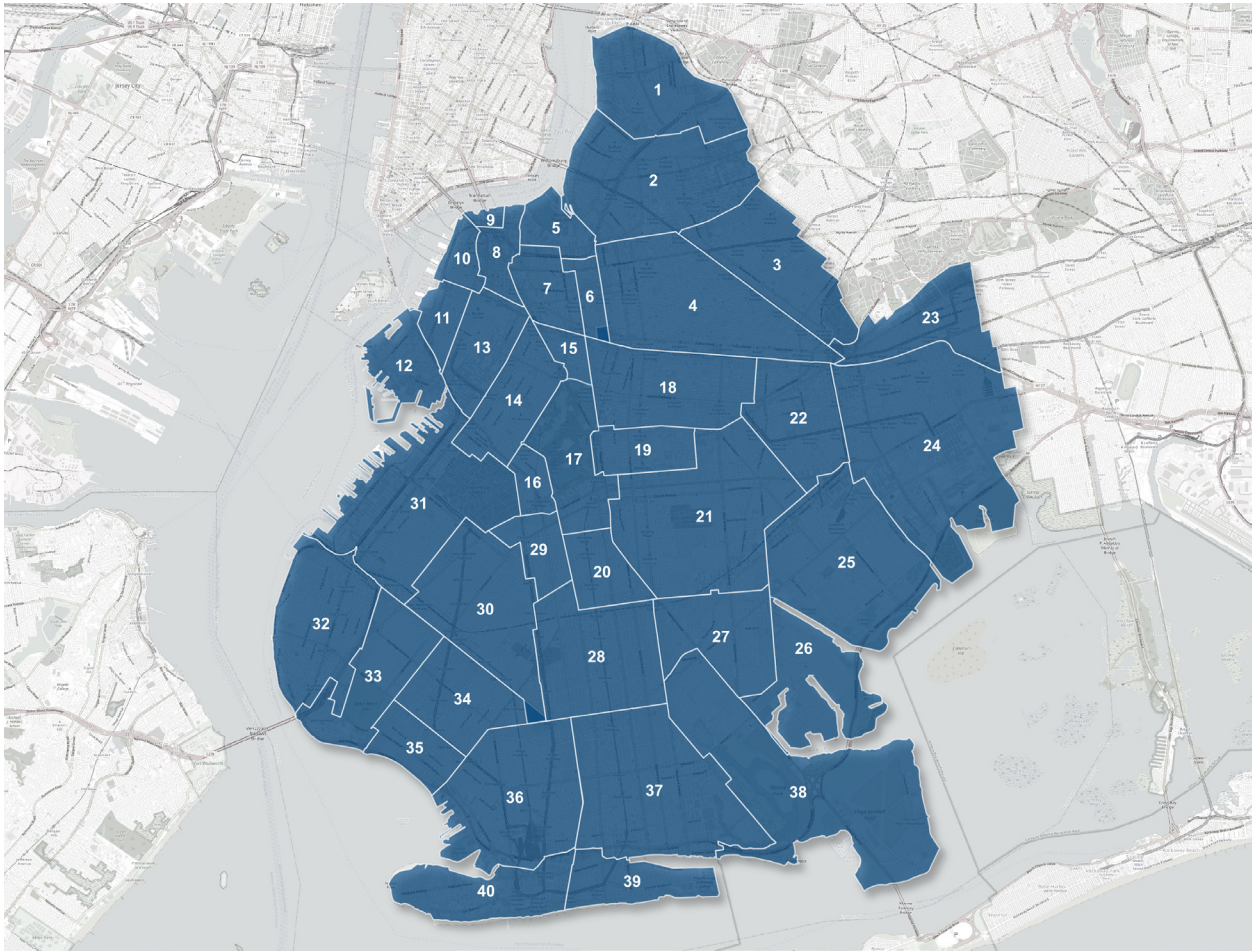
The city lacks adequate rooms dedicated to transitional and supportive housing. Unlike homeless shelters, transitional housing offers temporary placement for specific segments of the homeless population, including working homeless individuals earning too little to afford long-term housing.

*Do you feel like you're better prepared now for the next crisis than you were three years ago?*

Yes—the experience of navigating through the obstacles posed by the COVID-19 pandemic and the resulting supply chain disruptions have better prepared us for the next crisis that might affect the multifamily industry. No one could have predicted the past three years. Still, we developed greater agility and flexibility to respond to unforeseen events and have learned valuable lessons to help us be more strategic in our approach.

*(Read the complete interview on [multihousingnews.com](https://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](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.



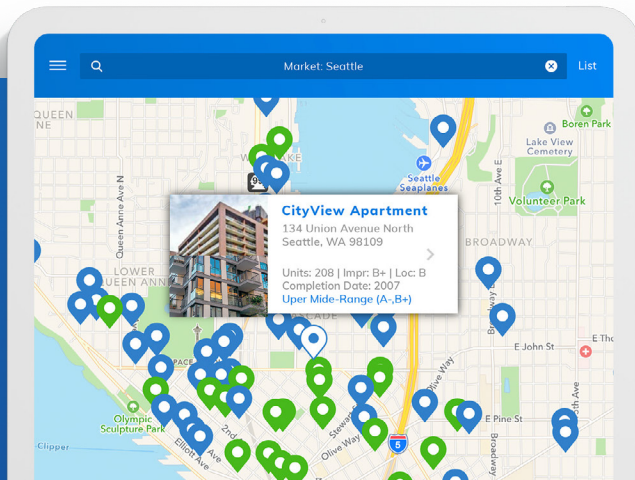
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