

An aerial photograph of the Manhattan skyline at sunset. The sun is low on the horizon, casting a warm, golden glow over the dense cluster of skyscrapers and buildings. The sky is a mix of blue and orange, with some clouds. The buildings are packed closely together, and their windows reflect the light from the setting sun. The overall scene is a vibrant and detailed representation of the city's architecture.

Yardi® Matrix

Manhattan Grows In Size, Not Value

Multifamily Report Spring 2018

Rents Continue
To Dwindle

Inventory Expansion
Hits Cycle Peak

2018 Sales Strong
Out of the Gate

Market Analysis

Spring 2018

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Alex Girda

Senior Editor

Diluted Inventory Moderates Growth

Due to a quick increase in development of both rental units and condos, rents and per-square-foot prices are sliding in the prohibitively priced Manhattan market. Inventory is projected to join the nation in having a new cycle peak for expansion, meaning that rents will likely maintain their trend of moderation.

Employment growth continued in 2017 for all five boroughs, in relative sync with the national rate, as Manhattan continued to rely heavily on its financial sector. Construction is still having a moment in New York County, where megadevelopments are edging closer to completion. The World Trade Center redevelopment site has yet to add two new buildings—2 WTC and 5 WTC—while Essex Crossing, a redevelopment project that's been 50 years in the making, is finally underway. The 1.7 million-square-foot master plan is set to add roughly 1,000 new units once all buildings are completed.

With a robust multifamily pipeline of more than 10,000 units underway and an additional 27,000 in the planning and permitting stages, Manhattan is likely to maintain its fast-paced inventory expansion. As rents in the Lifestyle segment continue to slide, the New York County average rate will likely maintain its downward trend. Overall, New York City rents are bound to drop 1.0% in 2018.

Recent Manhattan Transactions

The Vogue



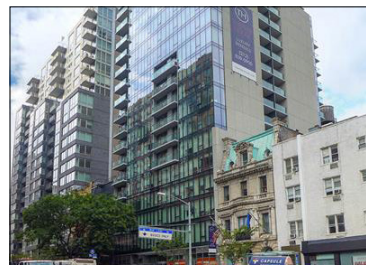
City: New York
Buyer: Vanbarton Group
Purchase Price: \$316 MM
Price per Unit: \$987,500

Polyclinic



City: New York
Buyer: Housing Partnership
Purchase Price: \$110 MM
Price per Unit: \$730,132

Theater House



City: New York
Buyer: Gilar Realty
Purchase Price: \$110 MM
Price per Unit: \$1,047,619

Chelsea

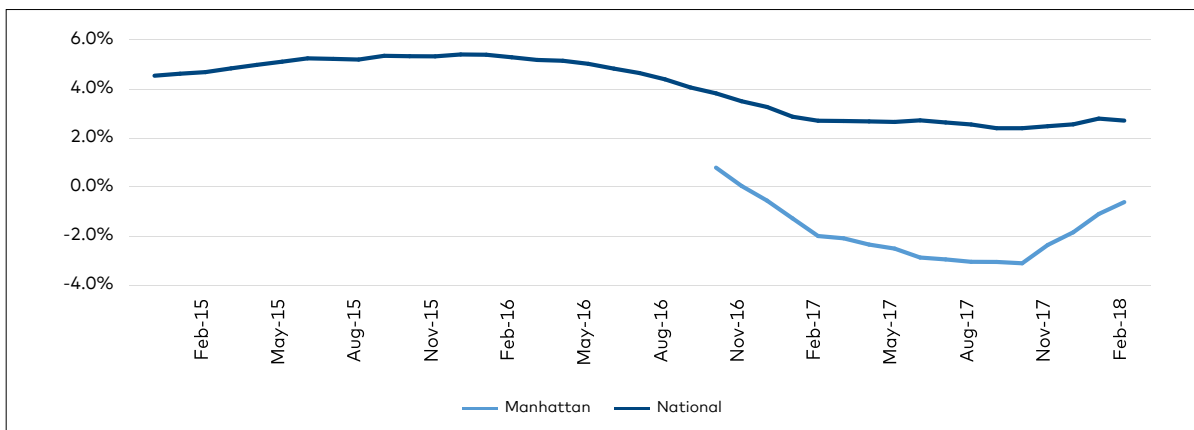


City: New York
Buyer: Akelius Real Estate Mgmt.
Purchase Price: \$100 MM
Price per Unit: \$408.163

Rent Trends

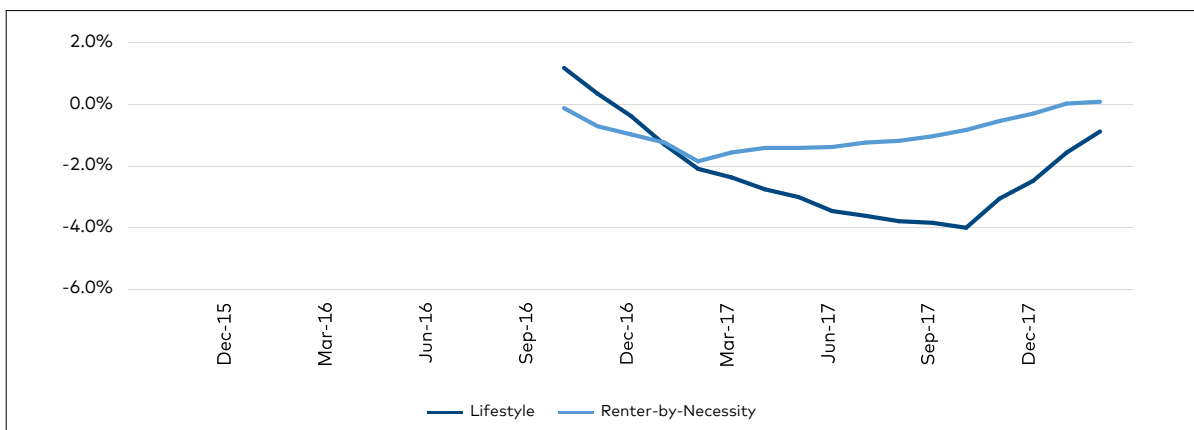
- Manhattan rents slipped by 0.6% year-over-year in February, as an increasing housing stock and prohibitive asking rents continue to reverse growth in New York County. Meanwhile, national rent growth was at 2.7% through the same interval, reaching an average of \$1,364, which is only \$1 more than it was in July 2017. Manhattan's average rent was \$4,058 at the end of February, by far the highest among major U.S. markets. With deliveries projected to hit a cycle peak this year and occupancy tempering, rent growth will continue to be essentially non-existent at a market-wide level.
- Rents in the working-class Renter-by-Necessity segment rose by 0.1% year-over-year, marking the first time they've grown in 17 months. Now at an average of \$3,351, rents are \$1,050 lower than those in the Lifestyle segment, which decreased by 0.9% through that same interval. With the bulk of new deliveries occurring in the upscale segment, deceleration is likely to continue going forward.
- Although Manhattan rents are down overall, some submarkets have seen significant increases, as the less expensive areas of the city are rapidly rising, including Civic Center (9.6% year-over-year), Harlem (6.1%) and Roosevelt Island (2.2%). High-exposure, high-priced areas, where space is very much in demand for Lifestyle units, have maintained some levels of growth: Financial District (4.7%), Flatiron (3.4%) and Lower East Side (1.9%). Overall, we expect rents in New York City to drop 1.0% in 2018.

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)

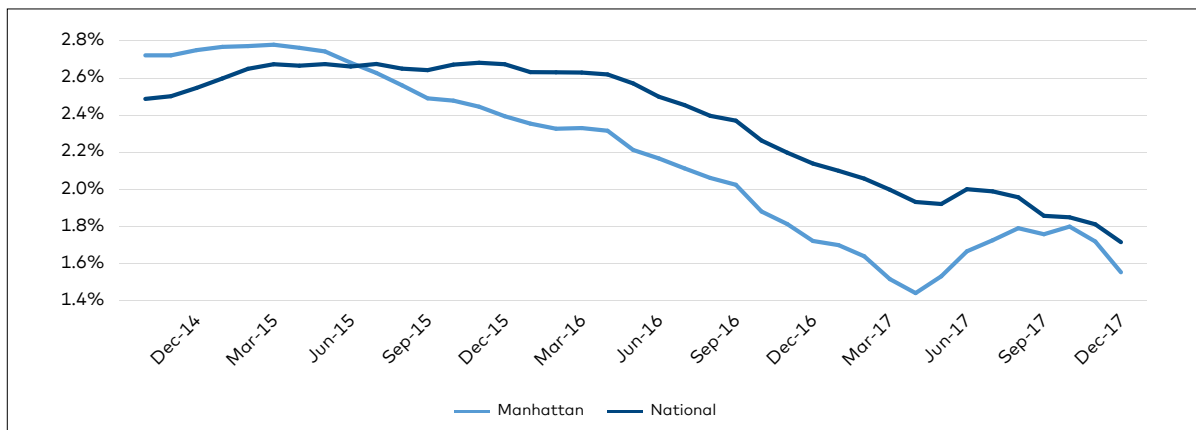


Source: YardiMatrix

Economic Snapshot

- The New York metro added 84,200 jobs in 2017, an employment growth rate of 1.6%, 10 basis points below the U.S. average. Manhattan continues to heavily rely on the strength of its financial sector, its main economic driver. With the sector trading water as the U.S. trade policy is defined under the current administration, stabilization is needed if it is to continue to anchor the local economy.
- Major projects are well underway across Manhattan, with a series of megadevelopments slowly reshaping large chunks of the borough. Work still needs to be carried out at 2 WTC and 5 WTC as the redevelopment of the World Trade Center site nears completion, while the 1.7 million-square-foot Essex Crossing project kicked off nearly 50 years after the site was originally prepped for redevelopment. The office sector is thriving, with vacancy rates in Midtown below the 9.0% mark for Class A/A+ assets. About 1 million square feet of space is slated for delivery in Midtown in 2018 alone.
- New York's education and health services sector added 31,000 jobs, as continued population expansion in the five boroughs pushes the need for positions. With enrollment rising at major talent-producing nodes such as Columbia University and New York University—both among the top 30 in the nation by endowment—the area's potential of producing a highly skilled workforce remains extremely high.

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	1,465	20.7%	31,000	2.2%
60	Professional and Business Services	1,160	16.4%	21,500	1.9%
55	Financial Activities	629	8.9%	14,800	2.4%
70	Leisure and Hospitality	668	9.4%	11,500	1.8%
15	Mining, Logging and Construction	264	3.7%	9,000	3.5%
80	Other Services	304	4.3%	5,700	1.9%
90	Government	919	13.0%	2,700	0.3%
30	Manufacturing	209	3.0%	-100	0.0%
40	Trade, Transportation and Utilities	1,223	17.3%	-3,900	-0.3%
50	Information	239	3.4%	-8,000	-3.2%

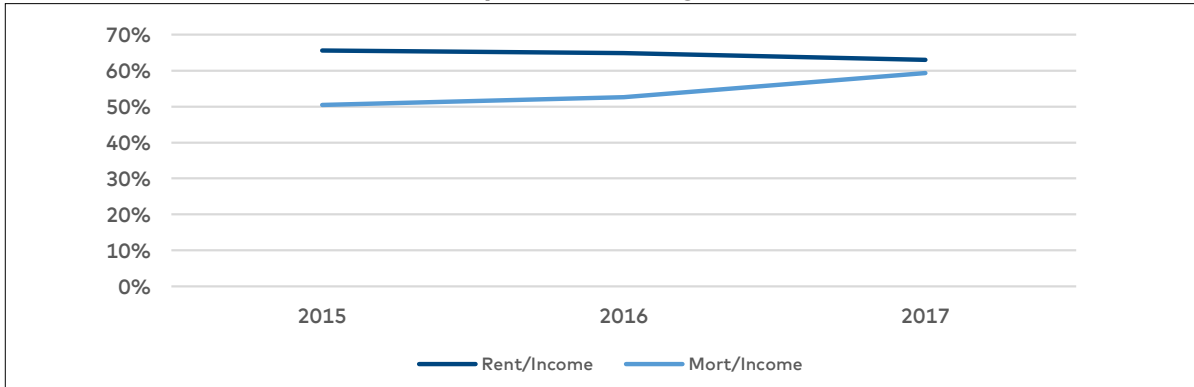
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

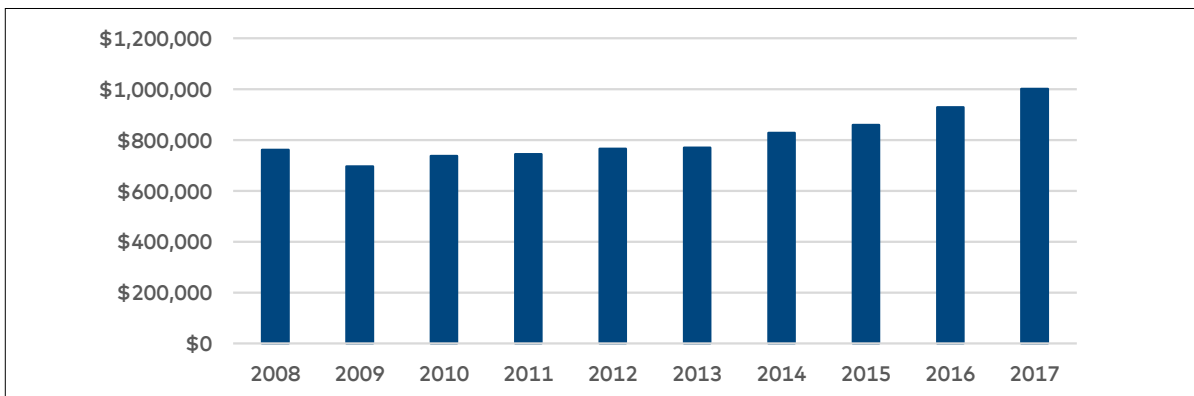
- While Manhattan's affordability—or lack thereof—is well documented, dynamics are slightly shifting. Continuously inflating property values have led to buyers holding off on making deals in the borough, which, in conjunction with escalating construction activity in both condominiums and rentals, has led to a slowdown in both average rents and per-square-foot prices. As a result, rents and mortgages now take up similar percentages of area incomes.
- The median home price broke the \$1 million mark in 2017 for the first time this cycle, rapidly pushing up an already existing affordability problem with homeowners.

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's population grew by 2,500 residents in 2016, a sluggish uptick as property values and rents are pricing out both renters and homebuyers.
- The borough added residents at a rate of 0.2%.

Manhattan vs. National Population

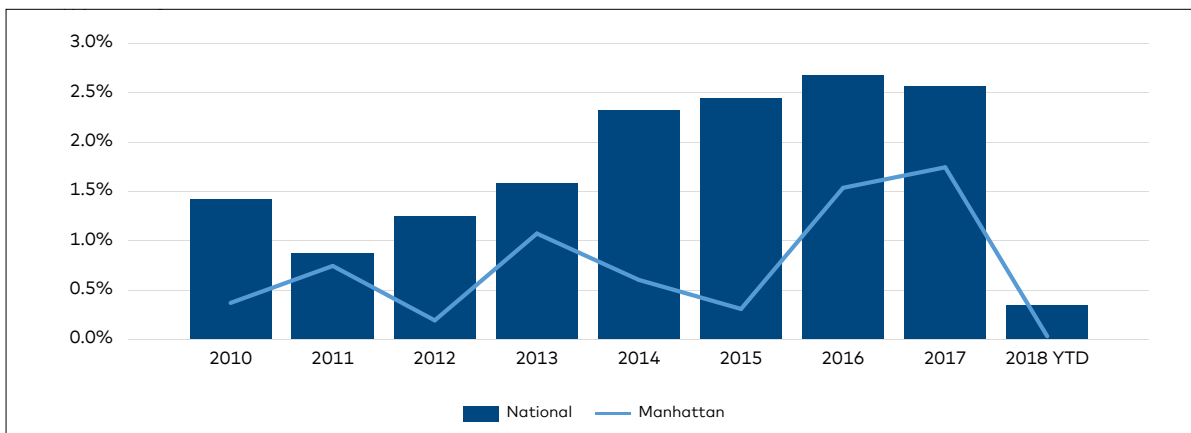
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Manhattan Metro	1,625,121	1,630,453	1,634,468	1,641,168	1,643,734

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

Supply

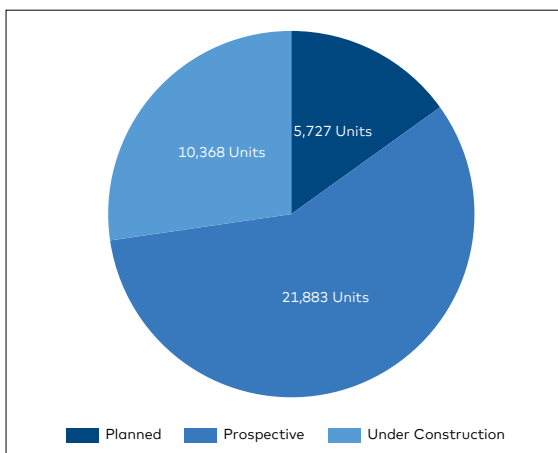
- Manhattan deliveries are hot off a cycle high of 5,485 units added in 2017, 1.7% of total stock. With the nation gearing up for a new peak year in completions, Manhattan is also likely to see inventory expand at unprecedented levels, with 8,300 units expected to be delivered by the end of 2018.
- Roughly 10,400 units were underway in Manhattan as of February, with another 27,000 units in the planning and permitting stages. Average occupancy in stabilized properties was at 98.2% as of January, down 20 basis points year-over-year due to accelerated multifamily development.
- The Manhattan market is unique in its heavy reliance on condominium units, but rapid inventory expansion in both condo and rental units is flattening both per-square-foot prices and rents.
- Construction activity is highest in Hell's Kitchen (1,845 units), East Harlem (1,721 units), Murray Hill (1,695 units), Lincoln Square (1,065 units) and Financial District (1,005 units). TF Cornerstone's 606W57 development is the largest project that's gearing up for completion by year's end. When completed, the community is set to add 1,028 units to Hell's Kitchen housing inventory.

Manhattan vs. National Completions as a Percentage of Total Stock (as of February 2018)



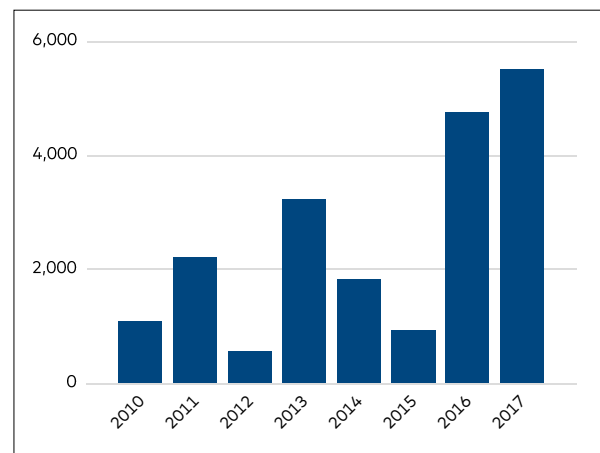
Source: YardiMatrix

Development Pipeline (as of February 2018)



Source: YardiMatrix

Manhattan Completions (as of February 2018)

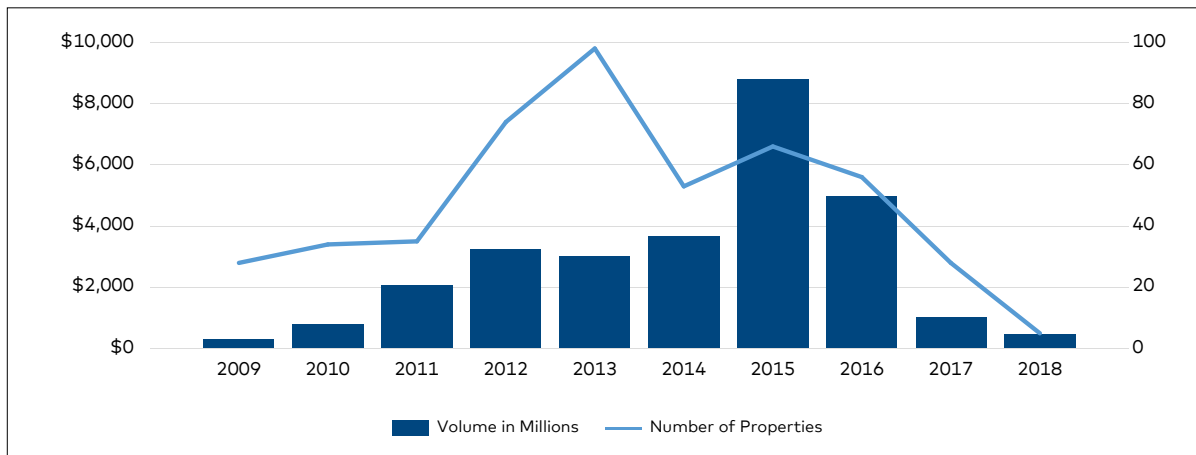


Source: YardiMatrix

Transactions

- Roughly \$475 million in multifamily properties traded during the year's first two months, nearly half of 2017's total investment sales volume. Nonetheless, due to a limited number of sales, per-unit prices in 2018 have soared to an average of \$713,310, a 45% increase, likely an unsustainable rate.
- Acquisition yields for Class A multifamily properties in Manhattan continue to be some of the lowest in the nation, although investors are still attracted by the added exposure and strong cash flow that assets in the market can provide. In the 12 months ending in February, investment activity was highest in the Garment District (\$316 million), Hell's Kitchen (\$110 million), Murray Hill (\$110 million) and Hudson Heights (\$106 million). Vanbarton Group's acquisition of The Vogue in the Garment District was the largest multifamily deal of the year. The buyer paid 990 Avamericas Associates \$316 million for the 32-year-old asset, at a per-unit price of just under \$1 million (\$987,500).

Manhattan Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

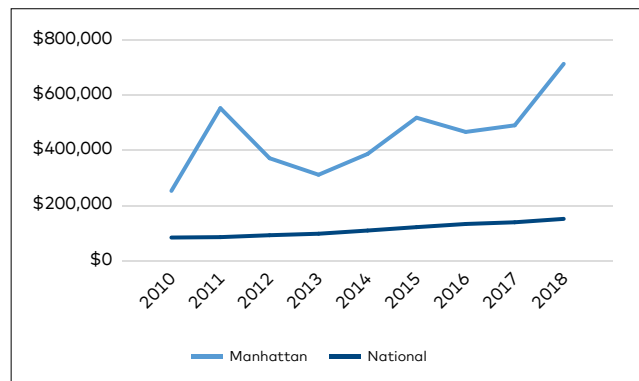
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Garment District	316
Hell's Kitchen	110
Murray Hill	110
Hudson Heights	106
Washington Heights	103
Chelsea	100
Nomad	80
East Harlem	80

Source: YardiMatrix

¹ From March 2017 to February 2018

Manhattan vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Victor Group, Lendlease
Top Out on NYC Skyscraper



Meridian Capital Group Scores
\$60M for Manhattan Office Refi



JV to Develop 175-Unit Affordable
Property in Upper Manhattan



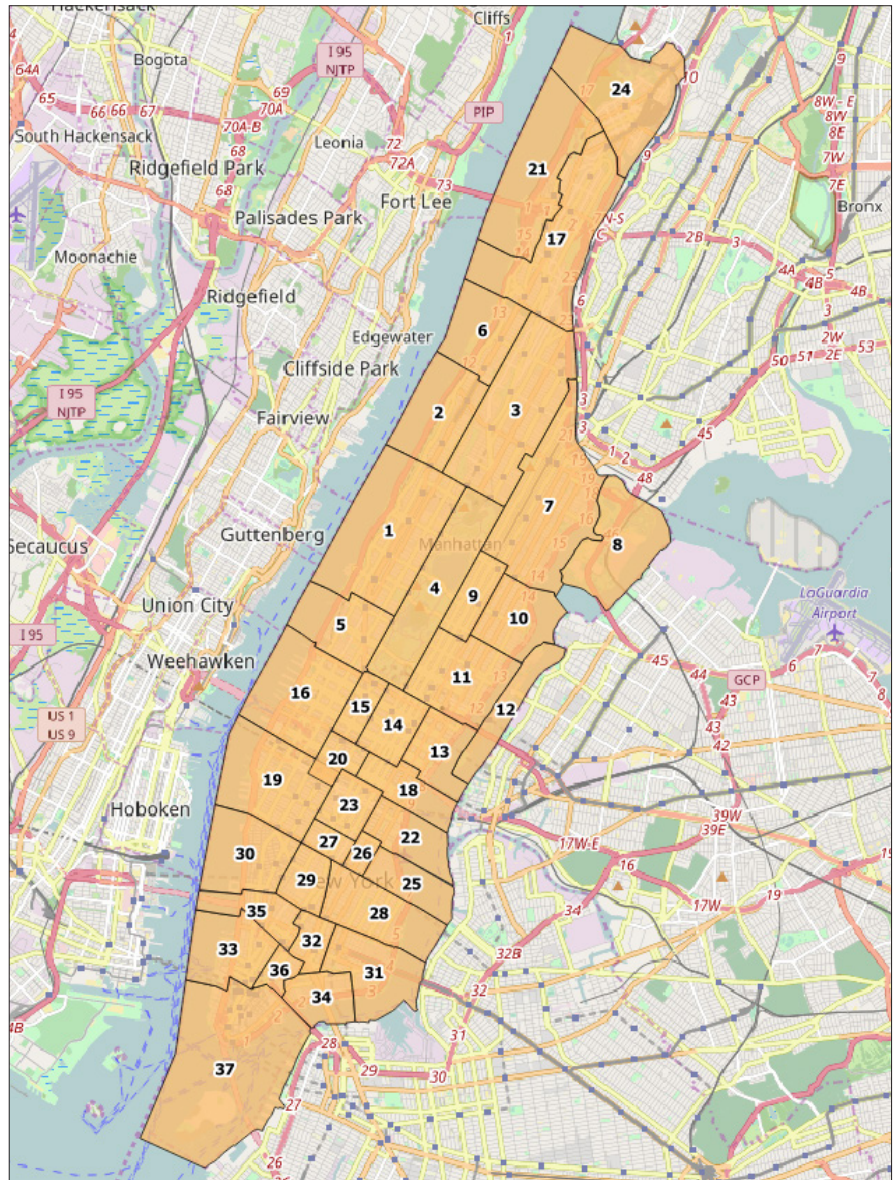
Empire State Inks Full-Floor Lease
At Manhattan Office Asset

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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
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 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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