

An aerial photograph of a city street in Brooklyn, New York. The street is lined with tall brick buildings, some with modern architectural features like glass facades and rooftop structures. A bridge with a white truss structure spans across the street. Several cars are visible on the road, and there are trees and a sidewalk on the right side. The sky is blue with some light clouds.

Yardi® Matrix

Brooklyn Bridges The Gap

Multifamily Report Spring 2018

Rents Rebound

Construction Sector Soars

Borough Lacks Affordable Options

Market Analysis

Spring 2018

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Kings County Receives Royal Treatment

Brooklyn rents stopped their slide this spring, following a lengthy spell when affordability issues and insufficient Renter-by-Necessity stock had driven residents away from the borough. Now, with a multifamily pipeline consisting of 41,000 units in all stages of development and the best-performing economy of all five boroughs, Brooklyn continues to evolve as its office sector becomes a viable alternative to the overstuffed, prohibitively priced product in Midtown, Lower Manhattan and Midtown South.

New York City as a whole grew at a consistent rate, bolstered by the strong performance of education and health services, as well as rapid improvement in construction. The two sectors gained 40,000 jobs in 2017, accounting for nearly half of all positions added to the five boroughs last year. The extensive repurposing of Industry City, a large industrial site in Sunset Park that will host commercial space and a tech incubator; the 5,500-unit Greenpoint Landing; and the Domino Sugar Refinery redevelopment are a few of the projects reshaping the borough.

Roughly 13,500 units were underway as of March, pointing to further stock expansion. Because most transactions were in the value-add space, where better yields are possible, investment volume will likely moderate this year. Overall, we expect New York City rents to drop 1.0% in 2018.

Recent Brooklyn Transactions

70 Dahill Road



City: Brooklyn, N.Y.
Buyer: Dimaggio Realty Management
Purchase Price: \$33 MM
Price per Unit: \$490,698

1125 Banner Ave.

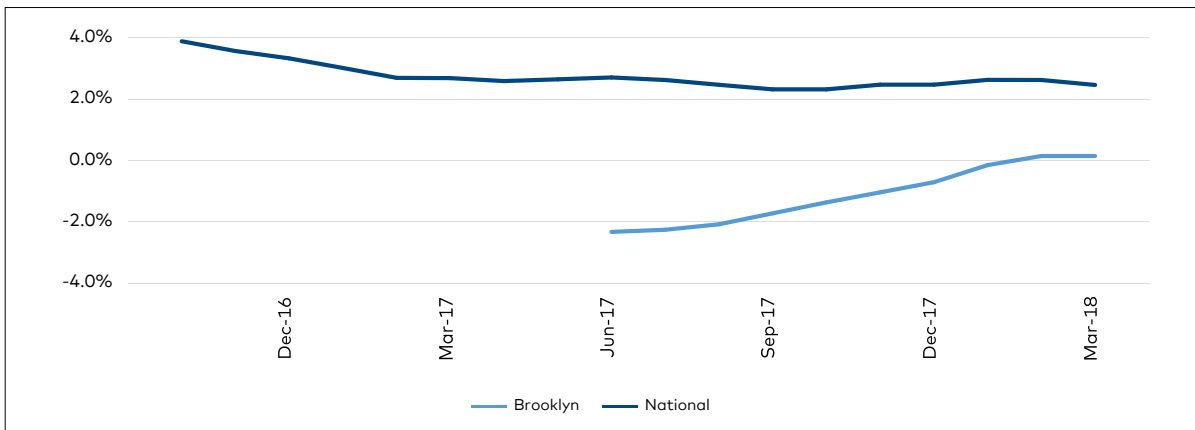


City: Brooklyn, N.Y.
Buyer: Abro Management
Purchase Price: \$47 MM
Price per Unit: \$459,803

Rent Trends

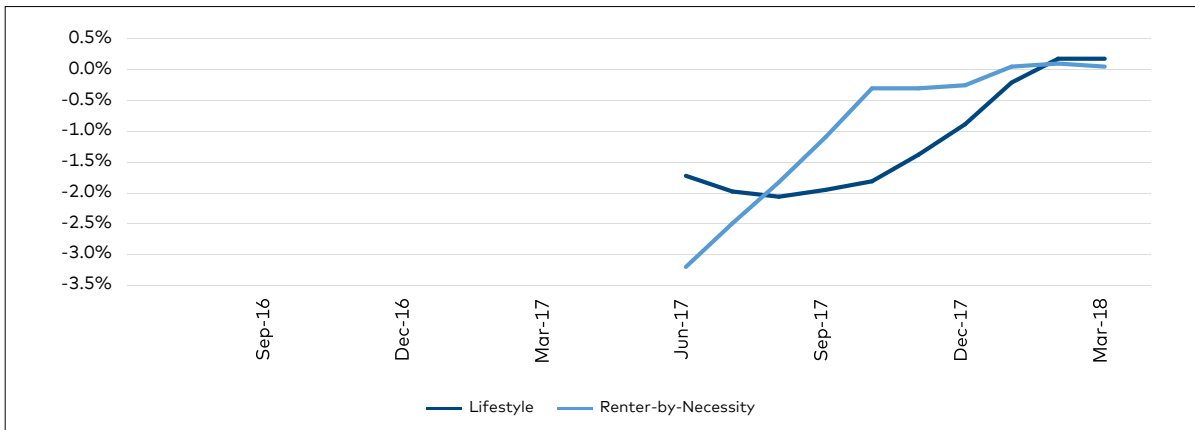
- Rents in Brooklyn finally inched up 0.1% year-over-year through March, stopping a slide persistent throughout 2017. The average overall rent was \$2,678, one of the highest rates in the U.S. and nearly double the national average. Rents are likely to plateau around this value, with New York City as a whole poised to record a 1.0% slide in 2018.
- Although affordable stock is being added, Brooklyn's housing market is very much pricing renters out, as working-class Renter-by-Necessity assets had an average rent of \$1,992 as of March. Lifestyle rents are also stagnating, up just 0.2% year over year to an average of \$3,349.
- Although development is rampant across the borough, occupancy is very high, at 98.1% in stabilized properties as of February. Demand for Renter-by-Necessity communities is very strong, as limited stock has pushed the average occupancy to 99.4%. Meanwhile, stabilized assets in the Lifestyle segment had an average occupancy rate of 96.6%.
- Rent growth occurred both in submarkets with more affordable stock—Crown Heights (up 3.7% year over year) and Flatbush (1.8%)—as well as in high-priced neighborhoods—Greenpoint (6.0%), Downtown Brooklyn (3.5%) and Boerum Hill–Gowanus (3.1%).

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)

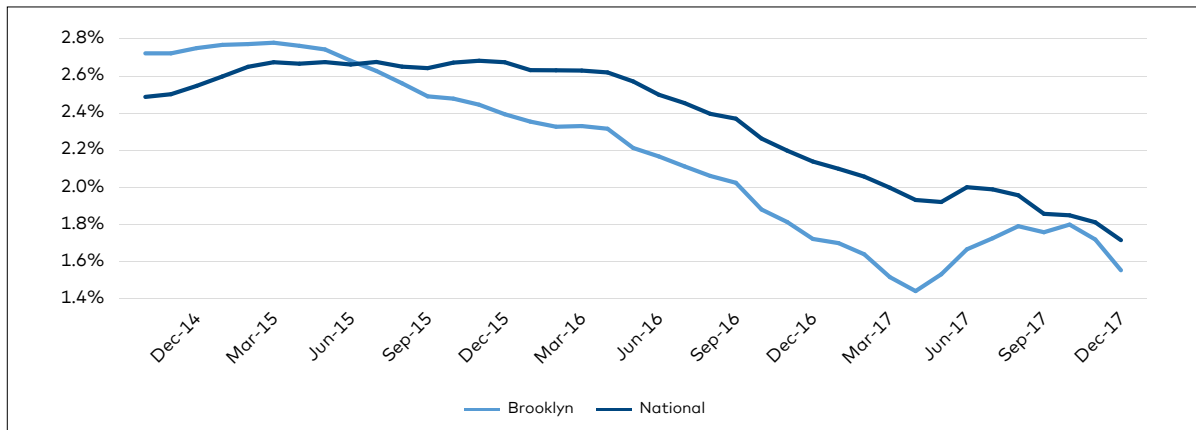


Source: YardiMatrix

Economic Snapshot

- New York City added 84,200 jobs in 2017, marking a 1.6% year-over-year uptick, just 10 basis points off the national employment growth rate. The education and health services sector added the most jobs in 2017 (31,000), while the construction sector grew at the highest rate (9,000 jobs added, up 3.5% year over year) to further boost employment growth in the five boroughs. While the Port Authority of New York & New Jersey works on a \$10 billion plan to overhaul JFK Airport, Delta has already broken ground on its \$4 billion LaGuardia International Airport terminal, signalling more expansion of the construction and transportation sectors.
- Brooklyn has the fastest-growing employment market of the five boroughs, as Kings County's economy continues to diversify. Its construction sector is steadily growing as redevelopment projects progress across the map. Brooklyn has its own share of neighborhood-shaping ventures: Pacific Park, a \$6 billion project that continues the previous Atlantic Yards plan, will reshape an area of Prospect Heights by adding 6,430 new units at full build-out, as well as retail space and an eight-acre park.
- The borough's office market continued to mature in 2017, as more companies are testing Brooklyn as a possible relocation destination, instead of high-priced, overstuffed Midtown, Midtown South and Lower Manhattan, where vacancy is well below the 10% mark and asking rates are in the low \$70s.

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%

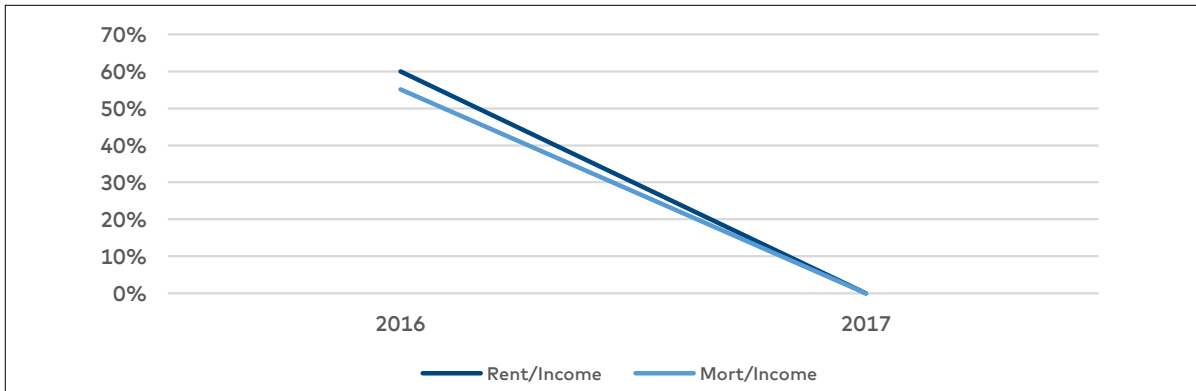
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

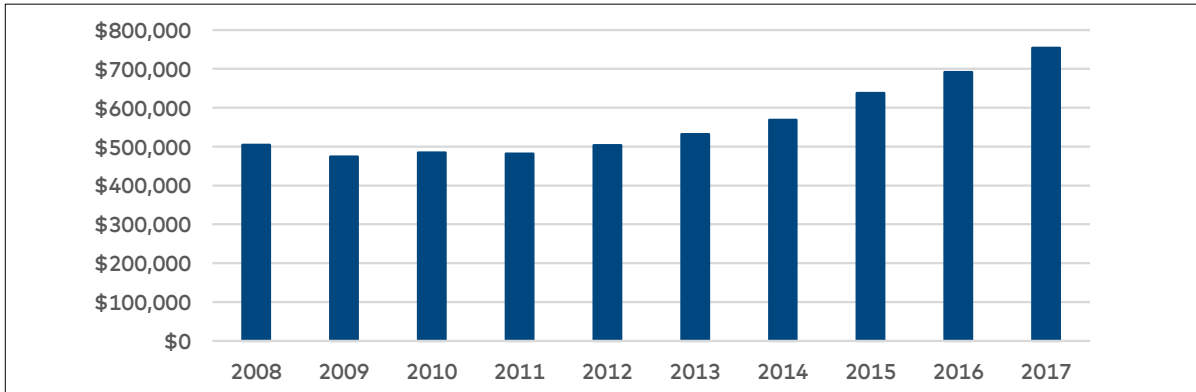
- Brooklyn's median home value continued its rapid escalation in 2017, at \$753,886 for the year, \$280,000 more than what it was in 2009. The price surge has become problematic for the borough, now second only to Manhattan in home prices. Despite costs rising at an accelerated pace throughout the better part of the current cycle, homeownership remains more affordable than renting. The average mortgage payment accounts for 55% of wages, while rents take up roughly 60%.
- Brooklyn was named the least affordable housing market in 2014, 2015 and 2016. Because values inched higher in 2017, local authorities will have an even bigger affordability issue on their hands.

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 43,000 residents since 2013, as its job market and cultural scene continue to draw people in.
- The borough's population decreased by 2,000 residents in 2017, highlighting affordability problems.

Brooklyn vs. National Population

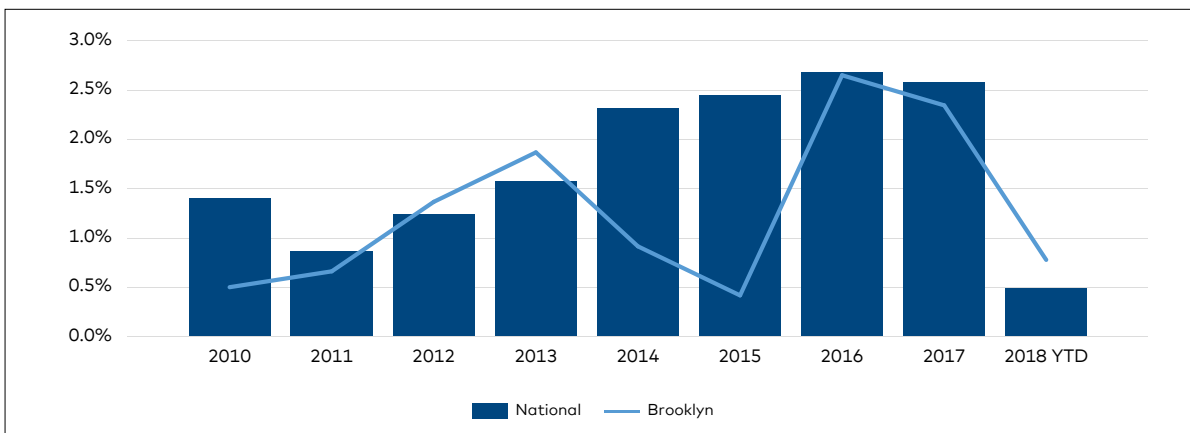
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Brooklyn Metro	2,605,783	2,626,644	2,643,546	2,650,859	2,648,771

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

Supply

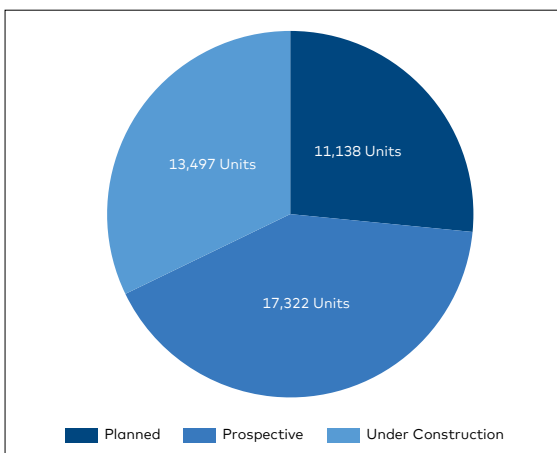
- Around 1,000 units were delivered in Kings County this year through March, roughly 0.8% of total stock. After adding 6,500 units in 2016 and 2017, Brooklyn is gearing up for a banner year of deliveries. Some 13,500 units are underway in the borough, while another 28,500 units are in the planning and permitting stages. Overall, approximately 14,000 units are expected to come online in 2018 in New York City.
- Brooklyn's occupancy rates are some of the highest in the nation, with the occupancy rate for stabilized averaging 98.1%. Renter-by-Necessity properties had an occupancy rate of 99.0%, highlighting the dire need for affordable apartments in Kings County. Meanwhile, at 96.6% as of February, Lifestyle assets showed the lowest occupancy rate.
- Construction activity was highest in Williamsburg (3,154 units underway), downtown Brooklyn (2,623 units), Bushwick (1,502 units) and Fort Greene (1,231 units). The largest project delivered in the first quarter is the 394-unit Prospect Plaza in Brownsville. The fully affordable asset was completed in February and developed using funds from the New York City Housing Development Corp.

Brooklyn vs. National Completions as a Percentage of Total Stock (as of March 2018)



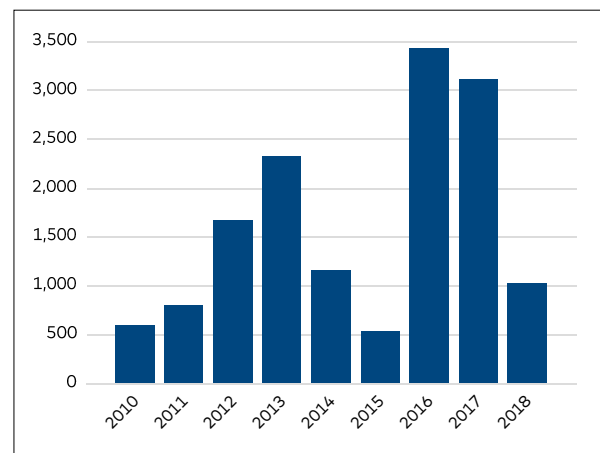
Source: YardiMatrix

Development Pipeline (as of March 2018)



Source: YardiMatrix

Brooklyn Completions (as of March 2018)

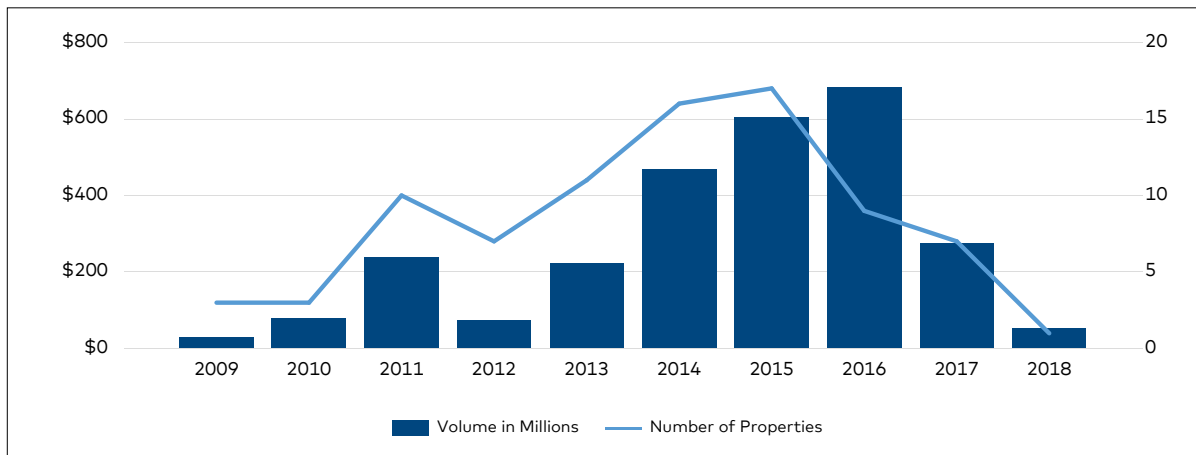


Source: YardiMatrix

Transactions

- Approximately \$53 million in multifamily assets traded in Brooklyn during the first few months of 2018. Sales have petered out in Kings County since the 2016 cycle high of \$684 million, as a result of the outsize growth in new multifamily assets, shifting investor interest to value-add options.
- Per-unit prices rose 12% in 2018 to an average of \$406,488, far below 2016's cycle high of \$472,196. Acquisition yields remain compressed, leading investors to target Class B/C assets.
- In the 12 months ending in February, investment activity was highest in Crown Heights, where GRJ acquired 521 Washington Avenue for \$53 million earlier this year. Bushwick (\$51 million) and Sheepshead Bay–Gerritsen Beach (\$47 million) round out the top three.

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



Source: YardiMatrix

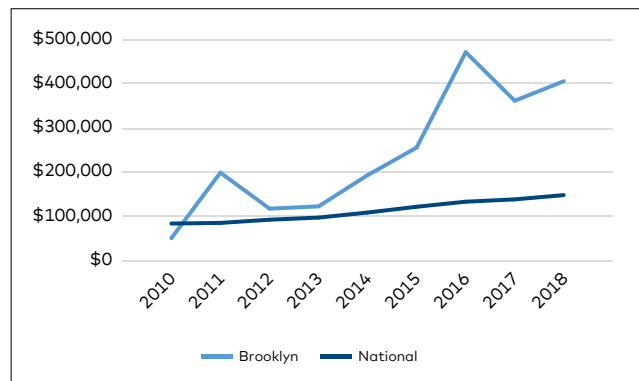
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Bushwick	51
Sheepshead Bay–Gerritsen Beach	47
Kensington & Parkville	33
East Flatbush	27

Source: YardiMatrix

¹ From March 2017 to February 2018

Brooklyn vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Brooklyn Navy Yard Unveils
\$2.5B Expansion Plan



CAMBA Debuts \$100M
Brooklyn Affordable Housing



Brooklyn Mixed-Use Development
Lands \$78M Loan

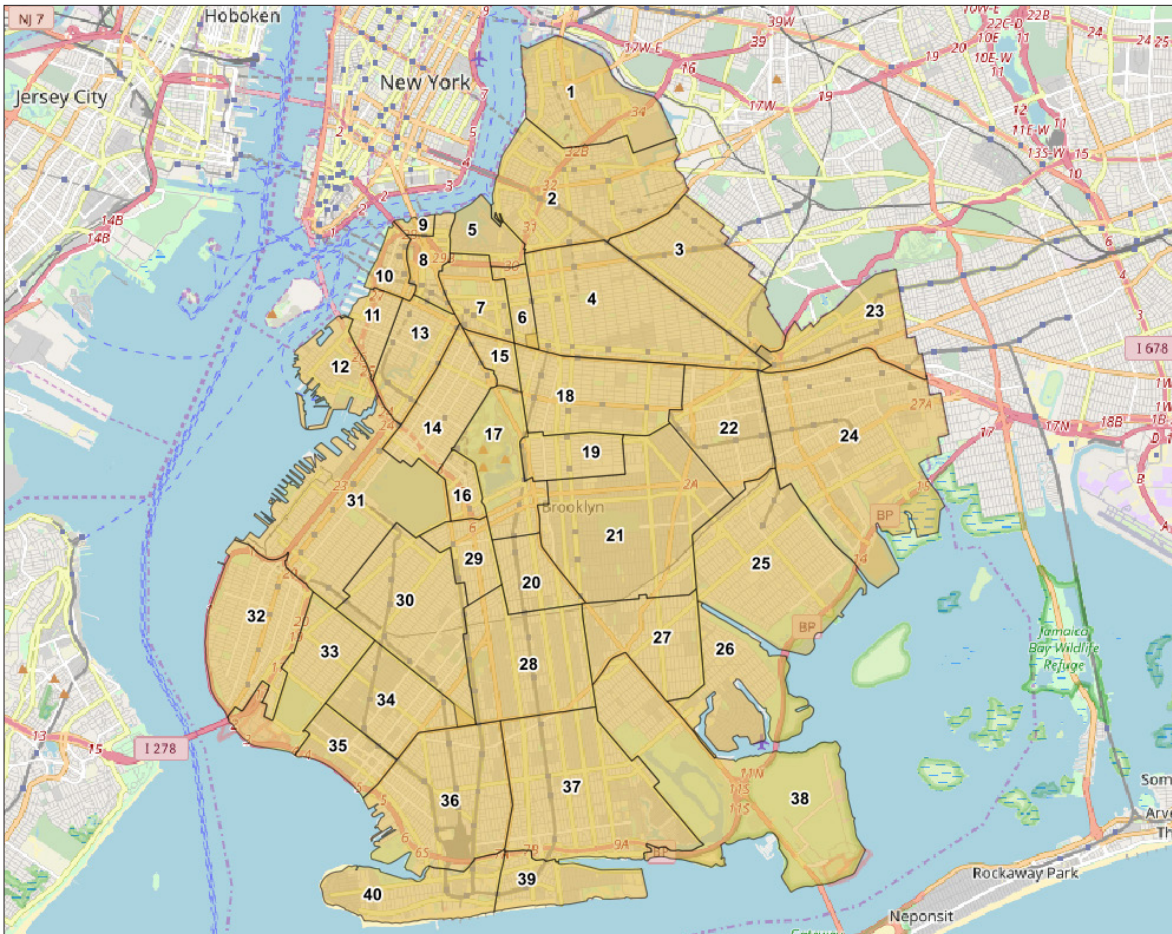


Tishman Speyer Secures \$381M
For Brooklyn Condos

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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-Lefferts 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.

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