Yardi® Matrix

There's No Place Like Manhattan

Multifamily Report Summer 2018

Rent Growth Endures After Rebound

Supply Increase Continues Hectic Pace

Employment Growth Stays Consistent

Market Analysis
Summer 2018

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The City Gets Even More Crowded

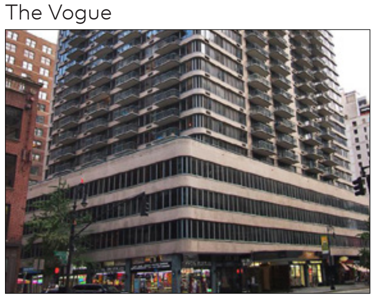
Following an extended interval of rent contraction, Manhattan's multifamily market has once again picked up, pushing the average rent past the $4,100 mark. With rents rising across asset classes, demand seems to stay high, as a growing job market and the draw of New York's most sought-after borough continue to provide enough incentives for renters. Meanwhile, although the development pipeline is well populated with projects, and deliveries have been up for the past 30 months, occupancy in stabilized properties has managed to buck the nationwide trend, rising 20 basis points year-over-year.

Propped up by a plethora of schools producing highly educated individuals, New York City's employment market has kept improving, with Manhattan's finance sector continuing to provide an influx of well-paid renters looking to populate the borough's most famous neighborhoods. Construction is up across the island, as several redevelopment projects are either nearing completion or well underway.

Manhattan's multifamily pipeline consisted of 9,000 units under construction as of July, and another 29,000 in the planning and permitting stages, all pointing to further inventory expansion. With both units and jobs coming in at a high rate, rent growth should stay tepid in the borough.

Recent Manhattan Transactions

The Vogue

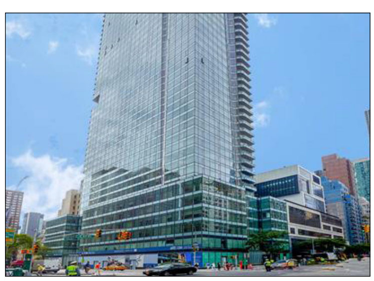


City: New York
Buyer: Vanbarton Group
Purchase Price: $316 MM
Price per Unit: $987,500

Stonehenge Village

City: New York
Buyer: A&E Real Estate Holdings
Purchase Price: $287 MM
Price per Unit: $688,249

aalto57



City: New York
Buyer: Oxford Properties
Purchase Price: $276 MM
Price per Unit: $1,633,136

15 Cliff

City: New York
Buyer: Brookfield Properties
Purchase Price: $125 MM
Price per Unit: $803,846

On the cover: Photo by Tomas Sereda/iStockphoto.com

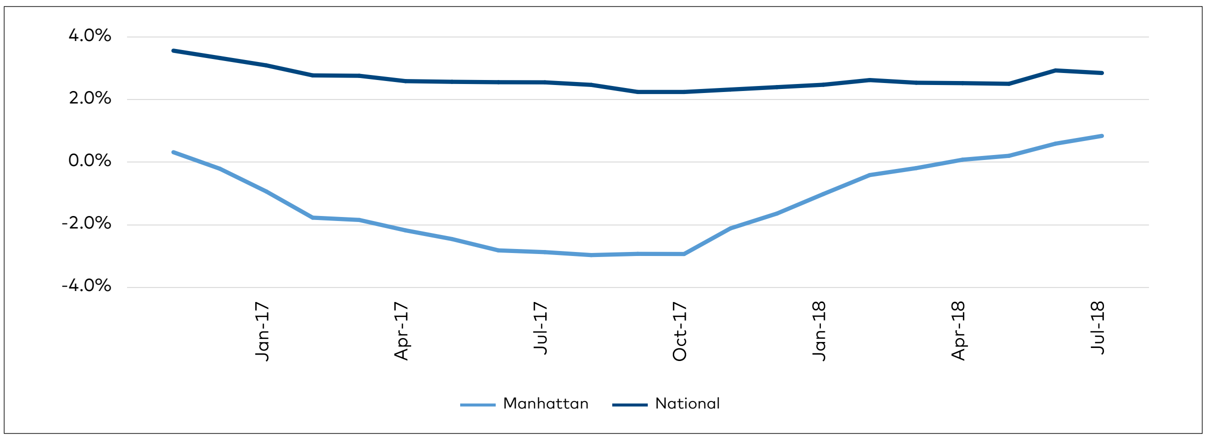
Rent Trends

- Manhattan rents rose 0.8% year-over-year through July, with rates rebounding after 16 consecutive months of contraction through April 2018. Although rent appreciation was 200 basis points slower than the national average, the fact that there's any growth being discussed in Manhattan is of note. The average rent in the borough stood at $4,114 as of July, still nearly $100 off the $4,209 cycle peak of June 2016.

- Following a long drought, assets across the quality spectrum recorded rent growth, with working-class Renter-by-Necessity properties leading the way—up 1.1% year-over-year, to an average of $3,401. Rents in the Lifestyle segment also increased, although at a tamer rate—0.7%, to $4,474. Contrary to the national trend, occupancy in stabilized assets is actually rising in Manhattan, at 98.6% as of June, up 20 basis points year-over-year.

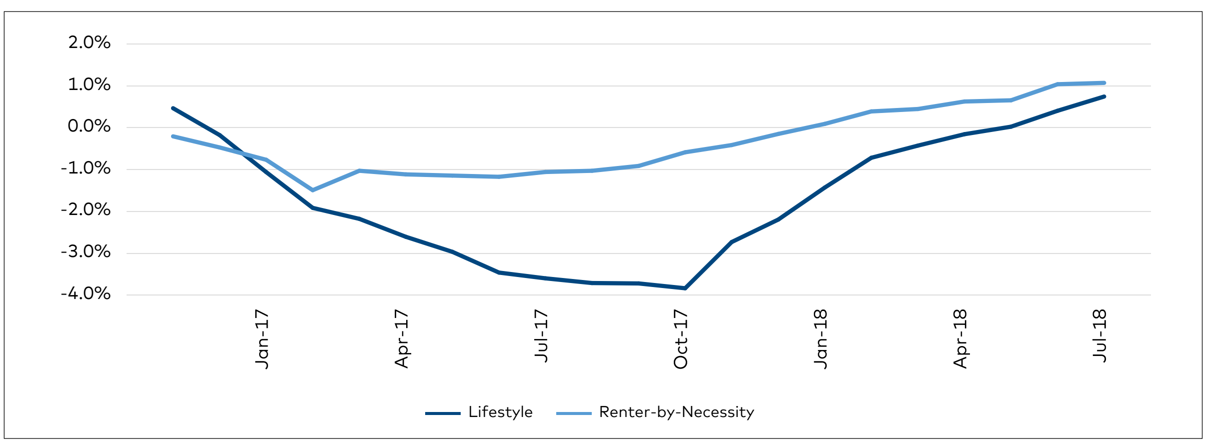
- A solid rent growth was recorded in areas with strong Renter-by-Necessity inventories such as Lower East Side (up 9.5% year-over-year), Harlem (9.4%), Gramercy Park (5.1%) and Hell's Kitchen (3.2%). With job improvement continuing across the metro, there are still means for rental demand to continue to rise, especially with home prices crossing the $1 million mark. With the current dynamic maintaining, rent growth will likely inch up by year's end.

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)

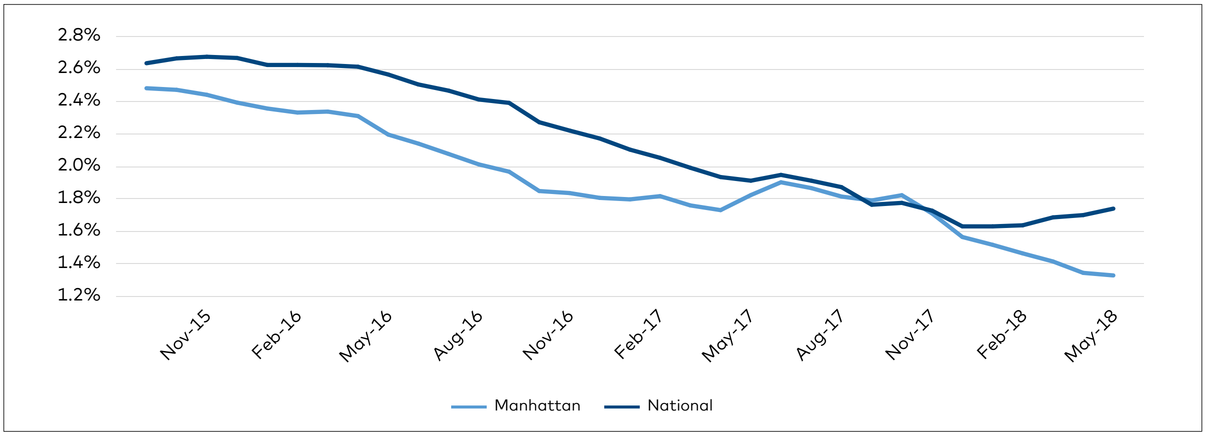


Source: YardiMatrix

Economic Snapshot

- New York City added 98,000 jobs in the 12 months ending in May for a 1.3% expansion. Education and health services led the way through that interval, with the addition of 46,000 positions. Since three of the area's schools—NYU, Columbia University and Cornell—are among the top 25 colleges and universities in the country by endowment, New York City has the tools to steadily add highly skilled young professionals to the area's workforce. Manhattan's main economic engine is heavily reliant on the financial sector, as well as on professional and business services, sustaining demand for both discretionary housing and workforce-level residences.
- Construction continued to be one of the fastest-growing employment sectors, with projects across the island of Manhattan contributing heavily to the 6,000 jobs added by the metro in the 12 months ending in May.
- Manhattan's office sector continues to attract buzz, despite some movement away from the high-priced assets to the more affordable Brooklyn and Jersey City markets. Construction activity remains at very high levels, as demand continues to be strong. Roughly 23 million square feet of office space was underway in the borough as of August, most of which consisted of Class A assets.

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	1,490	21.0%	46,000	3.2%
60	Professional and Business Services	1,145	16.1%	19,500	1.7%
40	Trade, Transportation and Utilities	1,203	17.0%	14,300	1.2%
70	Leisure and Hospitality	700	9.9%	10,800	1.6%
15	Mining, Logging and Construction	270	3.8%	6,000	2.3%
55	Financial Activities	623	8.8%	5,600	0.9%
80	Other Services	304	4.3%	2,900	1.0%
90	Government	909	12.8%	-1,400	-0.2%
50	Information	242	3.4%	-2,000	-0.8%
30	Manufacturing	205	2.9%	-3,800	-1.8%

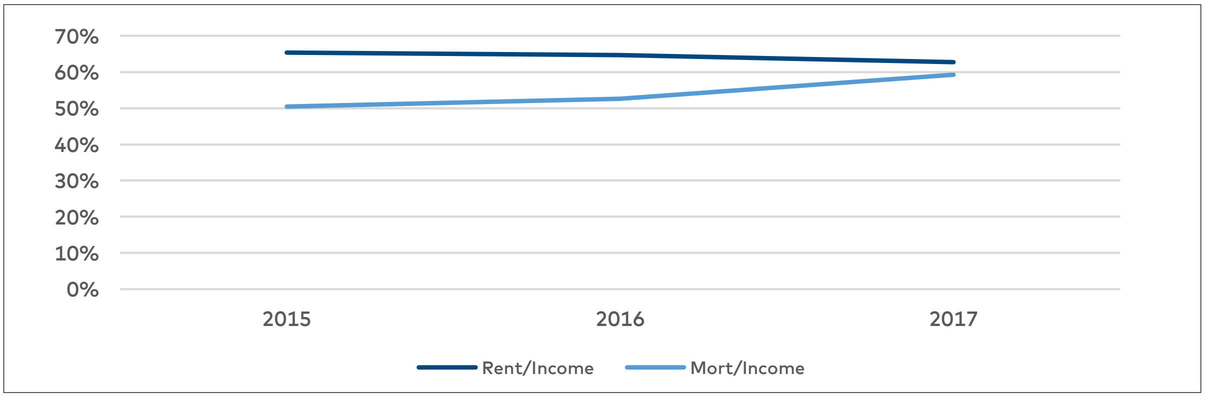
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

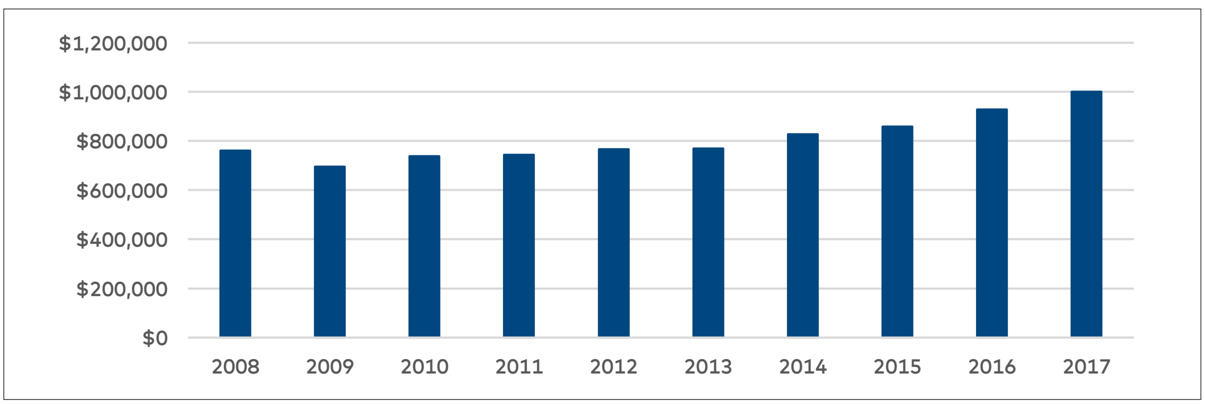
- Manhattan is one of the most expensive areas in the country, with the median home value crossing the $1 million mark last year. As a result, affordability is an elusive concept in the area, with mortgages accounting for 59% of the median income, while rent costs are even more burdensome, encompassing 63% of income.
- With job improvement continuing at a good rate across New York City, housing demand remains very high. This is putting further pressure on cost-burdened renters, which already make up the majority of the population.

Manhattan Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Manhattan Median Home Price



Source: Moody's Analytics

Population

- New York County added 2,600 residents in 2017, as price hikes in the area have kept demographic expansion fairly tepid.
- The population growth rate in Manhattan was 0.2%, roughly one-third of the U.S. figure.

Manhattan vs. National Population

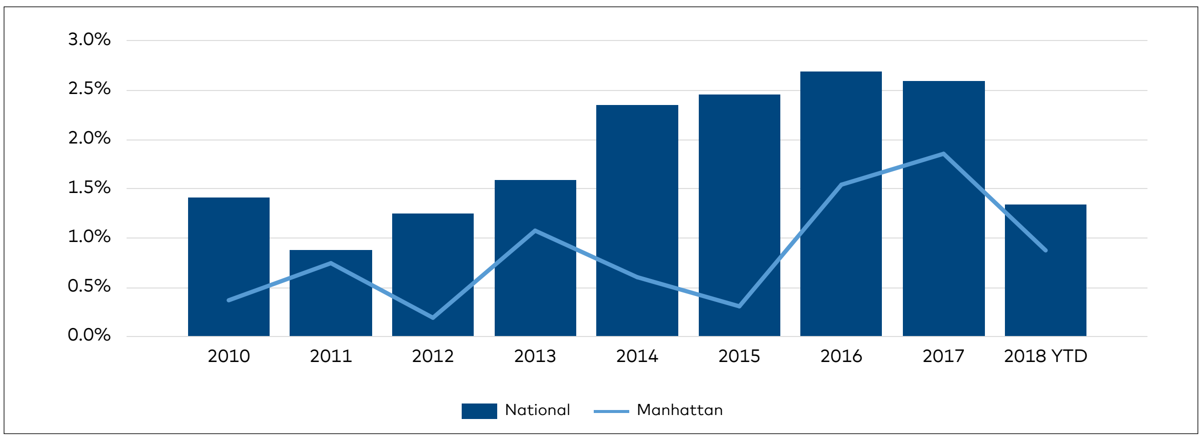
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
New York County	1,638,790	1,646,521	1,657,183	1,662,164	1,664,727

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

Supply

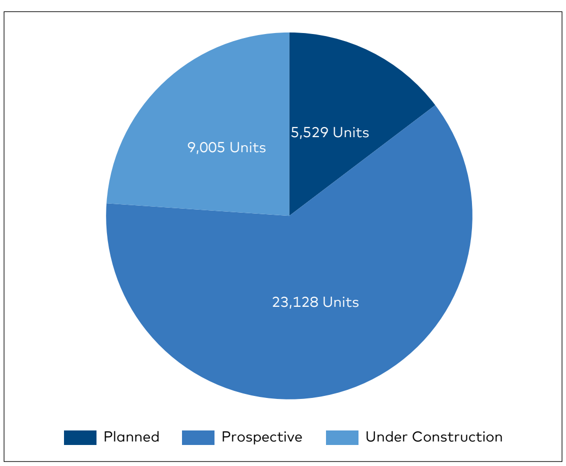
- Manhattan added 2,770 units in 2018 through July. That's roughly on par with last year's supply growth, when 5,820 units were delivered. There were 13,300 units completed since the start of 2016, a full 3,500 units more than the total number of deliveries in the 2010 to 2015 trough.
- Only 11% of the units coming online this year were in the Renter-by-Necessity segment, further highlighting the disconnect between the rental market's needs and development trends.
- Roughly 9,000 units were underway in the borough as of July, while another 28,000 units were in the planning and permitting stages, pointing to continued inventory expansion. Permitting has significantly picked up across New York City in 2018 after a sluggish interval, as heightened demand continues to push construction activity throughout the metro.
- Development was intense in both the affordable and upscale ends of the borough, with the Financial District (1,406 units underway as of July), East Harlem (1,337 units) and Lincoln Square (1,065 units) leading the pack.

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



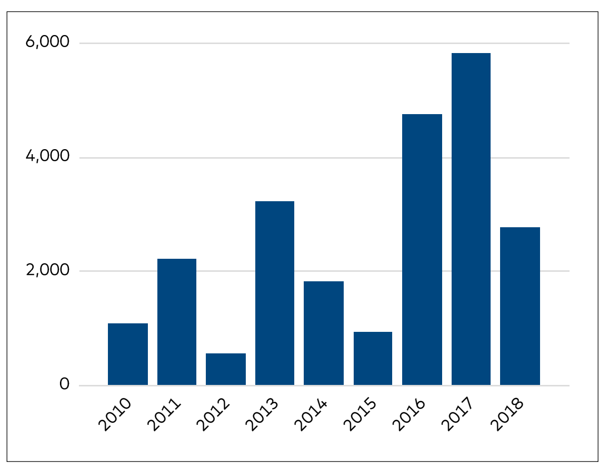
Source: YardiMatrix

Development Pipeline (as of July 2018)



Source: YardiMatrix

Manhattan Completions (as of July 2018)

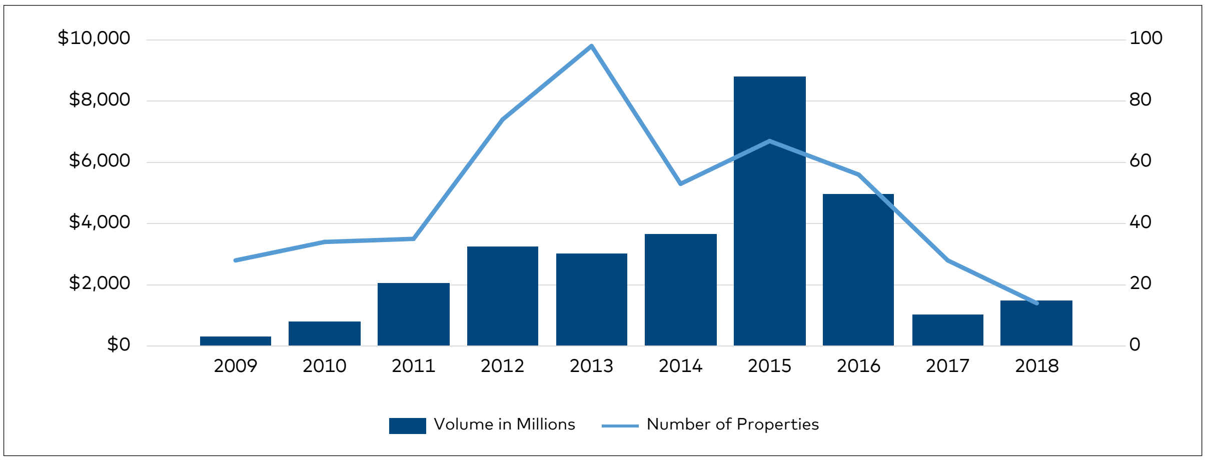


Source: YardiMatrix

Transactions

- Investment sales involving multifamily assets with 50 units or more have ramped up in 2018, with $1.5 billion in rental properties sold through June, already $500 million more than last year's total. Through the year's first half, per-unit prices hit $694,538, nearly five times higher than the national average, with rising values slowly pricing out smaller-scale investors. However, the market's gateway appeal and the high cash flow of properties continue to draw investors to Manhattan.
- Over the 12 months ending in June, transaction volume was highest in established submarkets including the Upper West Side ($497 million), the Garment District ($316 million), Midtown East ($276 million) and the Financial District ($125 million). Compressing acquisition yields have pushed investors to paying top dollar simply for a presence in the market, resulting in deals at per-unit prices above the $1 million threshold.

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



Source: YardiMatrix

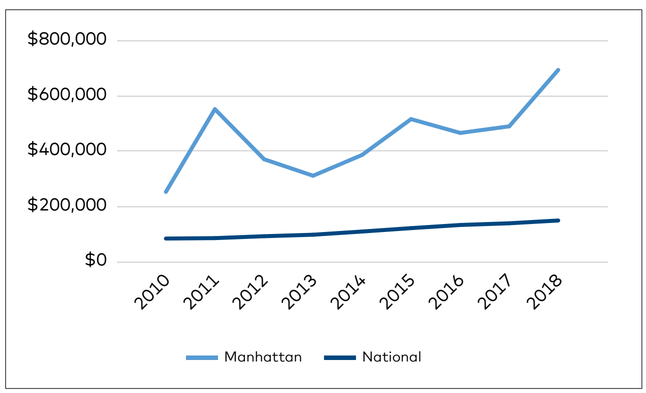
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Upper West Side	497
Garment District	316
Midtown East	276
Financial District	125
Washington Heights	122
Hell's Kitchen	110
Murray Hill	110
East Harlem	101

Source: YardiMatrix

[1] From July 2017 to June 2018

Manhattan vs. National Sales Price per Unit



Source: YardiMatrix

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Improving Accessibility Through Technology

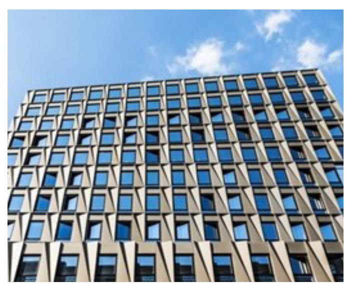
Architect Ariel Aufgang reveals how technology can improve home accessibility and why regularly updated regulations could help reduce costs for developers.

Manhattan High Line Portfolio Commands $28M

Cushman & Wakefield represented the seller, while JLL secured acquisition financing on behalf of the buyer. The four contiguous buildings comprise 26 apartments and four ground-floor retail units.

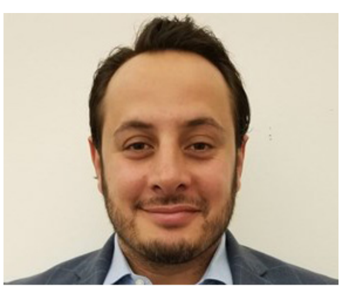
Bellwether Enterprise Selects New VP

Ilya Weinstein will oversee loan production for affordable housing properties throughout New York City and the northeastern U.S., bringing to this new role more than seven years of mortgage lending experience.



Delancey Street Associates Opens NYC Condos

242 Broome is a 55-unit building within the Essex Crossing development on Manhattan's Lower East Side. Amenities include a formal dining area, a children's lounge and a furnished rooftop.



Millbrook Realty Capital Adds New Managing Director

Uanderson Benedetti will handle the origination of short-term bridge loans on multifamily properties, mixed-use buildings, condominiums and hotels, focusing on growing the company's lending platform.

Dalan Management, Elion Partners Acquire 2 Adjacent Assets in Manhattan

The joint venture paid $66 million to purchase the buildings on the Upper West Side, which total 68 units, from AAG Management.

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Executive Insight

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Unlocking Potential in New York's Emerging Submarkets

Greater New York continues to be a red-hot real estate market worldwide, despite its affordability issues and high building costs. While many would think about the metro as a market approaching saturation, there are areas that experienced developers describe as emerging submarkets. HAP Investments found success in New York by leveraging land in neighborhoods that were overlooked by other investors. The company was among the first developers in East Harlem and Jersey City's Journal Square, after fruitful ventures in Europe and the Middle East.

Eran Polack, CEO & co-founder of HAP Investments, discussed investment opportunities across the metro and the drivers of Northern Manhattan's transformation with Associate Editor Corina Stef.

HAP Investments was one of the first developers to recognize the investment potential of emerging neighborhoods like East Harlem in Manhattan and Journal Square in Jersey City, N.J. What was the strategy behind this?

When we established our U.S. office, we identified emerging neighborhoods with long-term potential that we could invest and develop in for the next 20 to 30 years. Our goal was to build multiple projects here and strategically position ourselves to build a business around it.

We identified these neighborhoods as strong investment opportunities for multifamily development for multiple reasons—we could build quality projects with great amenities for less and offer more affordable rents. The projects were situated near public transportation, providing residents with an easy commute to and from the center of Manhattan.

How has the New York multifamily sector changed since you entered the market in 2010?

Manhattan land prices have increased considerably, along with the cost of construction. Higher pricing coupled with the expiration of the 421-a tax exemption program, resulted in less multifamily development. The focus for developers was all condo, condo, condo. Many developers started pursuing strategically located multifamily projects in the outer boroughs, where land prices were more affordable compared to Manhattan. This created a major development boom in Brooklyn and Queens.

What are the most prominent trends in the New York City multifamily business?

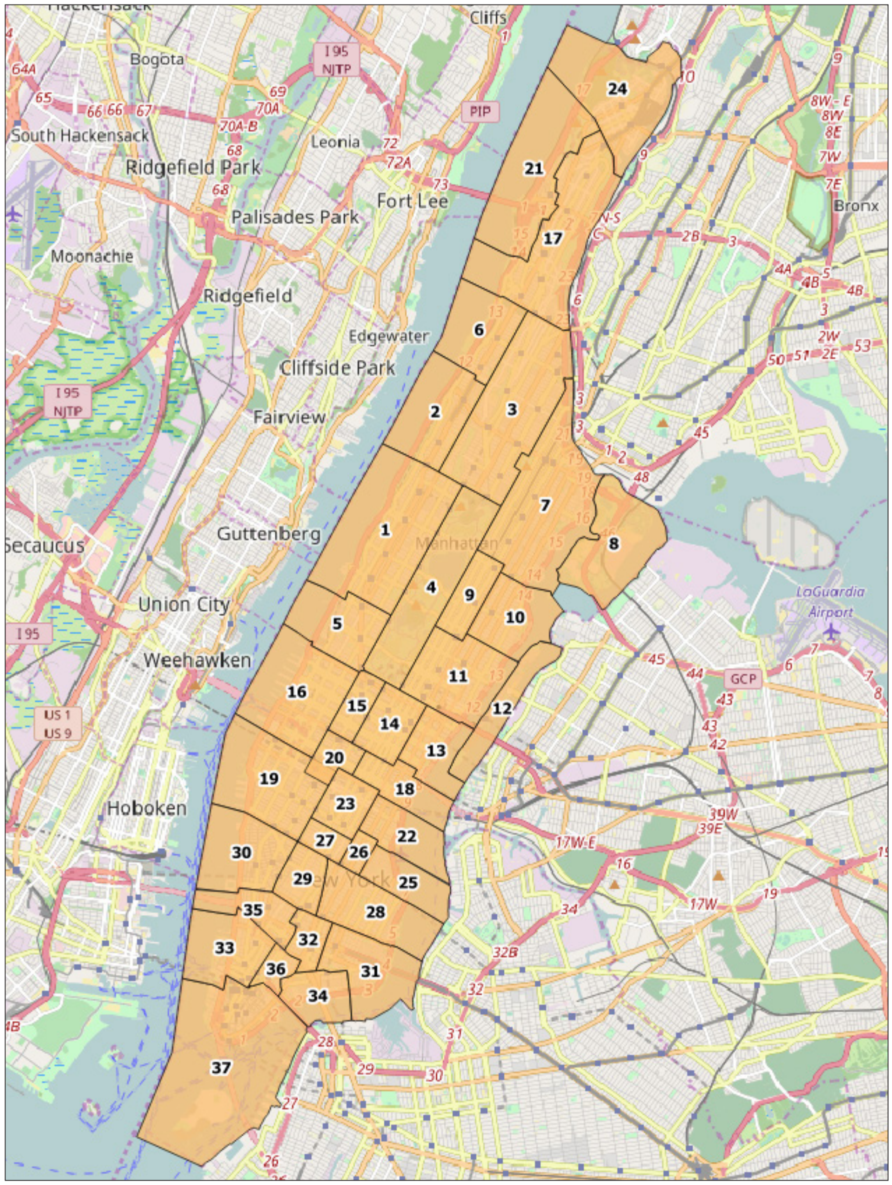
In order to attract tenants, it has become standard for new multifamily buildings to offer amenities, higher quality finishes and unique features. The latest crop of rental projects in New York City are providing these new offerings that were typically found in pricey condo buildings, setting the bar for renter expectations.

What New York City submarkets should we keep an eye on and why?

Washington Heights is one of the city's most talked about, up-and-coming spot. It's located in northern Manhattan, away from dense crowds, providing a quieter pace of life with a true neighborhood feeling. Northern Manhattan has become a fast-moving real estate market with a lot of activity taking place in Harlem and East Harlem. We believe Washington Heights is the next frontier.

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	Lennox Hill
12	Roosevelt Island
13	Midtown East
14	Central Midtown
15	Theater District
16	Hell's Kitchen
17	Washingtone 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.

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