



Yardi® Matrix

Brooklyn's Blistering Pace

Multifamily Report Summer 2018

Education, Health Sector
Leads Job Growth

Developers Focus on
Luxury Assets

Affordability
Issues Linger

Market Analysis

Summer 2018

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Kings County Braces for Banner Year

Brooklyn's multifamily market is set to reach a new cycle peak this year, with most of the upcoming supply geared toward the upscale market. This will likely make the already severe affordability crisis even more acute. Home prices in the borough are quickly nearing high-priced Manhattan levels.

New York City added almost 98,000 jobs year-over-year through May, with education and health services accounting for almost half. The development of new public ferry routes is encouraging construction activity on East River shores: A 1,200-foot-long esplanade now runs along the river in Williamsburg. Industry City is in the process of reshaping the South Brooklyn waterfront, where a joint venture intends to create 3.6 million square feet of retail space, storage units, warehouses and hotels. Moreover, submarkets that grant quick commutes to employment centers in Manhattan, such as Prospect Heights and Downtown Brooklyn, are attracting developer interest. Office demand is high, as investors see the borough as a viable alternative to Manhattan's exorbitant prices.

At \$1.1 billion year-to-date through July, transaction volume was mainly influenced by the \$870 million sale of the largest subsidized property in the U.S. With roughly 14,000 units expected to come online in the metro this year, New York City rents are bound to drop 0.1% in 2018.

Recent Brooklyn Transactions

Spring Creek Towers



City: Brooklyn, N.Y.
Buyer: Rockpoint Group
Purchase Price: \$870 MM
Price per Unit: \$147,934

921 Washington Avenue



City: Brooklyn, N.Y.
Buyer: GRJ
Purchase Price: \$53 MM
Price per Unit: \$406,489

787 E. 46th Street

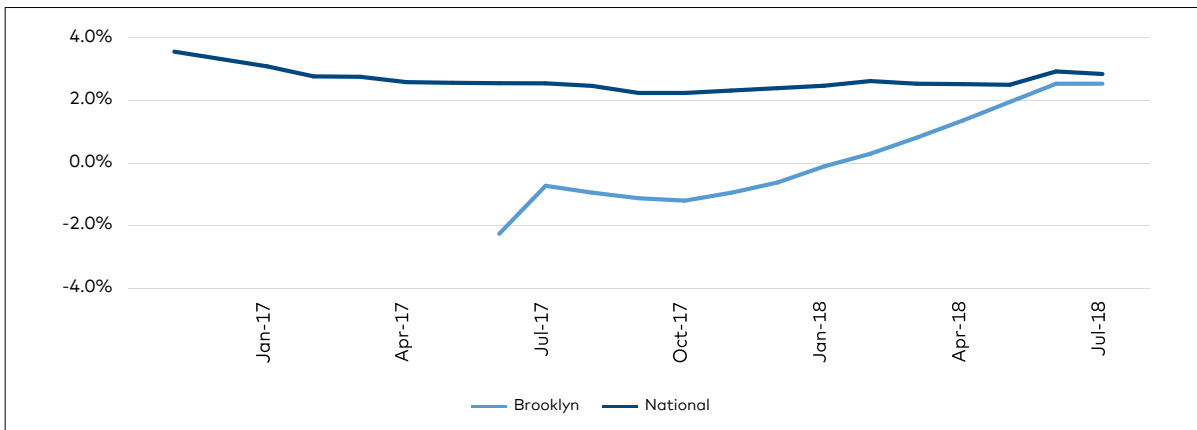


City: Brooklyn, N.Y.
Buyer: Coney Realty & Management
Purchase Price: \$27 MM
Price per Unit: \$207,031

Rent Trends

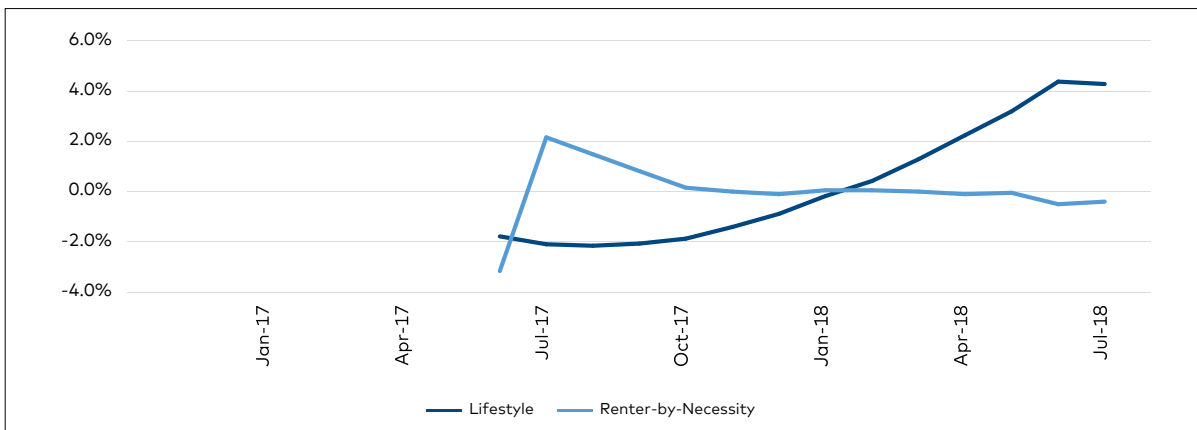
- Rents in Brooklyn rose 2.5% year-over-year through July, only 30 basis points below the national rate. Following several months of deceleration, rents started to increase this year, hitting an average of \$2,791 in July, nearly double the national figure. However, the average monthly rent in Brooklyn is substantially lower than in Manhattan.
- The higher-end Lifestyle segment led growth, up 4.3% in the year ending in July, to \$3,503. At an average of \$1,976, rents in the working-class Renter-by-Necessity segment decreased by 0.4% through the same interval. With most of the new supply targeting high-income residents, Lifestyle rents should slide or at least remain flat, while demand for workforce-level housing should rise. Occupancy in stabilized properties was 98.5% as of June, among the highest in the country.
- Although Downtown Brooklyn (9.1%) and Boerum Hill–Gowanus (7.4%) saw the largest rent increases, Dumbo is still the most expensive submarket. Average rents there were \$4,510 as of July. On the other end of the spectrum, rents in Gravesend (-13.0%) and Bushwick (-8.0%) decreased significantly. The overall New York City multifamily market should soften this year due to already high rents and deliveries anticipated to go on to another cycle peak. Yardi Matrix expects rents to drop 1.0% by year's end in New York City.

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)

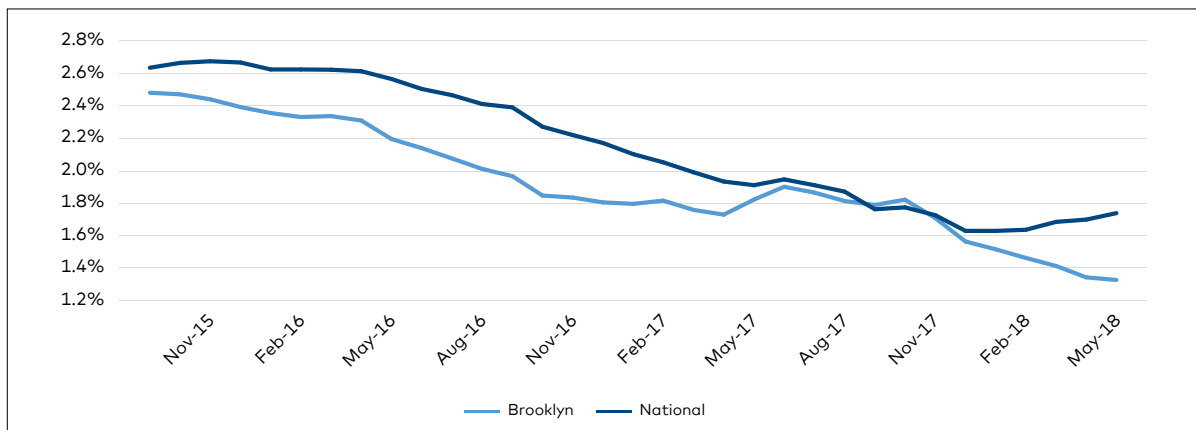


Source: YardiMatrix

Economic Snapshot

- The New York metro area added almost 98,000 jobs in the year ending in May, a 1.3% uptick. That's 40 basis points below the national rate. Employment gains were significant in education and health services, a sector that added 46,000 jobs due in part to the boom in small urgent-care facilities, as well as a growing population of seniors in need of assisted living facilities. New York City's most significant contractions occurred in manufacturing and information, which jointly lost 5,800 jobs.
- Several public ferry routes opened last year, permitting residents to commute on the East River among Manhattan, Brooklyn and Queens, and bolstering waterfront development in Kings County as a result. A six-acre park opened in Williamsburg around the formerly deserted Domino sugar factory, which is set for an extensive makeover that includes the construction of several mixed-use towers on the neighboring site. Moreover, multibillion-dollar project Industry City is about to reshape the South Brooklyn waterfront with a hotel, retail space and a 16-building tech startup hub.
- Brooklyn's office market is likely to continue to provide slightly more affordable options than high-priced Manhattan. Two of the largest projects underway are Tishman Speyer's 620,000-square-foot office hub and One Willoughby Square, the 495-foot tower developed by JEMB Realty. Brooklyn will also soon welcome Dock 72 and 25 Kent Ave., two buildings that exceed 1 million square feet.

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	1,490	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%

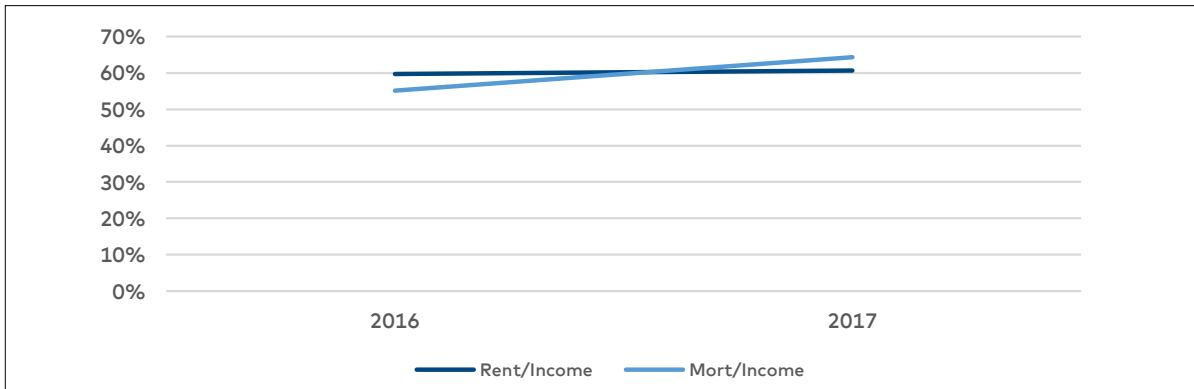
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

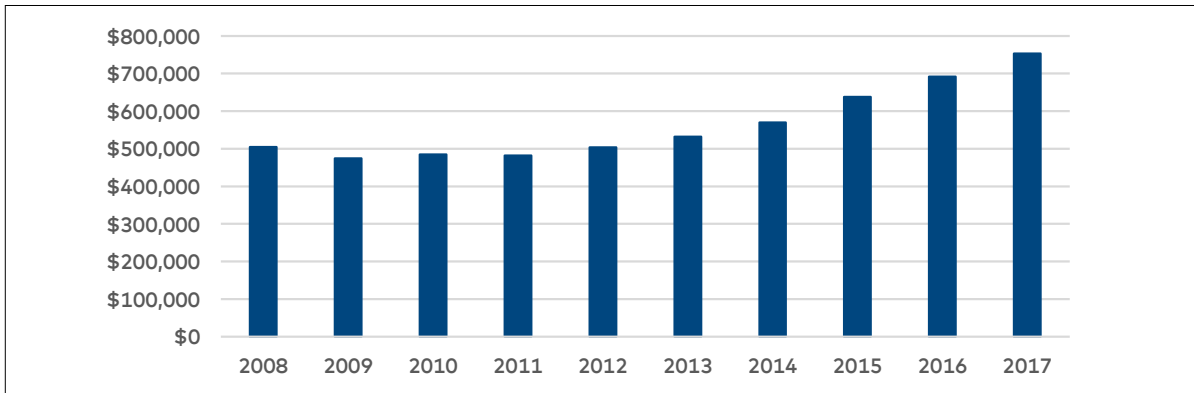
- Property values have continued their accelerated climb in Brooklyn, as the median home price crossed the \$750,000 mark in 2017, a new cycle high. The average rent accounted for 61% of the area's median income, while the average mortgage payment encompassed about 64%.
- The high cost and scarcity of land for new construction in the metro have rendered some of the neighborhoods inaccessible for low-income Brooklyn residents. In an effort to relieve the pressure from rent-burdened tenants, Borough President Eric Adams set aside the necessary funds this fiscal year to preserve more than 3,000 units in existing Mitchell-Lama and NYCHA developments.

Brooklyn Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Brooklyn Median Home Price



Source: Moody's Analytics

Population

- The borough's population decreased by 0.1% in 2017, underlining that affordability issues are pricing residents out of the metro.
- During the past five years, Brooklyn added roughly 43,000 residents, a 1.6% uptick.

Brooklyn vs. National Population

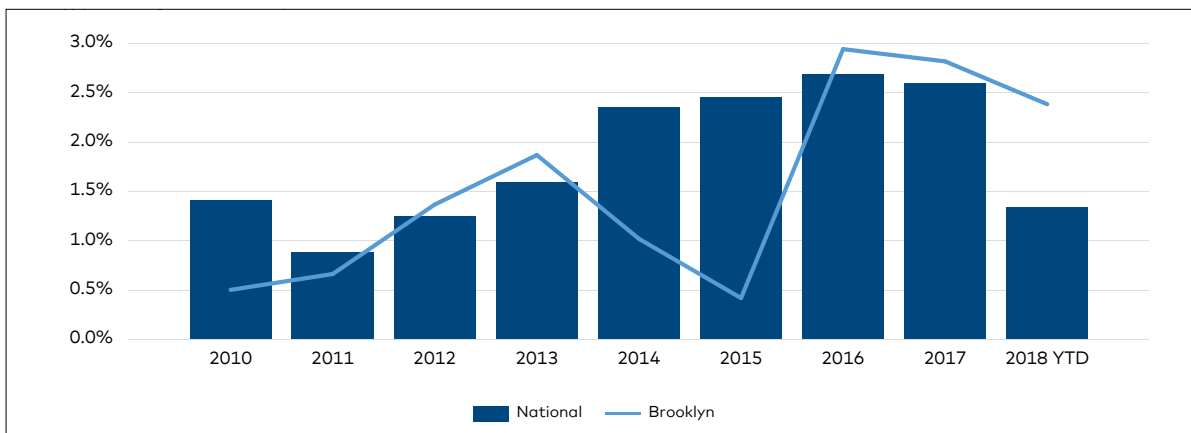
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Brooklyn Metro	2,605,783	2,626,644	2,643,546	2,650,859	2,648,771

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

Supply

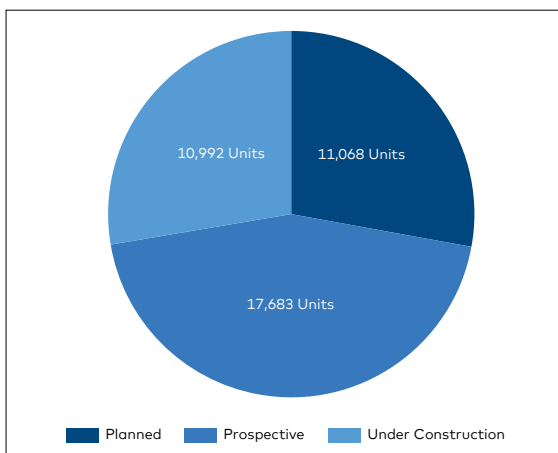
- Roughly 3,300 units came online in Kings County year-to-date through July, pointing toward a record-breaking year for deliveries following 2016's cycle peak of 3,834 units. Overall, more than 14,000 units are expected to be completed in New York City by year-end.
- Some 11,000 units were underway in Brooklyn as of July, with another 28,751 units in the planning and permitting stages. Despite high demand for market-rate and affordable housing, builders are mostly focusing on upscale assets, with 90% of the projects underway catering to Lifestyle renters.
- More than 60% of the upcoming inventory is concentrated in four northern submarkets: Williamsburg (2,655 units), Bushwick (1,502), Downtown Brooklyn (1,397) and Greenpoint (1,258).
- The largest multifamily project underway is Spitzer Enterprises' 416–420 Kent Ave., a property built on the banks of the East River, with views of downtown Manhattan. The three-tower asset is set to encompass 856 units—with 20% earmarked as affordable apartments. Completion of the project is expected by the end of 2018.

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



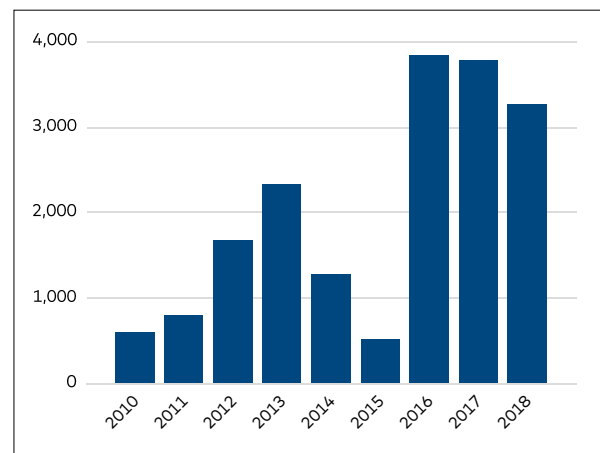
Source: YardiMatrix

Development Pipeline (as of July 2018)



Source: YardiMatrix

Brooklyn Completions (as of July 2018)

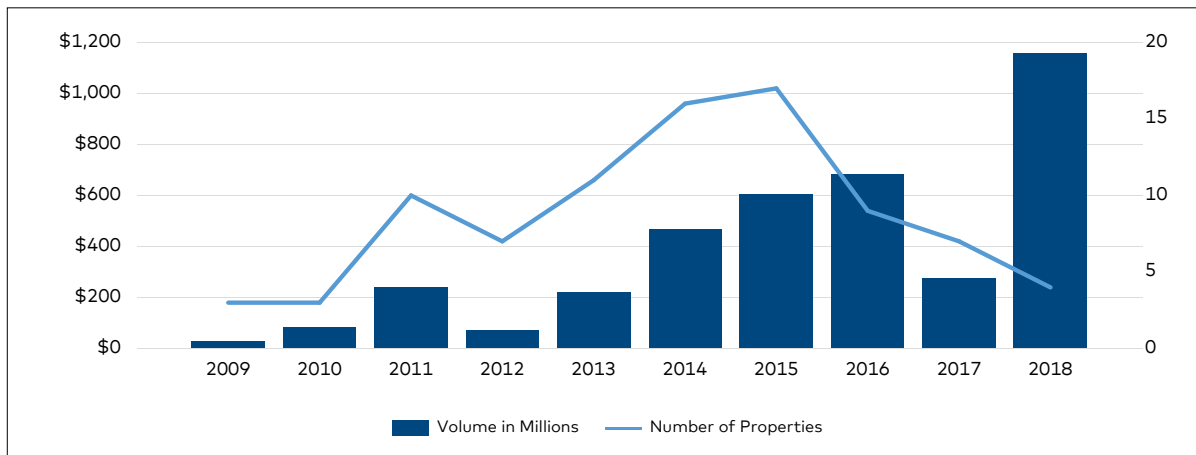


Source: YardiMatrix

Transactions

- Transaction volume exceeded \$1.1 billion year-to-date through July due to the \$870 million sale of the nation's largest subsidized affordable housing community: Spring Creek Towers. Starrett City Associates sold the 5,881-unit property in East New York to Rockpoint Group.
- Per-unit prices dropped to \$169,294 this year, only \$20,393 above the national average. In 2016, this cycle's peak, per-unit prices were more than three times the U.S. figure. Continued demand and historically low interest rates have kept Brooklyn's multifamily sector competitive. In the 12 months ending in June, East New York attracted the most capital, following the sale of the largest federally subsidized housing development in the country. With almost \$240 million in multifamily assets combined changing hands, western areas such as Prospect Heights and Boerum Hill-Gowanus were also among some of the most sought-after submarkets in Brooklyn.

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



Source: YardiMatrix

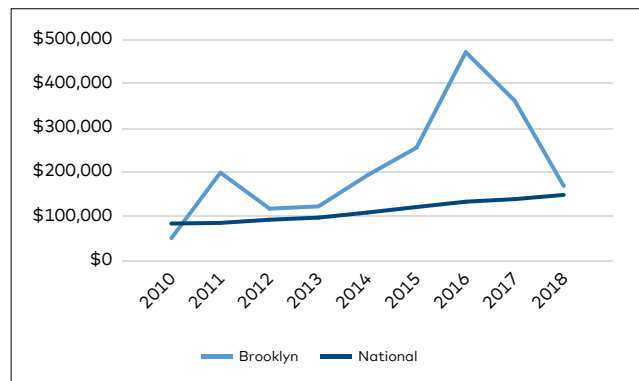
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
East New York	870
Prospect Heights	156
Boerum Hill-Gowanus	81
Crown Heights	53
Bushwick	51
East Flatbush	27

Source: YardiMatrix

¹ From July 2017 to June 2018

Brooklyn vs. National Sales Price per Unit



Source: YardiMatrix

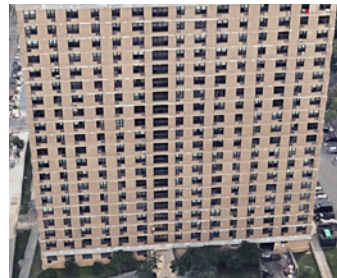
News in The Metro

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Brooklyn Tower Lands \$380M Refi

Natixis arranged the loan on behalf of Douglaston Development for Level BK, a 40-story property located along the Williamsburg waterfront.



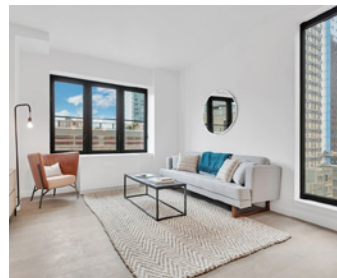
Spencer Equity Acquires Brooklyn Section 8 Building for \$50M

Rosewood Realty Group arranged the disposition of the 250-unit property on Coney Island on behalf of seller Orbach Group.



Meridian Capital Secures \$115M For Brooklyn Asset

Built on a former multi-use site, Hampshire Properties' 302-unit development will bring a series of upscale amenities to the borough's largely residential Midwood neighborhood.



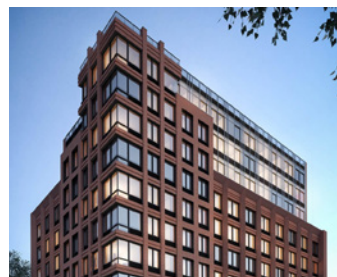
Modern Spaces Tapped to Lease Brooklyn Mixed-Use

The transit-oriented BRiQ features 110 units, 22 of which offer 421-a tax incentives as part of New York City's Inclusionary Housing Program.



NYC Community Lands \$53M Refi

Walker & Dunlop arranged the 12-year, fixed-rate loan on behalf of the developers, Quinlan Development Group and Lonicera Partners, for 153 Remsen in Brooklyn Heights.

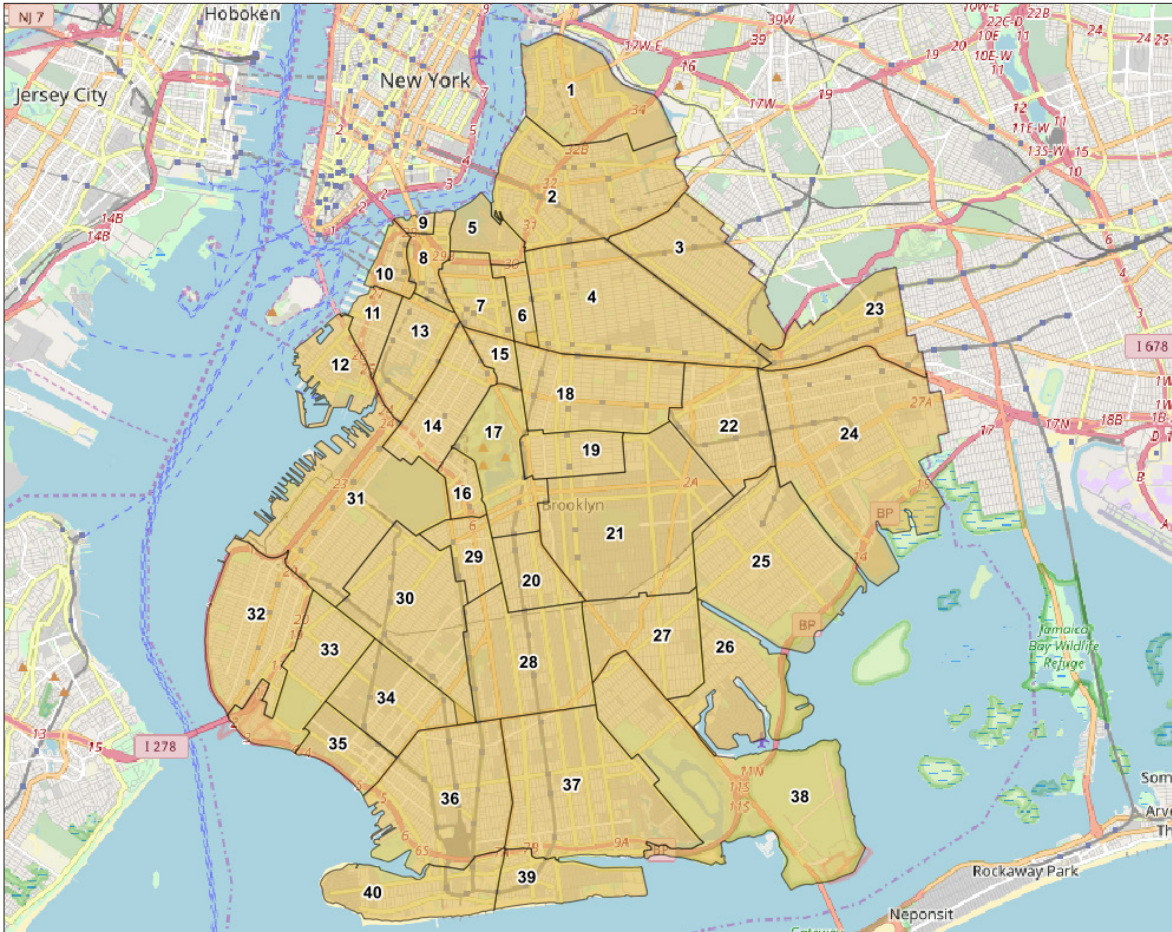


Brooklyn Luxury Community Receives \$68M

Canadian Imperial Bank of Commerce originated the two-year loan for Trinity Place Holdings' building, which features 105 units and 6,200 square feet of retail space.

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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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President
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