



Yardi® Matrix

Manhattan's Increased Pace

Multifamily Report Winter 2019

Construction Sees Year-End Uptick

Price Per Unit Reaches Cycle Peak

Rent Growth Accelerates After Slow 2017

Market Analysis

Winter 2019

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The Coveted Borough Regains Momentum

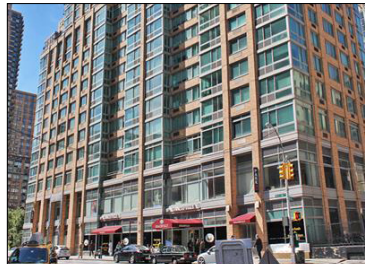
Manhattan's rent growth has once again picked up speed, with a 2.0% increase, following almost an entire year of contraction. The average rent is approaching the \$4,200 mark. Construction has slowed despite continued high demand.

A need for highly skilled labor will stay elevated through 2019 and beyond, especially given Amazon's selection of nearby Long Island City as one of its HQ2 sites and Google's subsequent decision to expand in Manhattan. Google unveiled plans to invest \$1 billion in a 1.7 million-square-foot campus in Hudson Square, while Amazon's new location is expected to add some 25,000 jobs. New York City's current administration rolled out a \$24 billion, 10-year program that includes selling unused air rights to developers. The aim is to deliver a swath of much-needed repairs to the NYC Housing Authority's portfolio, serving some 175,000 residents across the city.

Construction activity picked up toward the year's end, with some 9,000 units under construction and another 30,500 in the planning and permitting stages. Developers in Manhattan also follow the national trend of focusing on Lifestyle properties, although construction of much-needed Renter-by-Necessity product has picked up compared to recent quarters, when virtually no workforce-level housing was delivered in Manhattan.

Recent Manhattan Transactions

101 West End Ave.



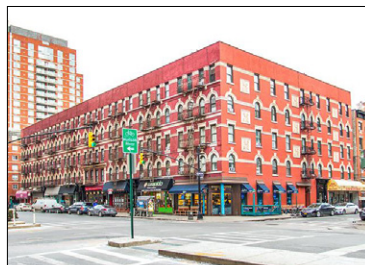
City: New York
Buyer: Dermot Co.
Purchase Price: \$416 MM
Price per Unit: \$820,710

838 West End Ave.



City: New York
Buyer: Akelius RE Management
Purchase Price: \$72 MM
Price per Unit: \$1,043,478

104 - 114 Eighth Ave.



City: New York
Buyer: Dalan Management
Purchase Price: \$83 MM
Price per Unit: \$813,725

222 E. 56th St.

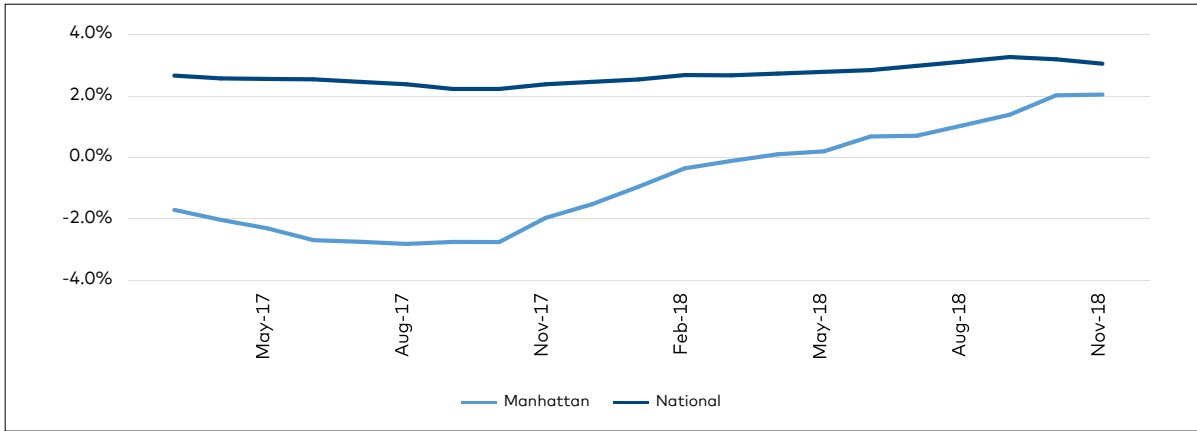


City: New York
Buyer: Lalezarian Developers
Purchase Price: \$25 MM
Price per Unit: \$416,666

Rent Trends

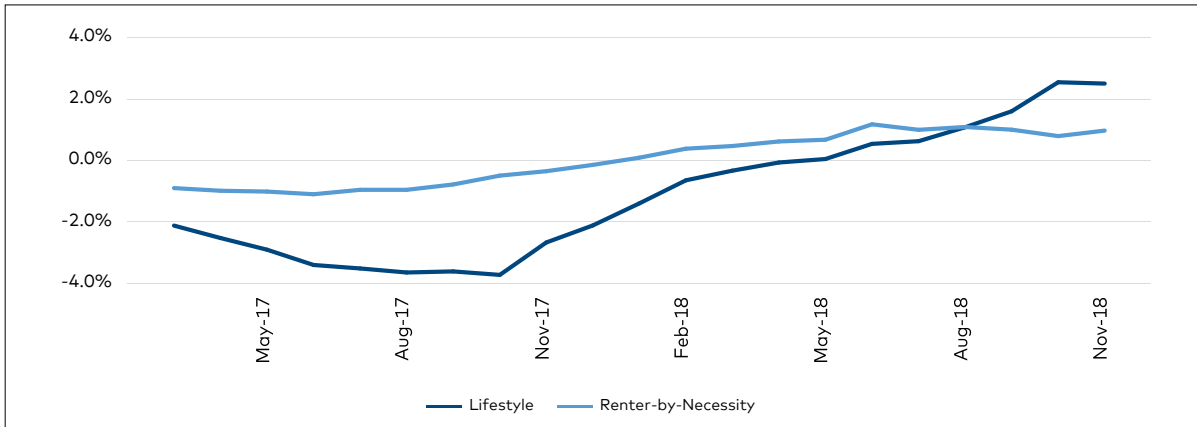
- Manhattan rents rose by 2.0% year-over-year through November. After a slow first quarter, 2018 saw overall rents reach an average of \$4,195. Despite the surge following a full year of contraction, rent growth was still 110 basis points behind the national growth rate (3.1%).
- Rents grew across asset classes, but Lifestyle rose at a faster rate, up 2.5% year-over-year, reaching an average of \$4,558. Previously, Renter-by-Necessity properties were leading growth, but they rose only a modest 1.0% year-over-year, to an average of \$3,448.
- Tribeca remained the most expensive submarket, at an average of \$5,681, an increase of almost \$300 year-over-year. Most of the area's population are Lifestyle renters. Rents rose the fastest on the Lower East Side, a growth of nearly \$380 (up by 8.8% year-over-year), with the Garment district following close behind (a 6.4% increase, to \$3,699).
- Despite a somewhat sluggish construction pipeline, Manhattan's rents will most likely continue to increase through 2019, due to the demand generated by the metro's highly skilled labor pool.

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)

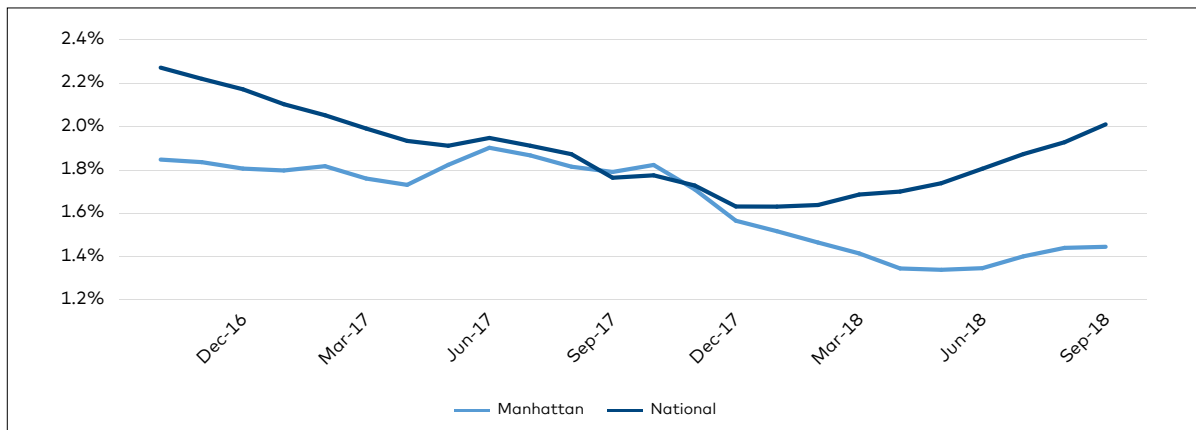


Source: YardiMatrix

Economic Snapshot

- New York City added 93,000 jobs in the 12 months ending in September, up 1.4% year-over-year and 60 basis points below the 2.0% U.S. average.
- Gains were led by the education and health services sector, accounting for 50,500 new positions. With a deep, talented pool of highly educated professionals, Manhattan can easily keep up with demand for its financial and business services economic drivers. Significant growth also occurred in the leisure and hospitality sector (adding 14,300 jobs).
- Professional and business services also grew, with 14,200 jobs added. Manhattan—in fact, New York City overall—is likely to see a continued job growth as Amazon settles in across the East River, while tech giant Google announced plans to construct a 1.7 million-square-foot campus in Hudson Square, a \$1 billion development project.
- Although construction activity has somewhat slowed since last quarter, the sector still added 4,500 jobs, remaining one of the fastest-growing employment sectors.

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	1,471	20.8%	50,500	3.6%
70	Leisure and Hospitality	702	9.9%	14,300	2.1%
60	Professional and Business Services	1,152	16.3%	14,200	1.2%
55	Financial Activities	629	8.9%	5,400	0.9%
15	Mining, Logging and Construction	273	3.9%	4,500	1.7%
40	Trade, Transportation and Utilities	1,197	16.9%	2,900	0.2%
80	Other Services	302	4.3%	2,200	0.7%
90	Government	887	12.6%	-100	0.0%
50	Information	248	3.5%	-300	-0.1%
30	Manufacturing	207	2.9%	-600	-0.3%

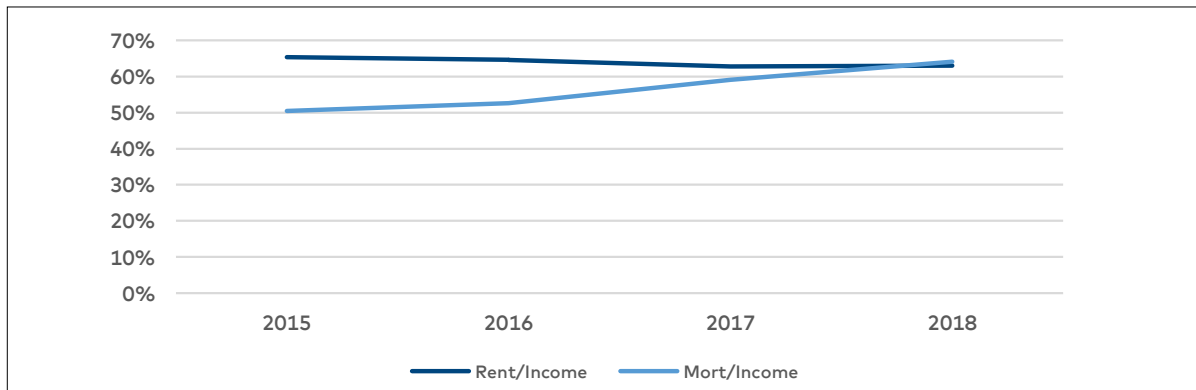
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

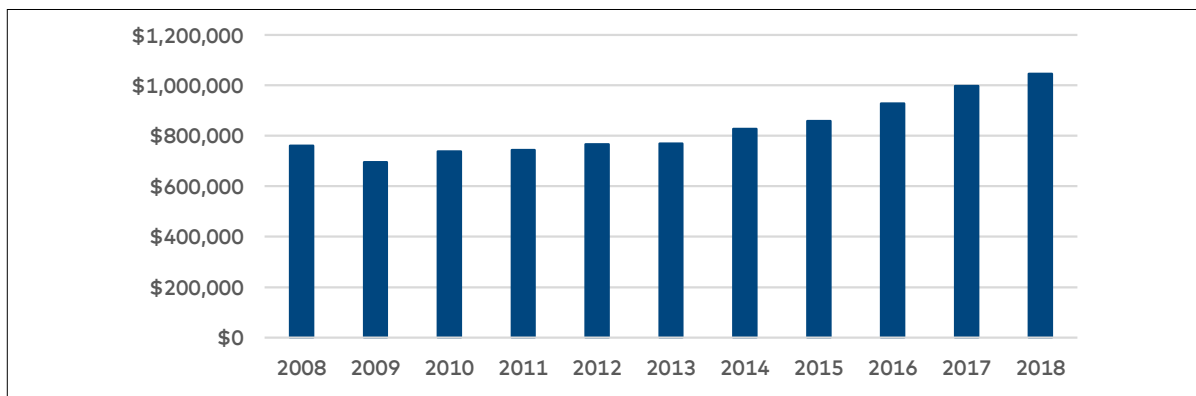
- In 2018, the median home value in Manhattan crossed the \$1 million mark, with the borough remaining one of the priciest places to live in the U.S. The cost of ownership increased, with mortgage payments accounting for 64% of incomes, up 500 basis points from 2017 and the first time in 10 years that owning in Manhattan has crossed the 60% mark. The cost of renting, unchanged from 2017, tells a similar story, encompassing 63% of income.
- Although affordability might be alleviated by the \$24 billion, 10-year plan implemented to restore public housing, the city's very high rent levels will continue to price out a sizable part 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

- Manhattan added 2,563 residents in 2017, with affordability posing a significant barrier.
- The metro's growth rate (0.2%) roughly equates to a third of the national figure (0.7%).

Manhattan vs. National Population

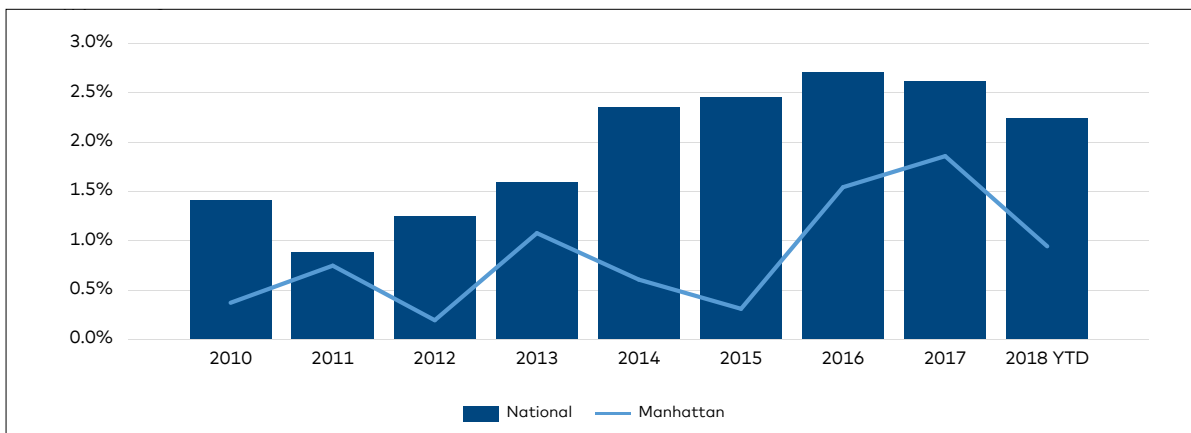
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Manhattan Metro	1,638,790	1,646,521	1,657,183	1,662,164	1,664,727

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

Supply

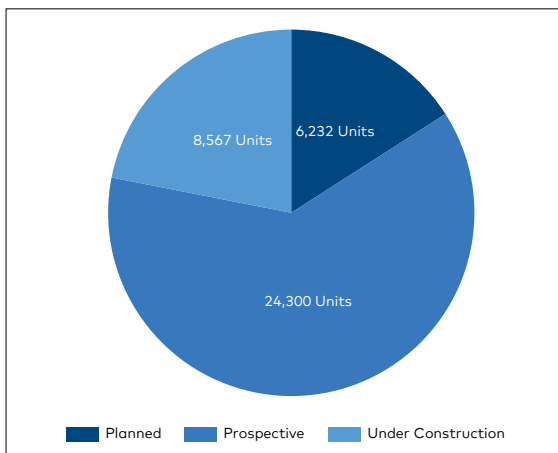
- Manhattan added 2,981 units in 2018 through November, a decline compared to 2017's almost double number of completions. Product delivered through the year's first 10 months represented 0.9% of total stock, down from last year's 1.9% and well below the national average of 2.3%.
- Multifamily properties delivered this year all fell in the A+ to B range, with developers continuing the trend of betting on the borough's high-earning residents when adding space. Only 10% of properties delivered during the past two years (a total of 9,288 units) were fully affordable, while the remaining 90% were all Lifestyle assets.
- There were 8,567 units under construction across Manhattan as of November, with another 30,500 units in the planning and permitting stages. Developers are now focusing their efforts toward more market-rate properties, which make up 45% of the pipeline.
- A 10-year plan is being rolled out by the current city administration for \$24 billion in repairs to the New York City Housing Authority's portfolio across the five boroughs.

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



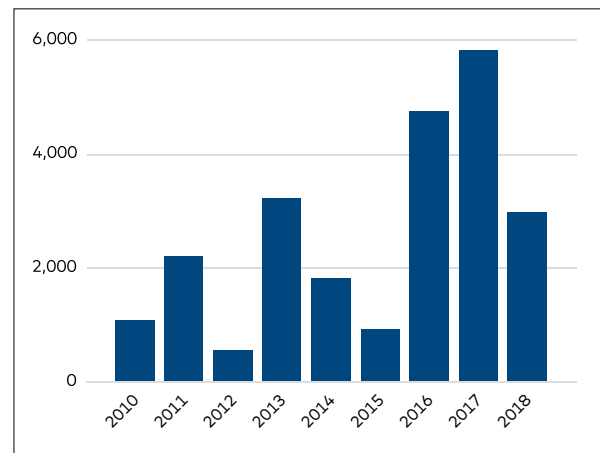
Source: YardiMatrix

Development Pipeline (as of November 2018)



Source: YardiMatrix

Manhattan Completions (as of November 2018)

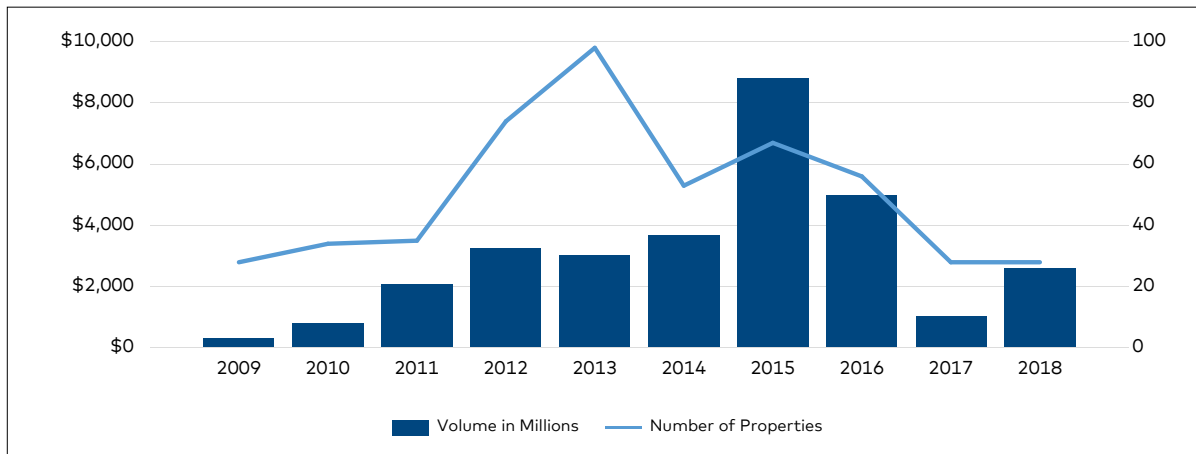


Source: YardiMatrix

Transactions

- Total transaction volume reached \$2.6 billion in Manhattan as of October, with the metro likely to exceed the \$3 billion mark by year's end. A total of 28 properties traded in the first 10 months of 2018, amounting to almost three times the total sales volume recorded in 2017. Average price per unit reached a cycle peak in 2018, rising to \$672,000 as of October. Investors focused on Renter-by-Necessity properties, with a total of 20 properties traded in the segment. A constricting supply pipeline and aging inventory resulted in investment activity shifting toward value-add opportunities.
- Historically well-performing submarkets led in transaction volume, with the Upper West Side netting \$541 million, the Garment District \$316 million, and Midtown East \$301 million. Lincoln Square came in second with a transaction volume of \$416 million on the back of a single property sale: Dermot Co. acquired 101 West End for \$820,710 per unit in September.

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



Source: YardiMatrix

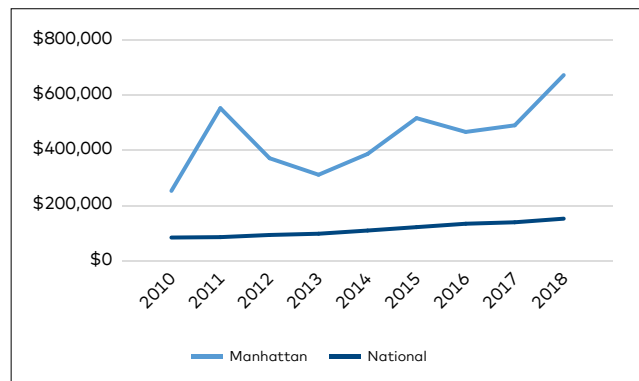
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Upper West Side	541
Lincoln Square	416
Garment District	316
Midtown East	301
Hell's Kitchen	193
Washington Heights	139
Financial District	125
Murray Hill	110

Source: YardiMatrix

¹ From October 2017 to October 2018

Manhattan vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Manhattan Luxury Condos Land \$168M

The Continuum Co.'s Madison Square Park Tower recorded intense sales activity, with 58 out of 83 units already sold for a combined \$400 million.



Welltower, Hines To Build 2nd Manhattan Senior Living Project

The two companies acquired a 9,100-square-foot site on the Upper West Side, where they plan to build a 17-story memory care community.



NYC Details \$24B Public Housing Upgrade

Transfer to Preserve is among several programs launched by Mayor Bill de Blasio's administration to raise capital for repairs at the city's NYCHA sites.



BCB Secures \$78M Refi for NYC Portfolio

The six communities are located on Manhattan's Upper West Side and have undergone \$10 million in capital improvements since they were acquired in 2014.



JV Breaks Ground On NY Student Housing Community

Upon completion in May 2020, the 64,000-square-foot property will provide 80 units serving students attending Columbia University. The development is adjacent to the university.



Metro Loft Redevelops Luxury Adaptive Reuse

Twenty Broad Street, built as an extension of the New York Stock Exchange, now includes 533 units, as well as valet service, an outdoor movie theater and a private yoga studio.



Cutting Costs, Overcoming Construction Challenges in NYC

By Corina Stef

Labor shortage, technology, rising interest rates and the trade tariffs are some of the biggest catalysts for change. In recent years, construction costs have gone up, and the rise is expected to continue due to limited land supply.

Joseph Aiello, executive vice president & COO at Broadway Construction Group, sheds light upon the challenges in construction, the impact technology has on the sector and current development trends in New York City.

Tell us about the current challenges in the real estate construction environment.

One of the most significant factors at play is labor shortage. There has been a tremendous amount of construction activity over the past few years, and many subcontractors are having trouble finding manpower. With not enough workers to go around, this sometimes results in general contractors falling behind schedule.

How are trade policies impacting real estate construction? How do you expect this to change in the future?

There's no question that tariffs can have a real impact on construction, as rising steel costs will lead to increased overall construction costs. Building trades have already increased their prices in consideration of tariffs. However, thus far, the price hikes have been relatively modest.

The million-dollar question is how long this will last. If the tariffs



are mainly a negotiating ploy for trade agreements, this may all be temporary. If they are the "new normal," we're looking at much higher construction costs for the long term.

How does technology impact real estate construction?

Technology has a profound impact on the way we manage construction projects, especially in the way we share information. A big part of this is the ProCore construction management software, which gives our clients a window into their project's progress.

Another tool we use is drone photography. We are regularly taking drone photographs and giving our clients a weekly update on the project. On one of our New York City construction sites, we even have live-feed cameras, which let our clients check in on construction progress on demand.

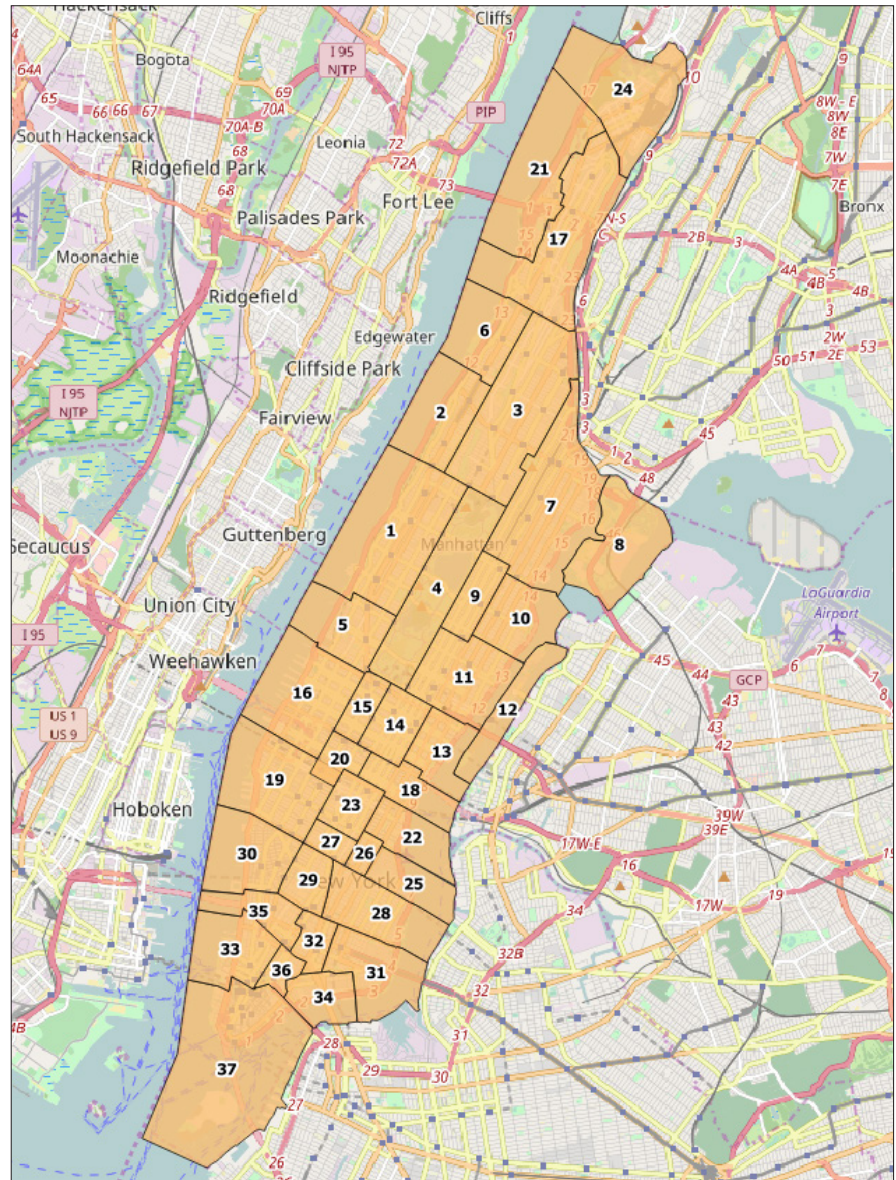
What can you tell us about real estate development in NYC going forward? What are your expectations?

Real estate and construction are cyclical and considering we've had a great run over the past few years, we're likely to see things slow by 2020 or 2021.

For a firm like BCG, which is looking to grow, the challenge is to ensure that we have a strong and diverse business model that can sustain hiccups in the market. Another key is to diversify beyond new construction, which tends to be most affected by a downturn.

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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Mark Fogelman
President
Fogelman Properties

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