



Yardi® Matrix

# Brooklyn's On a Roll

Multifamily Report Winter 2019

Job Gains Fuel Rental Demand

Property Values Escalate to Cycle Peak

Development Activity Targets Williamsburg

## Market Analysis

Winter 2019

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## Supply-Heavy Kings County

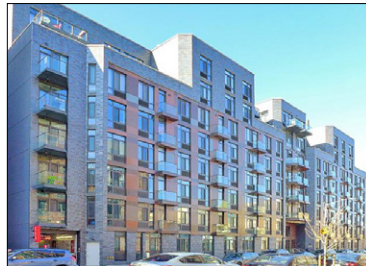
The Brooklyn multifamily market continued to grow at a strong rate, reaching a new cycle high for deliveries. More than 4,400 units had been delivered in the borough as of November, with almost all of the new inventory geared toward the upscale segment. Despite significant deliveries, rents for Lifestyle assets grew 3.4% and the occupancy rate in stabilized high-end assets stayed at 98.1%, among the highest in the U.S.

New York City added 93,000 jobs year-over-year through September, with education and health services continuing to lead employment growth. Roughly \$664 million is set to be invested in a 32-site ambulatory care network and hospital improvements, meaning the sector is likely to remain an anchor for the borough's economy. Major projects such as the 6.5 million-square-foot Industry City and Williamsburg's Domino redevelopment, which features 2,800 units across four buildings and 800,000 square feet of commercial space, are likely to further bolster development in the borough.

Multifamily transaction activity intensified in Brooklyn, with the total investment level reaching \$1.5 billion in the first 11 months of 2018. Investors favored value-add product, so per-unit prices contracted significantly. With 11,600 units underway, stock should further expand in 2019, tempering rent growth and appeasing rental demand.

### Recent Brooklyn Transactions

Kestrel



City: Brooklyn, N.Y.  
Buyer: Dermot Co.  
Purchase Price: \$75 MM  
Price per Unit: \$592,857

Berkshire



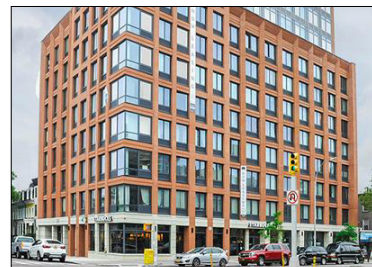
City: Brooklyn, N.Y.  
Buyer: Jonas Equities  
Purchase Price: \$32 MM  
Price per Unit: \$263,636

Friendset



City: Brooklyn, N.Y.  
Buyer: Spencer Equity Group  
Purchase Price: \$50 MM  
Price per Unit: \$193,050

237 11th St.

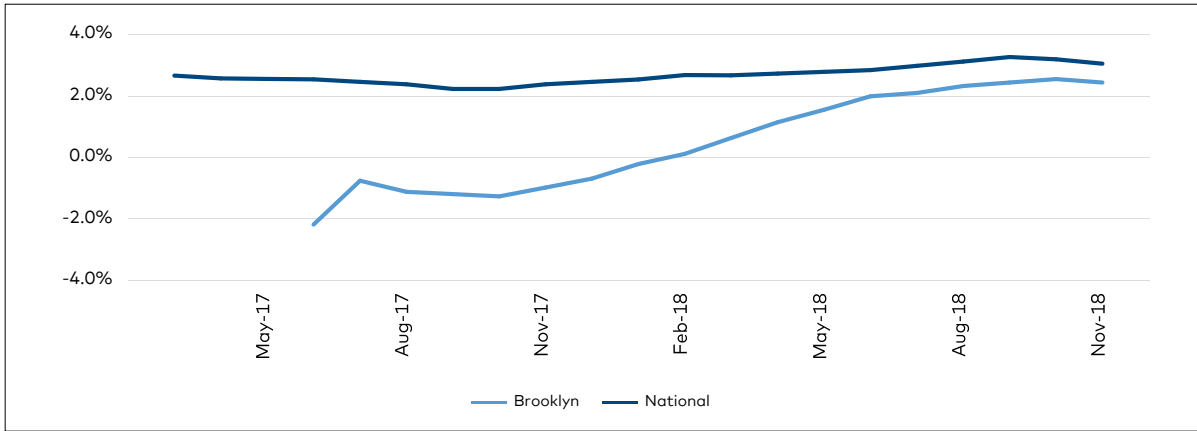


City: Brooklyn, N.Y.  
Buyer: Trinity Place Holdings  
Purchase Price: \$81 MM  
Price per Unit: \$773,714

## Rent Trends

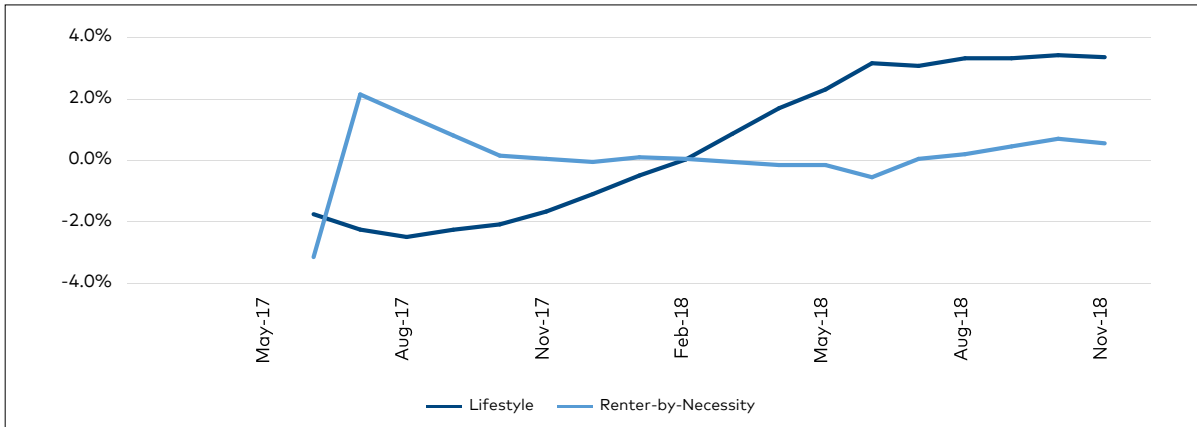
- Rents in Brooklyn were up 2.4% in the year ending in November, lagging the national average by 70 basis points. At \$2,776, the average rent stood well above the \$1,419 U.S. figure, surpassed only by Manhattan (\$4,195) among New York City boroughs.
- Rents for assets across the quality spectrum rose 3.4% year-over-year through November, to \$3,357. Working-class Renter-by-Necessity rates increased by 0.6% to \$2,002. Incoming stock in Brooklyn is actually targeting workforce households, with most developers shifting their focus toward market-rate and affordable housing projects as the borough’s population is one of the most cost-burdened in the entire nation.
- At 98.7% as of October, Brooklyn’s occupancy rate in stabilized assets was among the highest in the country, despite booming development activity—particularly in eastern quadrants.
- Demand remains healthy in Brooklyn’s neighborhoods, with Downtown Brooklyn leading rent growth at 7.5% in the 12 months ending in November. The submarket was also one of the most expensive areas, with an average rent of \$3,369, outperformed only by Dumbo (\$4,450) and Williamsburg (\$3,398)—two of the most coveted neighborhoods.

### 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)

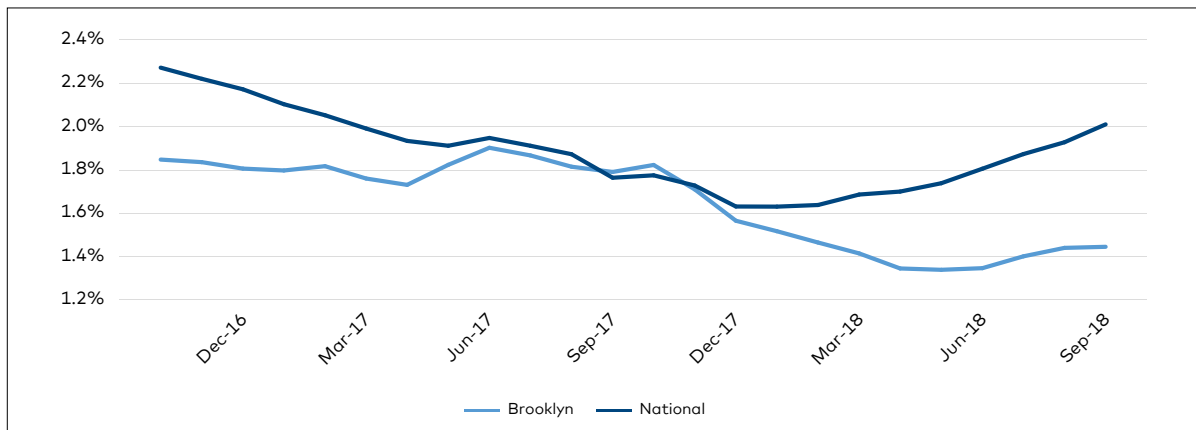


Source: YardiMatrix

## Economic Snapshot

- New York City added 93,000 jobs in the year ending in September, a 1.4% year-over-year increase, 60 basis points below the national rate. More than half of employment gains were in education and health-care services, which added 50,500 positions. The sector is likely to continue to lead growth, as Gov. Andrew Cuomo announced that \$664 million will be invested in a 32-site ambulatory care network and the modernization of three hospitals as part of the \$1.4 billion Vital Brooklyn plan. A partnership of Brookdale University Hospital Medical Center, Interfaith Medical Center and Kingsbrook Jewish Medical Center is in charge of the project.
- Leisure and hospitality and professional and business services together added 28,500 jobs, with the Brooklyn Tech Triangle—made up of Downtown Brooklyn, Dumbo and Brooklyn Navy Yard—being home to more than 1,300 innovation companies, according to a recent New York State Comptroller report.
- New York City aims to rehabilitate the metro's deteriorating subway system and make much-needed repairs to its roads, bridges, ports and airports, which will likely worsen the area's traffic issues in the short run. Gov. Cuomo offered some relief in January when he altered a plan to close Brooklyn's L subway tunnel that connects the borough to Manhattan for rehabilitation, instead opting for the work to take place on nights and weekends.

### 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%

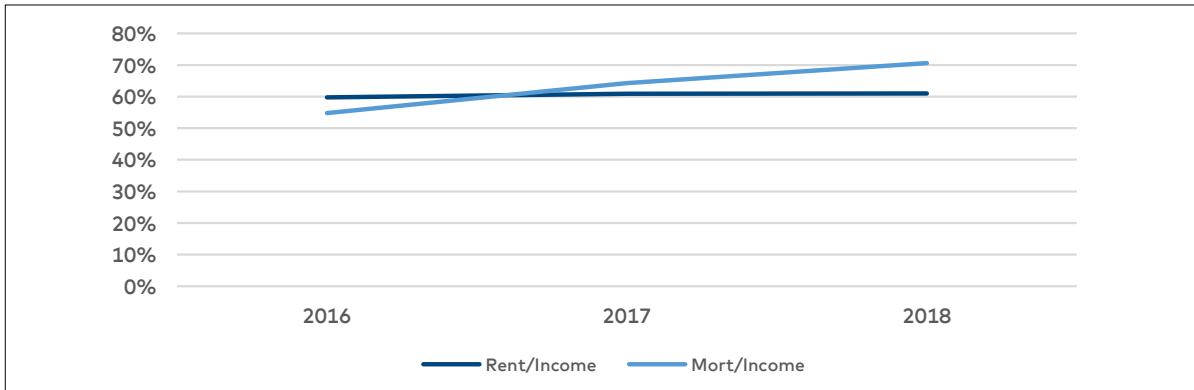
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

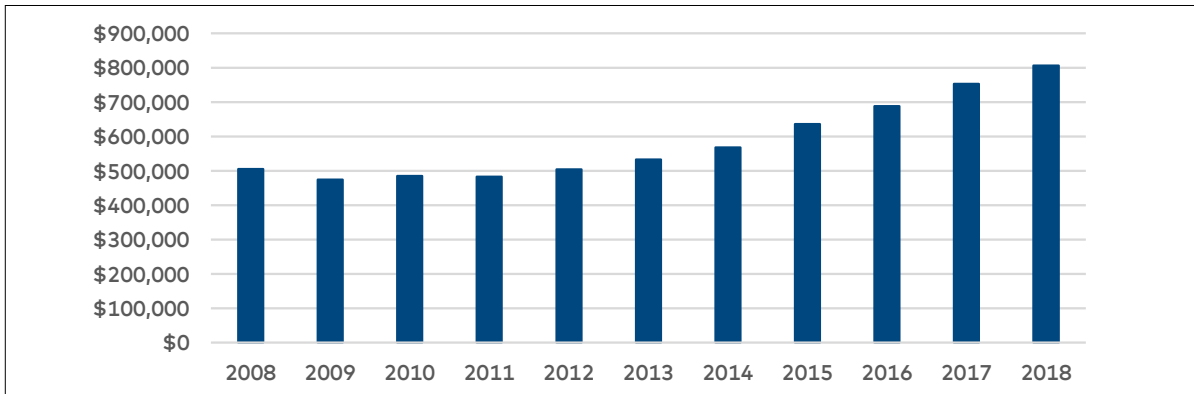
- Median home prices crossed the \$800,000 mark in 2018, a new cycle high. The average rent of \$2,776 accounted for 61% of the area's median income, while mortgage payments encompassed roughly 71%.
- The city's current administration has launched several programs aimed at preserving or increasing the affordable housing stock across the metro. Transfer to Preserve is a 10-year plan to make vital repairs on the city's aging public housing sites by selling unused development air rights. Authorities are also working on a pilot program that enables East New York homeowners to create safe and legal basement apartments to enhance the city's strained affordable housing stock.

### 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's population contracted by 0.1% in 2017, as price hikes in the borough have discouraged expansion.
- Between 2013 and 2017, Brooklyn added 43,000 residents, a 1.6% increase.

### Brooklyn vs. National Population

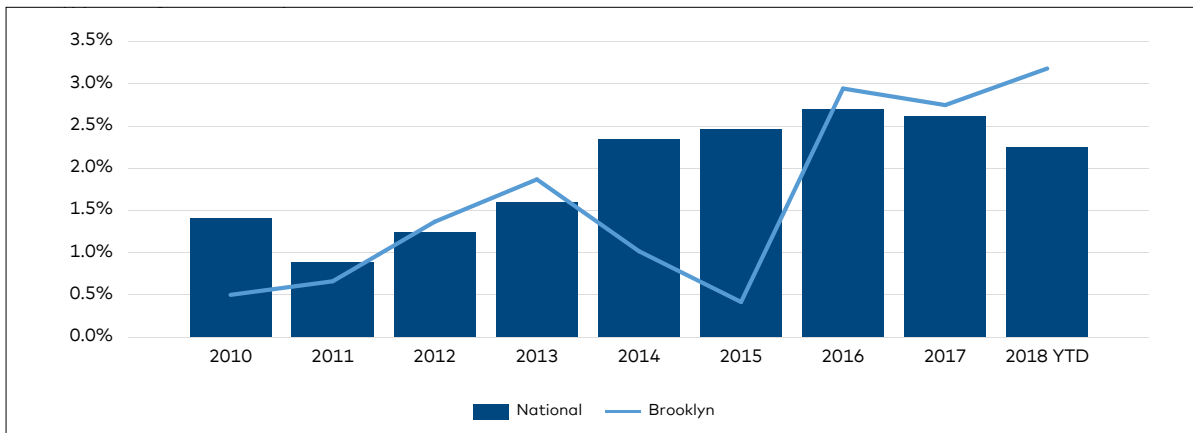
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Brooklyn Metro	2,605,783	2,626,644	2,643,546	2,650,859	2,648,771

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

## Supply

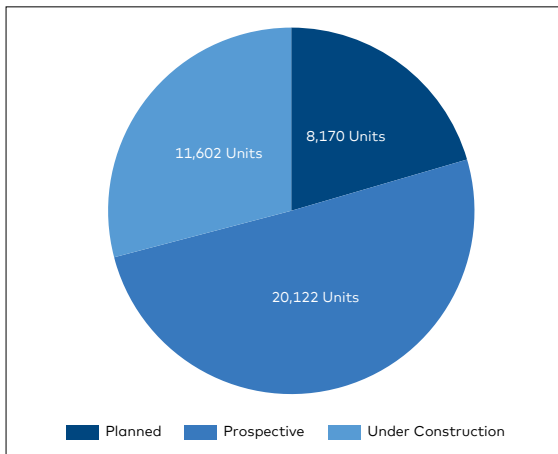
- Kings County added some 4,400 units in 2018 through November, already a new cycle high. The figure represents 3.2% of total stock, 100 basis points above the national average. All new deliveries targeted high-end renters, but strong housing demand has kept up with supply, keeping absorption elevated.
- The borough's strong market fundamentals continue to support multifamily development, especially in northern submarkets. Approximately 11,600 units were underway as of November, with 28,000 others in the planning and permitting stages.
- Construction activity continues to be high in Williamsburg, where more than 2,700 units were under way, roughly a quarter of the development pipeline. With 1,339 and 1,278 units under construction, Greenpoint and Downtown Brooklyn followed. Spitzer Enterprises' three multidimensional glass towers totaling 856 units will add the largest number of apartments to the borough's inventory. The project, located at 420 Kent Ave. in Williamsburg, is expected to debut at the beginning of 2019 and is slated to include affordable apartments, dining and retail space as well as a public riverside esplanade.

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



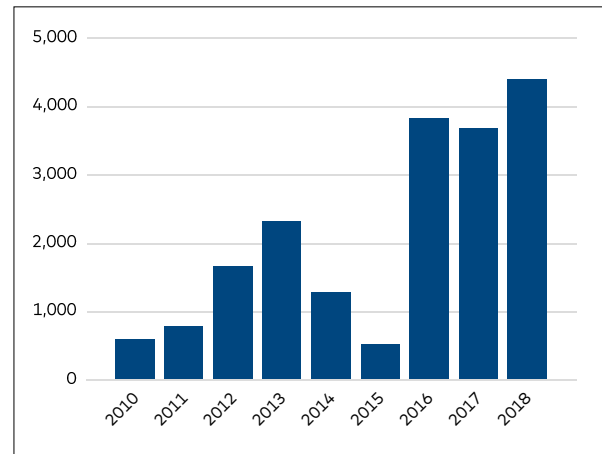
Source: YardiMatrix

**Development Pipeline** (as of November 2018)



Source: YardiMatrix

**Brooklyn Completions** (as of November 2018)

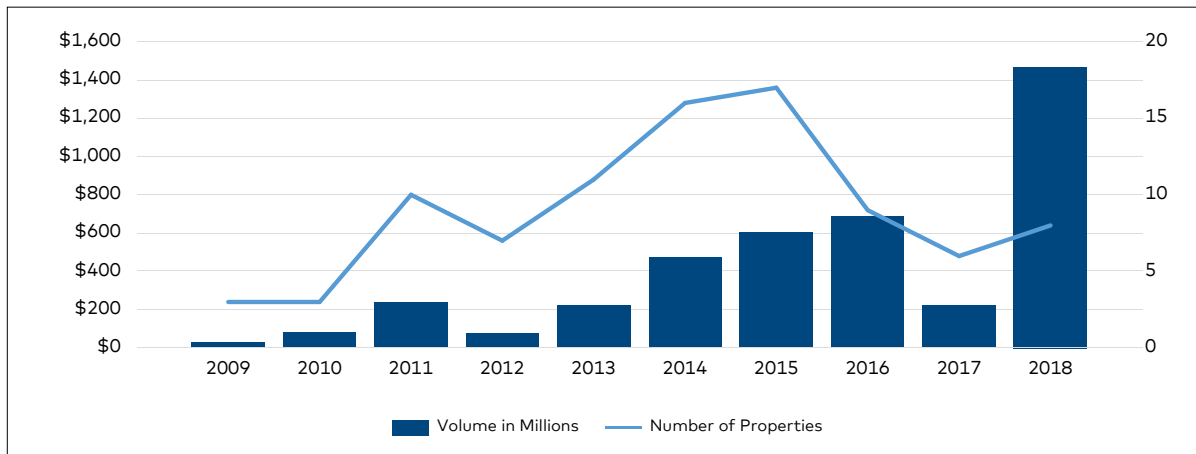


Source: YardiMatrix

## Transactions

- Multifamily investment sales of assets with 50+ units have intensified in Brooklyn, with \$1.5 billion trading in the first 11 months of 2018. The figure was considerably influenced by the \$870 million sale of the 5,881-unit Spring Creek Towers in East New York. At \$179,185, per-unit prices were \$26,584 higher than the national figure. Almost all assets that changed hands were in the Renter-by-Necessity segment, with acquisition yields fluctuating between 4.5 and 5.8% for Class B and C stabilized assets. With yields far outpacing upscale assets, investors are focusing on value-add opportunities.
- In the 12 months ending in November, investors looked to Class B product with value-add upside. East New York (\$870 million), Prospect Heights (\$156 million) and Boerum Hill–Gowanus (\$81 million) saw the most transaction activity. Principal Global Investors' purchase of 461 Dean ranked among the largest transactions in the borough. The 463-unit asset traded for \$156 million.

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



Source: YardiMatrix

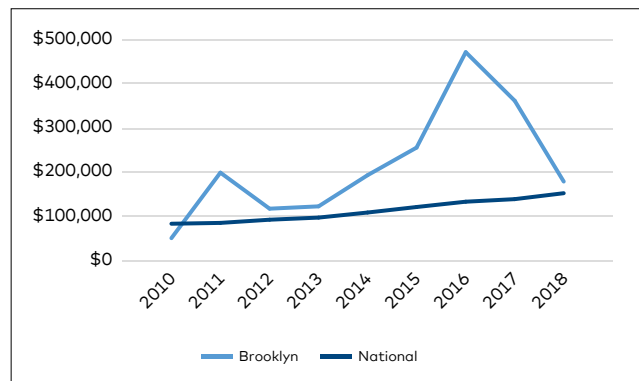
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
East New York	870
Prospect Heights	156
Boerum Hill–Gowanus	81
Windsor Terrace	75
Crown Heights	53
Coney Island–Sea Gate	50
Sheepshead Bay–Gerritsen Beach	32
East Flatbush	27

Source: YardiMatrix

<sup>1</sup> From November 2017 to October 2018

### Brooklyn vs. National Sales Price per Unit



Source: YardiMatrix

## News in the Metro

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### Brooklyn Community Secures \$113M Refi

Goldman Sachs originated the new loan, which pays down a previous \$120 million construction mortgage for the luxury asset. Of the property's 429 units, 86 are classified as affordable.



### RYBAK Development Lands \$48M Loan For Brooklyn Project

The Carlton Group Ltd. arranged the construction financing for the 20-story Sea Breeze Tower in Coney Island. The development is complemented by a 421A Affordable Tax Abatement.



### JV Pays \$150M For Brooklyn Senior Housing Community

Located in Bay Ridge, Shore Hill Housing consists of two interconnected 14-story towers totaling 558 units for low-income senior residents.



### 1,000-Unit Affordable Community Breaks Ground in NYC

The development in Brooklyn will be two blocks from the Coney Island Boardwalk and will include retail and office space. The 100 percent affordable property is expected to open in 2021.



### GFI Realty Appoints New Senior Managing Director

An industry professional with more than 20 years of commercial real estate experience, Matthew Sparks will oversee investment sales activity for the company's multifamily portfolio in New York City.



### Dermot Co. Buys Brooklyn Luxury Multifamily Property

HFF and Savills Studley played a variety of roles in arranging the sale and securing debt and equity financing for the Windsor Terrace transaction.





## Cutting Costs, Overcoming Construction Challenges in NYC

By Corina Stef

The labor shortage, technology, rising interest rates and the trade tariffs are some of the biggest current 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, technology's impact 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 does technology impact real estate construction?*

Technology has a profound impact on the way we manage construction projects, especially on 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



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

I've been in the construction business for several decades and I've learned that what goes up must come down and what goes down must come up. 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.

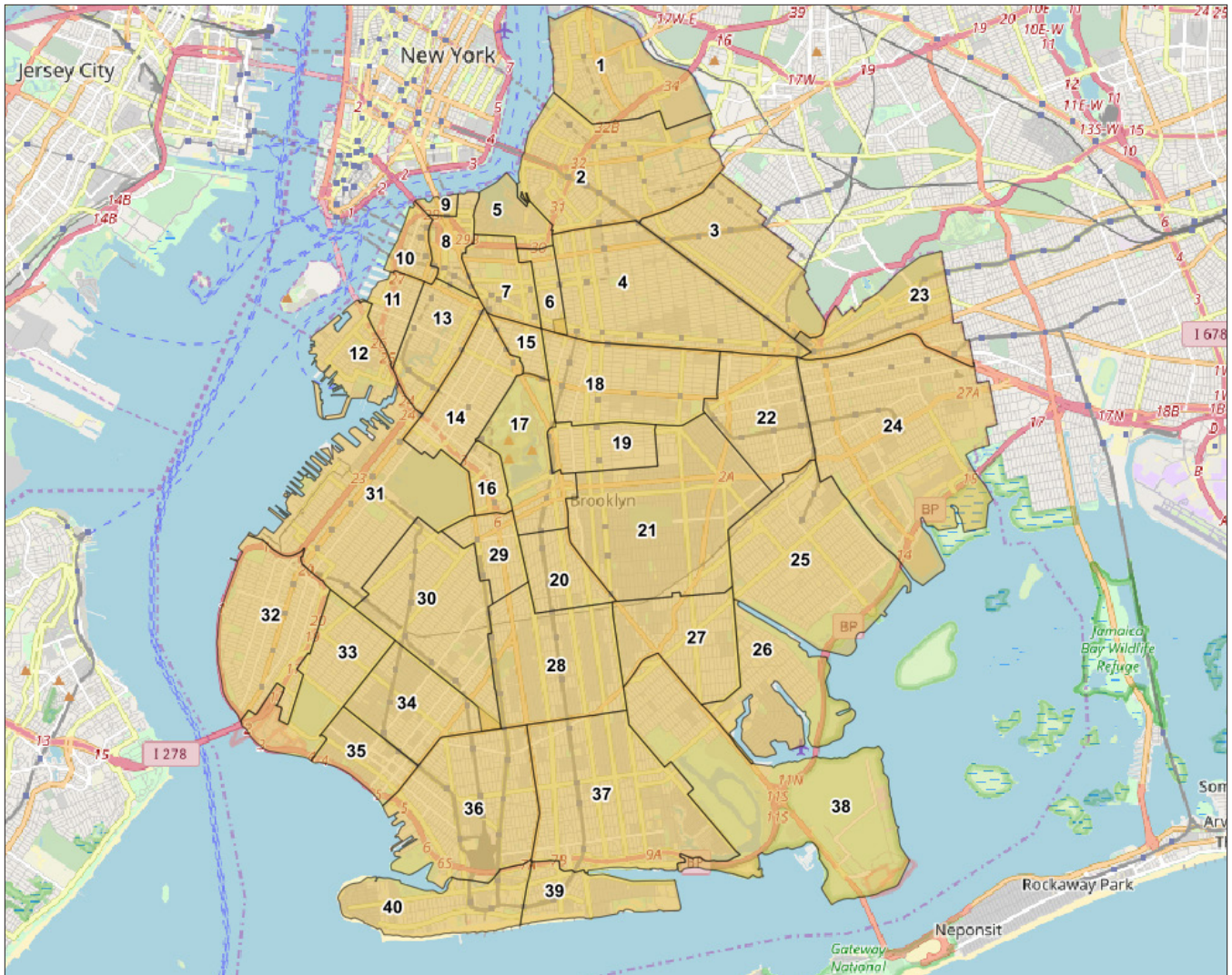
Another key is to diversify beyond new construction, which tends to be most affected by a downturn. Interior buildouts, public sector work and adaptive reuse are likely to stay closer to equilibrium when the market sours, and we're looking to become more active in those areas.

construction sites, we even have live-feed cameras, which lets our clients check in on construction progress on demand.

*Your largest project in the pipeline, 810 Fulton, is also RXR Realty's first residential development in New York City. What can you tell us about it?*

I don't know if the project will directly spur additional development, but it's a representative example of the area's overall growth. That section of Brooklyn has been on the rise for a few years—buoyed by Barclay's Center—and it's understandable why RXR chose to pursue the first residential property in such an emerging area.

## 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

Area #	Submarket
16	Windsor Terrace
17	Prospect Park-Prospect Park South
18	Crown Heights
19	Prospect-Lefferts Gardens
20	Flatbush
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

Area #	Submarket
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

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## 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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