Yardi® Matrix

Building Queens

Multifamily Report Winter 2019

Occupancy Remains High

Rent Growth Recovers

Deliveries Hit Strong Cycle Peak

Market Analysis

Winter 2019

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Deliveries Accelerate, Absorption Responds

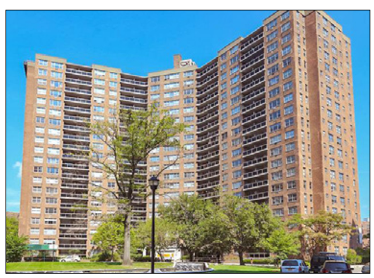
Continuing to benefit from Manhattan's spillover effect and steady job gains, the Queens multifamily market ended 2018 on a positive note. Rent growth recovered slightly, at 0.5% year-over-year as of January, with the average rate at $2,195. And although deliveries hit a strong cycle peak, absorption kept up pace.

New York added 87,200 jobs in the 12 months ending in November, with education and health services leading growth (46,600). While Amazon's heavily debated HQ2 campus project is effectively gone, there are other projects underway that are aiming to reshape parts of the borough. One example is local authorities' push to finalize a decade-old plan to redevelop Queens' Iron Triangle into a 17-acre hotbed for new development.

More than 3,200 units came online in Queens last year and an additional 8,724 were underway as of January, preparing the borough for another banner development year. Although deliveries have accelerated sharply, Queens' occupancy rate in stabilized properties maintained a healthy 98.5% in 2018. Considering the metro's deepening affordability issues, uncertain rental policies and relatively stable supply-demand balance, we expect New York City rents to advance only 0.7% in 2019.

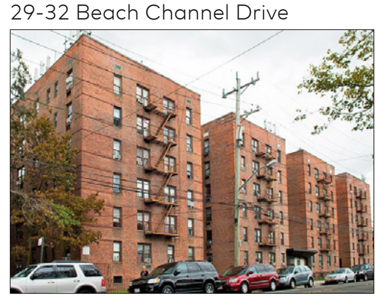
Recent Queens Transactions

Parker Towers



City: New York City
Buyer: Blackstone Group
Purchase Price: $475 MM
Price per Unit: $357,950

29-32 Beach Channel Drive

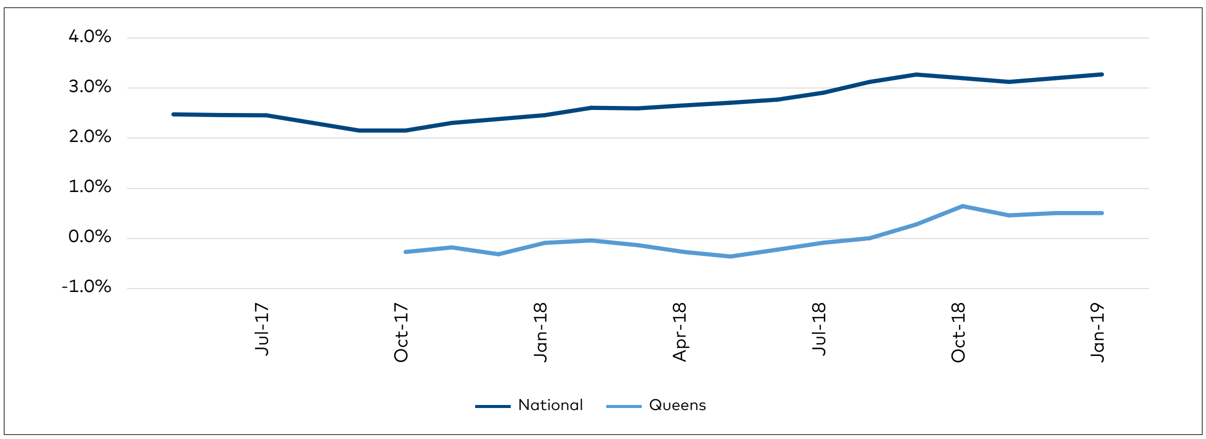


City: New York City
Buyer: Coney Realty & Management
Purchase Price: $19 MM
Price per Unit: $178,505

Rent Trends

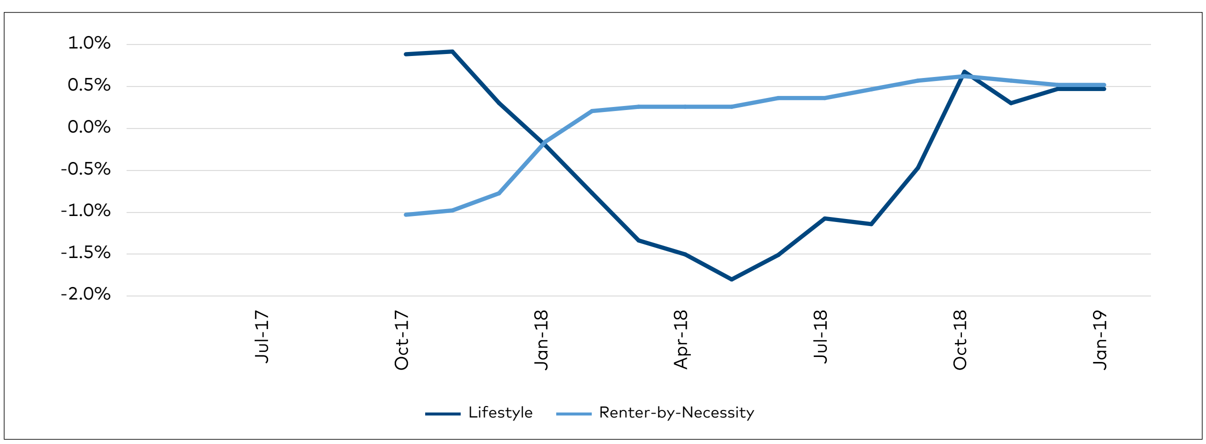
- Queens rents were up 0.5% in the 12 months ending in January, underperforming against the 3.3% national rate. Growth slowly picked up in the second half of 2018, recovering from negative numbers, where it had stayed for the better part of last year. At $2,195 as of January, the average Queens rent was well above the $1,420 U.S. average but heavily trailed Manhattan ($4,196) and Brooklyn ($2,841).
- Both Renter-by-Necessity and Lifestyle rents advanced 0.5%, with the average reaching $1,932 for the working-class segment and $2,973 for the upscale one. Astoria (average rent up 1.9% to $2,437) and the growing Jamaica (1.2% to $1,774) submarkets led growth in the 12 months ending in January. Meanwhile, rents in Long Island City—which added 6,540 units to its stock over the past five years and 2,961 units in 2018 alone—contracted 2.1%, to $3,392.
- Occupancy in stabilized assets was 98.5% as of December, effectively remaining flat year-over-year and still above the 95.0% national average. With New York's rent control laws set to expire this summer in the context of a strong Democratic state house majority, stricter policies could strongly influence future rent growth, in both the short and long term. Overall, Yardi Matrix expects rents across metro New York to advance 0.7% this year.

Queens vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Queens Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

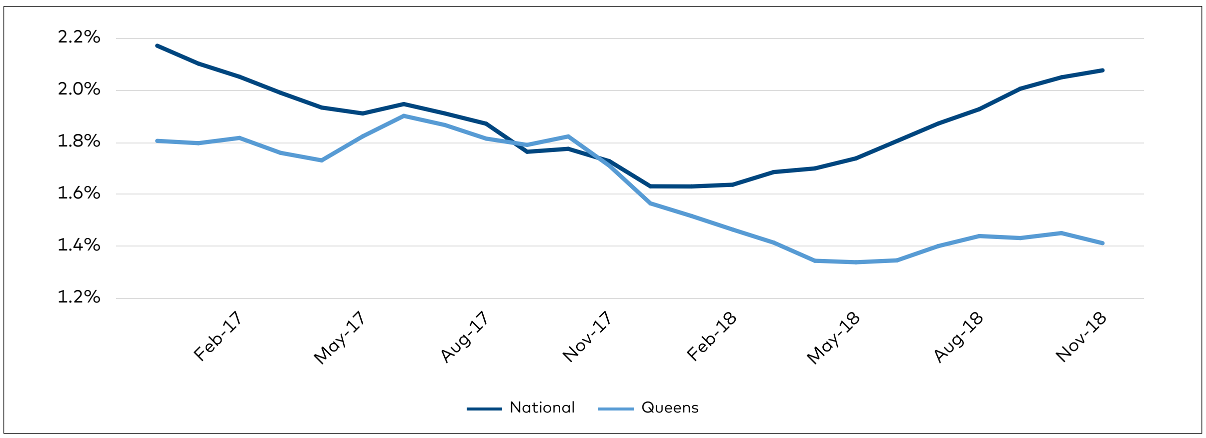


Source: YardiMatrix

Economic Snapshot

- New York added 87,200 jobs in the 12 months ending in November for a 1.4% uptick, 70 basis points below the U.S. figure. Adding 46,600 jobs, education and health services expanded 3.2%, leading growth. Although underperforming against rapidly expanding tech-oriented and late-cycle markets such as Las Vegas, Austin and Orlando, New York City remains a stable economy and an investment powerhouse.
- Long Island City continues to take the lion's share when it comes to development in Queens, but several other areas—including Astoria, Jamaica and Flushing—are also changing at a steady pace. The list of large projects underway includes the $8 billion overhaul of LaGuardia Airport as well as Tangram, a 1.2 million-square-foot mixed-use project developed in Flushing by F&T Group and SCG America.
- Although Amazon ultimately decided to pull its HQ2 project from Long Island City, the move likely won't significantly affect the borough's economy in the long run.
- The ongoing redevelopment of Willets Point is meant to add a host of available lots in the immediate proximity of Citi Field. Now a mixed-use district, following a 2008 zoning change, the neighborhood will offer 17 acres of space once neighborhood necessities such as public services are in place.

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	1,520	21.2%	46,600	3.2%
60	Professional and Business Services	1,168	16.3%	21,500	1.9%
70	Leisure and Hospitality	683	9.5%	11,700	1.7%
80	Other Services	308	4.3%	4,300	1.4%
15	Mining, Logging and Construction	273	3.8%	3,700	1.4%
55	Financial Activities	629	8.8%	2,400	0.4%
40	Trade, Transportation and Utilities	1,234	17.2%	800	0.1%
30	Manufacturing	207	2.9%	-200	-0.1%
90	Government	915	12.7%	-500	-0.1%
50	Information	246	3.4%	-3,100	-1.2%

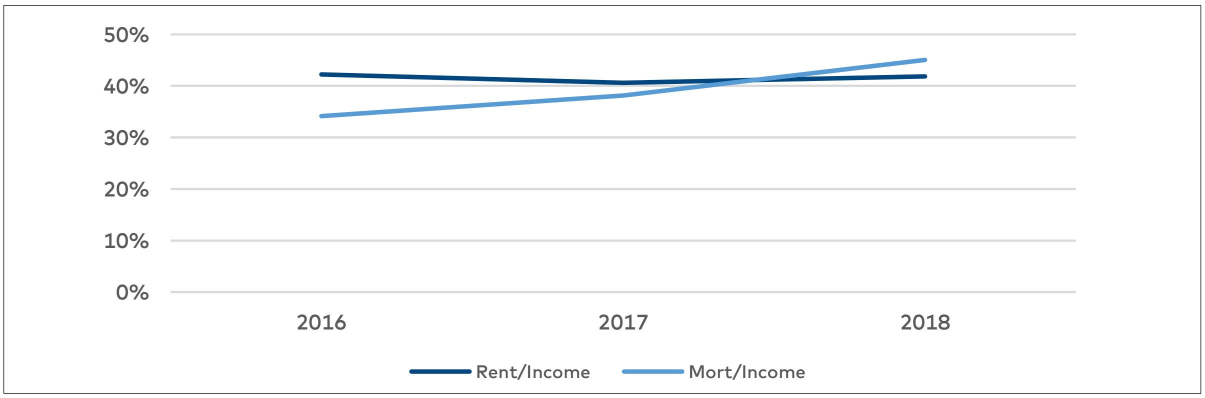
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

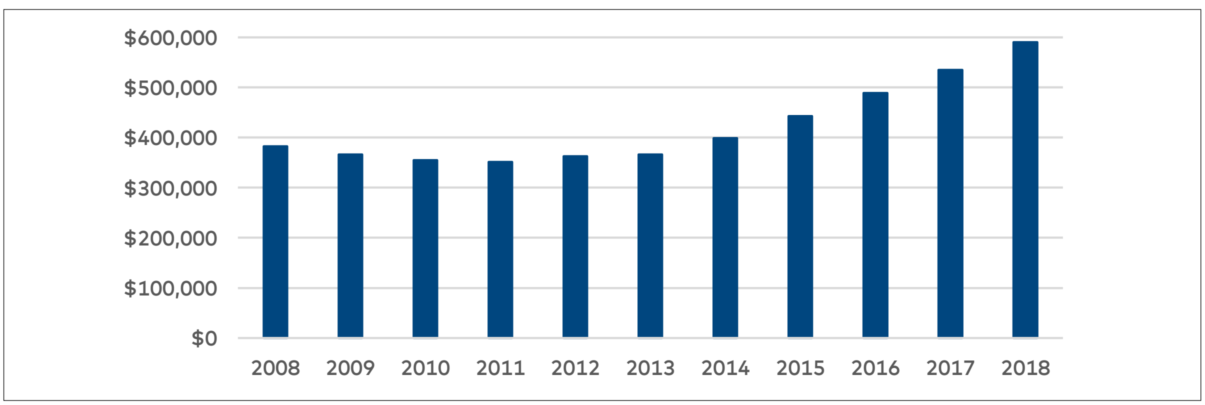
- Queens home prices continued to climb, with the median value reaching $590,407 in 2018. That marked a 10% increase over the 2017 figure and a 68% surge since this cycle's 2011 low point. Even so, homes in the borough remained much more affordable than the ones in Manhattan ($1,020,423) and Brooklyn ($795,567). Renting in Queens was also slightly more affordable than owning last year: The average rent comprised 42% of the median income, while the average mortgage payment accounted for 45%.
- Exacerbated by spillover coming in from Manhattan and even Brooklyn, Queens' already pressing affordability issue continued to deepen in 2018, as New York City's housing crisis escalates further.

Queens Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Queens Median Home Price



Source: Moody's Analytics

Population

- The borough gained 122,818 residents between 2010 and 2017, which marks a 5.5% expansion, slightly above the 5.3% national rate.
- Queens added just 2,538 people in 2017 for a 0.1% uptick.

Queens vs. National Population

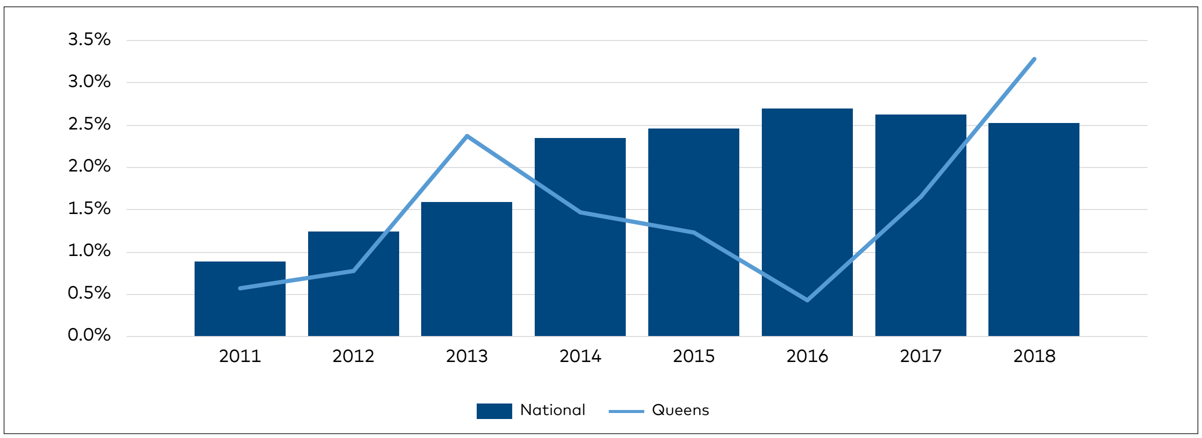
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Queens County	2,307,766	2,328,004	2,346,005	2,356,044	2,358,582

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

Supply

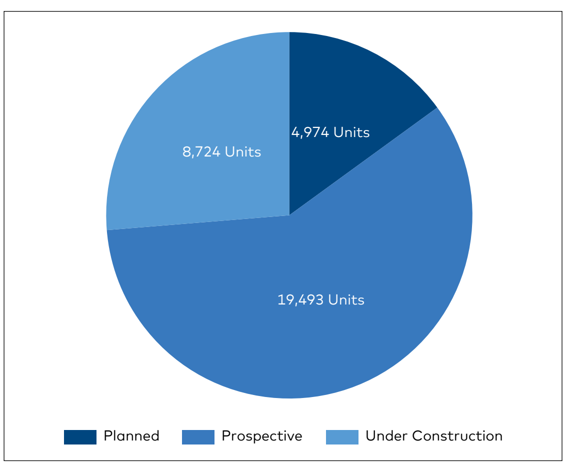
- Developers added 3,241 units in Queens in 2018, with the vast majority upscale Long Island City communities. Last year's deliveries accounted for 3.3% of total stock, 80 basis points above the U.S. rate. A development surge in 2017 and 2018 led to a new cycle high, as 2018 deliveries accounted for more rental inventory than the previous three years combined.
- The building boom is slated to continue, as the borough had 8,724 units underway as of January and an additional 24,500 apartments in the planning and permitting phases. Overall, we expect New York City to add 12,150 multifamily units to its stock in 2019.
- Although Long Island City is no longer the home of Amazon's HQ2 expansion project, the area continues to lead development, with 4,498 units underway across seven transit-oriented communities. Jamaica (1,667 units under construction) and Astoria (1,564 units) came in second and third.
- The borough's largest multifamily project underway outside of Long Island City was The Crossing at Jamaica Station, BRP Development's fully affordable towers slated to add 669 units later this year.

Queens vs. National Completions as a Percentage of Total Stock (as of January 2019)



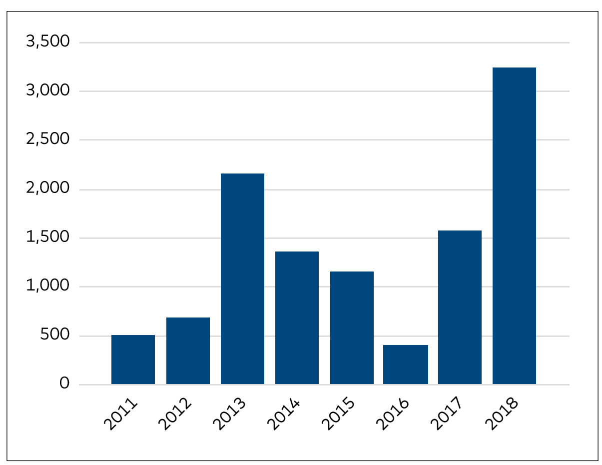
Source: YardiMatrix

Development Pipeline (as of January 2019)



Source: YardiMatrix

Queens Completions (as of January 2019)

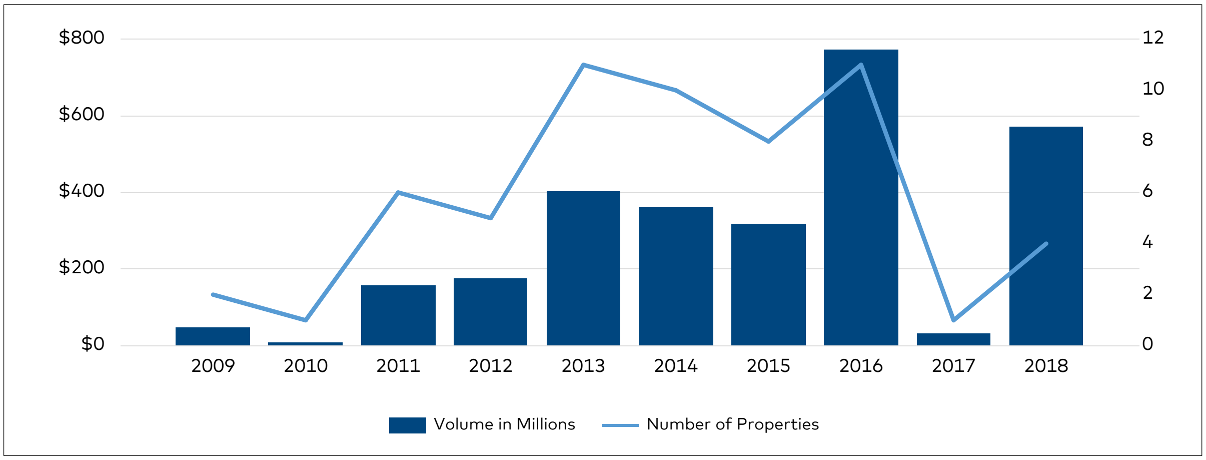


Source: YardiMatrix

Transactions

- A total of $573 million in multifamily assets of 50 or more units traded in Queens last year. While still some ways below the $773 million cycle high of 2016, it's the second largest sales total recorded in Queens this cycle. A combination of regulatory uncertainties, tepid rent growth and rising interest rates has dampened transaction volumes for large assets across New York City in the past couple of years, pushing investors to look toward lower-tier markets for higher returns.
- The average per-unit price in Queens reached $335,639 in 2018, up 13% year-over-year and more than double the $154,634 U.S. figure. The average price per unit was strongly boosted by Blackstone Group's acquisition of the 1,327-unit Parker Tower in Forest Hills, which traded in November 2018. The Jack Parker Corp. sold the 1960-built property for $475 million, or $357,950 per unit, in a deal facilitated by a $269 million Freddie Mac loan.

Queens Sales Volume and Number of Properties Sold (as of December 2018)



Source: YardiMatrix

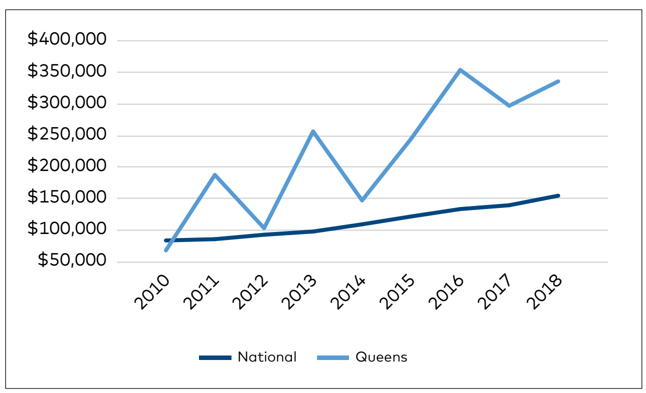
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Forest Hills–Rego Park	475
Elmhurst	57
Rockaway	41

Source: YardiMatrix

[1] From January 2018 to December 2018

Queens vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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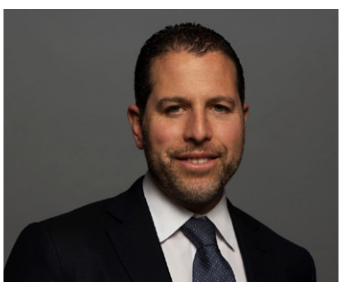
Queens Luxury Building Lands $116M Loan

The financing, provided by Benefit Street Partners Realty Trust, will be used to pay down debt and add new amenities to The Drake's units, fitness center and lobby.

Ismael Leyva Architects to Design Flushing Mixed-Use

The seven-story building is set to feature 103 apartments, 31 of which will be designated as affordable. The development is slated for completion in late 2019.

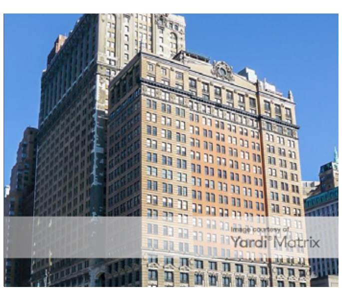


Madison Realty To Build Woodside Mixed-Use Project

Plans call for 431 residential units, along with a 476-seat elementary school and more than 5,000 square feet of retail.

Armani's Flagship Makeover to Include Luxury Residences

The designer and SL Green teamed up to redevelop the boutique store at 760 Madison Ave., which will feature 19 upscale residences.



Conversion Project Receives $132M Financing

The Moinian Group is transforming a former office building in Battery Park into an amenity-rich community catering to Millennials and Gen Z renters.

Brooklyn Community Secures $113M Refi Package

Goldman Sachs originated the new loan, which pays down a previous $120 million construction mortgage for the 2016-built luxury property.

Executive Insight

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MULTI-HOUSING NEWS

NYC's New Financing Landscape

By Alexandra Pacurar

Lower investment volume in New York City in 2016 and 2017 has meant trouble for some medium-size brokerage firms. After Eastern Consolidated closed its doors in July as a result of the slowdown, financing specialist Jonathan Aghravi set out on his own, looking to top the $2 billion in total transactions—debt and equity—he has brokered, primarily in the New York tri-state area and Los Angeles. Aghravi offers insights into how looser lending standards are impacting the business and how traditional lenders are adapting to a market that is being won over by alternative debt providers.

What are the main trends in New York City's multifamily financing market?

Multifamily lenders are still very active in the market and continue to provide competitive financing terms. We've noticed that traditional multifamily lenders, such as banks and insurance companies, have tightened their spreads in recent months to become more competitive in the rising rate environment. This has allowed lenders to provide more aggressive loan proceeds.

What about the challenges?

We've seen some borrowers run into challenges taking out existing debt when providing rental concessions and dealing with the increase in rates. A few years ago, we were securing five-year loans in the 3 percent range as well as providing long interest-only payments, which enabled borrowers to maximize proceeds. As those loans are starting to mature and their principal balances have been paid down minimally at maturity, borrowers

that maxed out leverage are forced to solve for rental concessions and the current retail market conditions.

How do you see the financing of multifamily deals or projects compared to past years?

Most lenders have become more conservative with loan proceeds due to rising interest rates. Lenders are stressing the loans more stringently, resulting in lower loan amounts than in previous years. We have noticed this to be more prevalent in properties with a high percentage of rent stabilized units due to rent increases being limited while real estate taxes continue to increase.

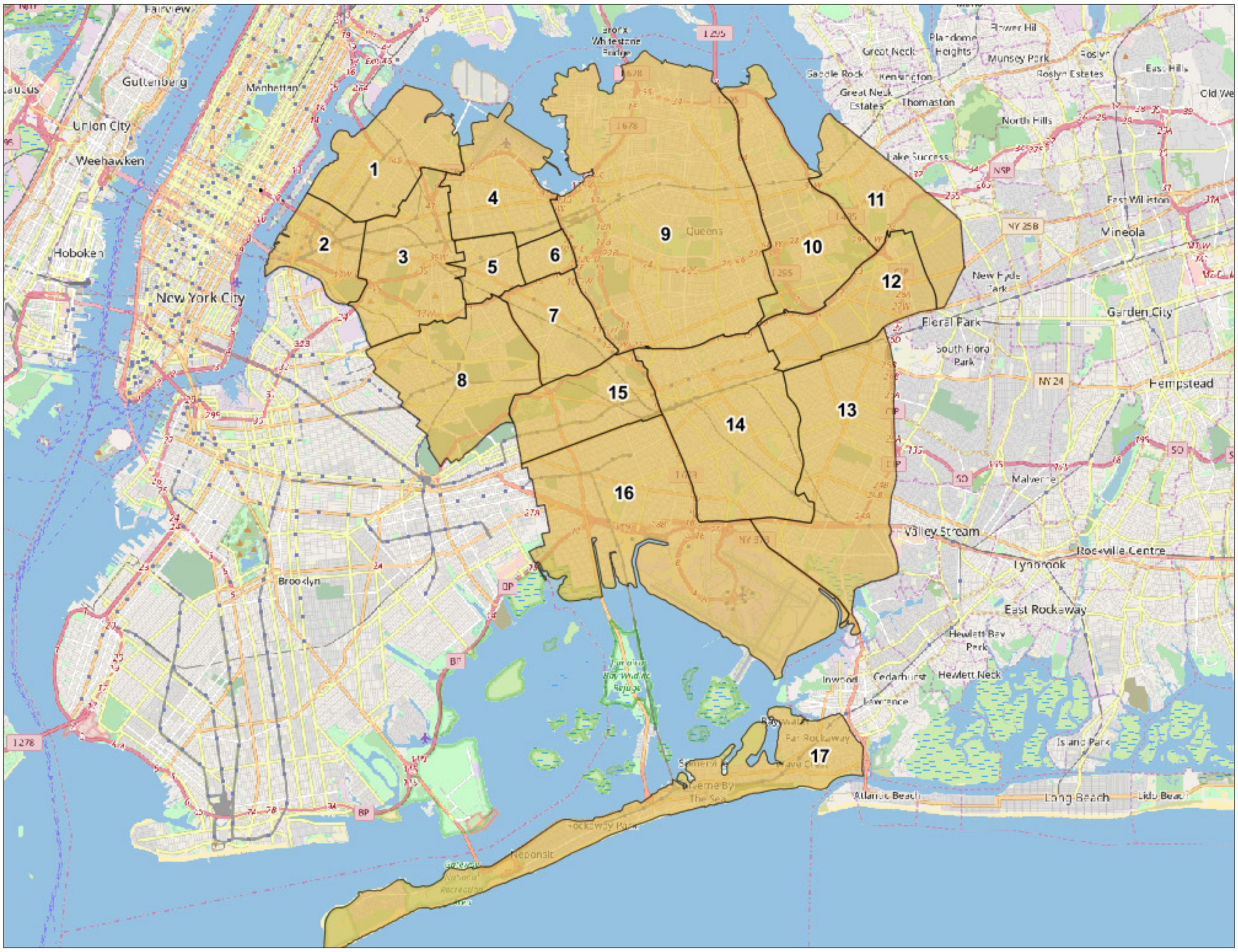
How does tech fit into the multifamily financing environment?

There are many lenders in the market offering similar terms and options. Maintaining comprehensive databases allows us to identify the best lenders for each deal so that we can work efficiently and productively. Technology also helps us compile comprehensive financing packages and comps so that we can provide lenders a full understanding of the properties and the market to assist in their underwriting and enable them to realize the full value of the asset.

What are your predictions for the business in 2019?

We remain bullish on the financing market. We have been able to secure very competitive terms on stabilized and transitional properties as well as provide creative solutions to more complex capital stacks. A tremendous amount of new and aggressive foreign lenders, local debt shops and family-run funds continue to enter the market and are consistently looking to put their capital to work.

Queens Submarkets



Area #	Submarket
1	Astoria
2	Long Island City
3	Woodside
4	Jackson Heights
5	Elmhurst
6	Corona
7	Forest Hill–Rego Park
8	Middle Village
9	Flushing

Area #	Submarket
10	Bayside
11	Little Neck
12	Queens Village
13	St. Albans
14	Jamaica
15	Kew Gardens
16	Ozone Park–JFK
17	Rockaway

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.