Yardi® Matrix

Brooklyn's Hot Hand

Multifamily Report Winter 2019

Rent Growth Picks Up

Completions Hit Cycle Peak

Borough Tops US Occupancy Rates

Market Analysis

Winter 2019

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Record Year for Kings County

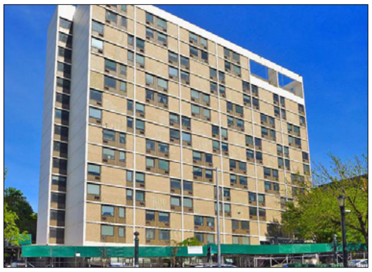
Continuing to benefit from Manhattan's proximity and spillover effect, Brooklyn's multifamily stock expansion reached a new cycle peak in 2018, with most of the supply geared toward high-income residents. Although the metro added 4,651 units last year, demand remained high, pushing Lifestyle rents up 3.4% in the 12 months ending in January.

Adding 46,600 jobs year-over-year, education and health services led New York City employment growth. Meanwhile, professional and business services and leisure and hospitality added 33,200 positions combined. Brooklyn's appeal as an 18-hour destination continues to grow and tourism is evolving as an increasingly relevant economic driver. Meanwhile, Gov. Cuomo's $1.4 billion Vital Brooklyn initiative, which includes $700 million for community-based health care and more than $550 million for affordable housing, is moving forward. Meanwhile, the borough ranked second on the list of most desirable places to invest in, per PricewaterhouseCoopers and Urban Land Institute's 2019 Emerging Trends in Real Estate report.

With roughly 12,150 apartments estimated to come online across New York City this year and factoring in the area's prolonged housing crisis and regulatory uncertainties, we expect the average rent in the metro to advance 0.7% in 2019.

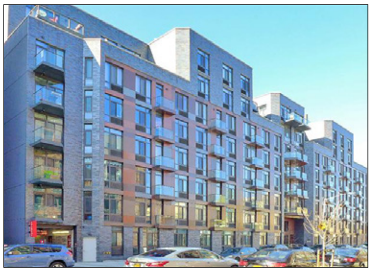
Recent Brooklyn Transactions

Shore Hill Housing



City: New York City
Buyer: Jonathan Rose Cos.
Purchase Price: $149 MM
Price per Unit: $267,281

Kestrel



City: New York City
Buyer: Dermot Co.
Purchase Price: $75 MM
Price per Unit: $592,857

Friendset

City: New York City
Buyer: Spencer Equity Group
Purchase Price: $50 MM
Price per Unit: $193,050

Berkshire

City: New York City
Buyer: Jonas Equities
Purchase Price: $32 MM
Price per Unit: $263,636

On the cover: Photo by Benedek/iStockphoto.com

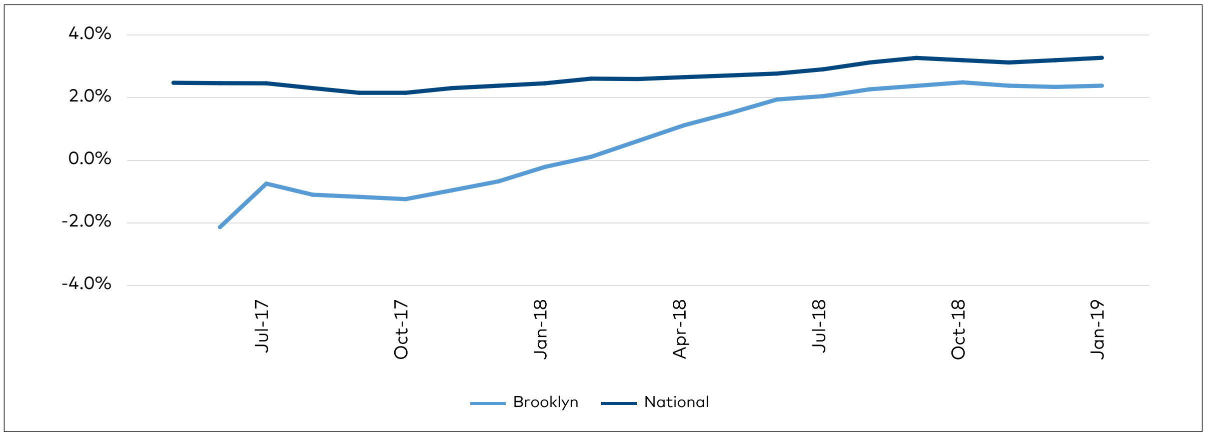
Rent Trends

- Brooklyn rents rose 2.4% year-over-year through January, trailing the U.S. average by 90 basis points. Growth started to pick up in the last quarter of 2017, reaching positive figures in February 2018. The average rent was $2,841 in January, double the $1,420 U.S. figure. Nonetheless, rates remain significantly lower than in Manhattan ($4,196 average rent). Occupancy in stabilized Brooklyn properties was 98.7% as of December, the highest among all large and medium-size U.S. metros.

- Rates in the Lifestyle segment rose 3.4% year-over-year through January, to $3,423. Working-class Renter-by-Necessity rates were up just 0.3%, reaching $2,002. Although most of the pipeline targets high-income residents, upscale rents continued their hike, supported by high demand and mirrored by fast absorption. Dumbo remained the most expensive submarket, at an average of $4,402, despite the fact that rents there contracted by 0.9% in the 12 months ending in January. Rents grew fastest in Downtown Brooklyn (up 3.6% to $3,126) and East Flatbush (up 2.8% to $1,763).

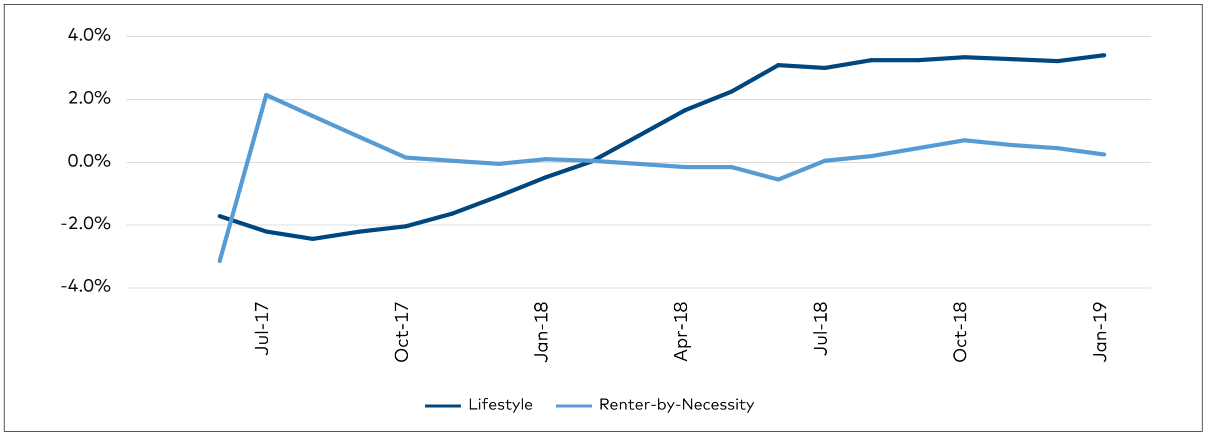
- With statewide rent regulations set to expire this summer, a strong Democratic majority of lawmakers could push for stricter rent control, a move that could impact the market in both the short and the long run. On top of this, affordability issues and accelerated development are bound to put further pressure on rents. Yardi Matrix expects the average New York City rent to advance just 0.7% in 2019.

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

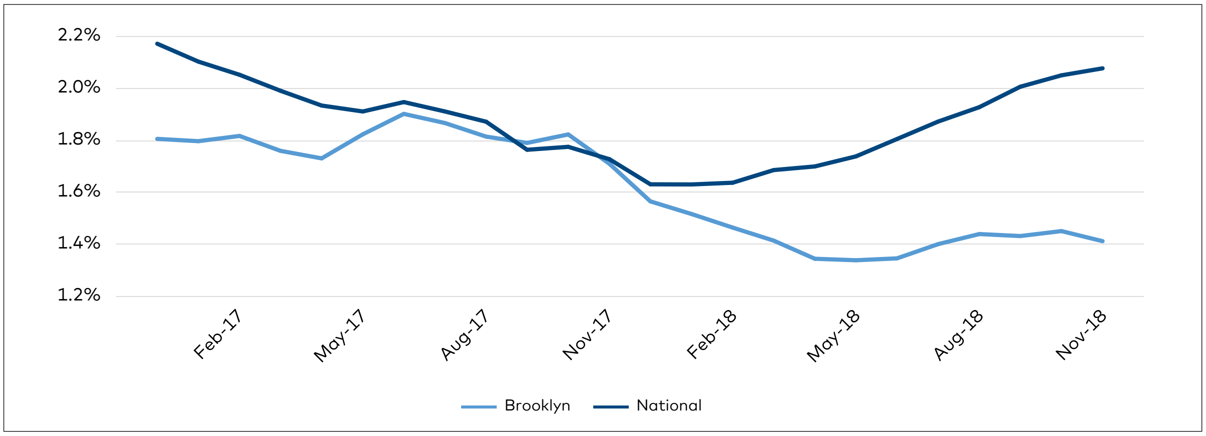
Economic Snapshot

- Metro New York added 87,200 jobs in the 12 months ending in November 2018 for a 1.4% expansion, 70 basis points below the national rate. Growth was led by education and health services, which accounted for more than half of all job gains. Brooklyn is slated to add to this continued expansion, with roughly half of Vital Brooklyn's $1.4 billion in state funds dedicated to a new health-care system in the borough.

- Professional and business services and leisure and hospitality, two of the metro's strongest economic anchors, added a total of 33,200 positions. To further boost tourism in the borough, authorities are using $25 million through the Better Utilizing Investments to Leverage Development Transportation Grants program to renovate the Brooklyn Bridge, a focal point for many New York tourists.

- The information sector lost 3,100 jobs in the 12 months ending in November 2018. The media accounted for a great part of job cuts during the past six months. About 800 positions were cut from Verizon's media division, with the company owning Yahoo, HuffPost and TechCrunch, among others. Gannett, the entity that owns USA Today and smaller outlets, also announced it was letting go 400 journalists. BuzzFeed's layoffs amounted to 15% of its total staff, while Vice announced it would lay off 10% of its workforce.

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%

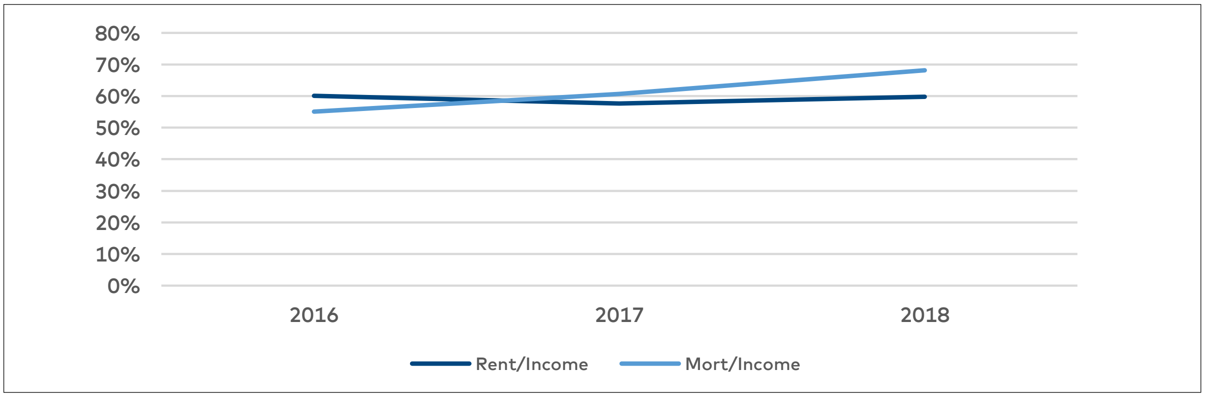
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

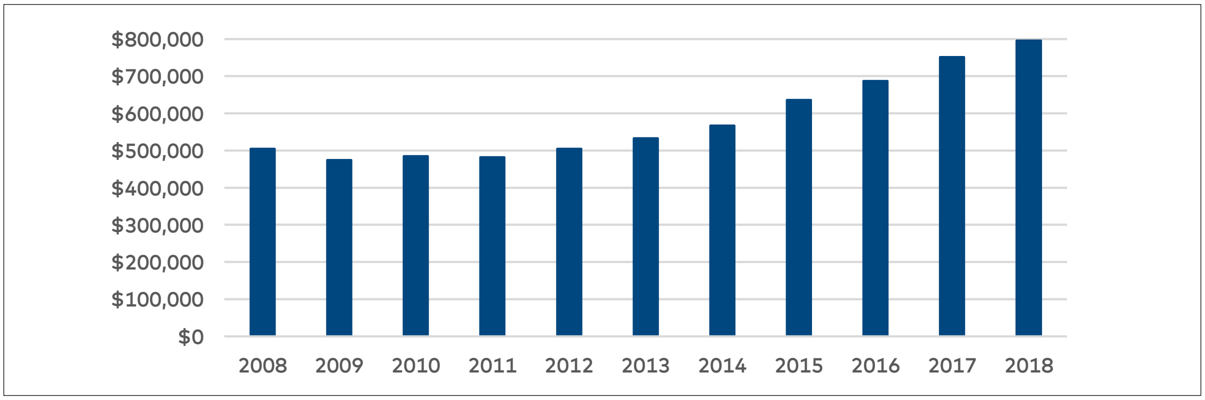
- At $795,567, the median home price reached a new cycle peak in Brooklyn last year. The average mortgage payment accounted for 68% of the area's median income, marking the first time this decade that owning in Brooklyn crossed the 65% mark. Meanwhile, the average rent equated to 60%.
- Although a building boom is reshaping Brooklyn, developers mainly focus on delivering luxury assets, further enhancing the metro's infamous housing crisis. In an effort to relieve some pressure off rent-burdened residents, the Christian Cultural Center partnered with Gotham Organization to transform an underutilized parcel into nine residential buildings that are set to include 2,100 affordable units.

Brooklyn Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Brooklyn Median Home Price



Source: Moody's Analytics

Population

- Kings County added 42,988 residents between 2013 and 2017, for a 1.6% expansion.
- Amid prolonged price surges, Brooklyn's population contracted by 2,088 residents in 2017, a roughly 0.1% downtick.

Brooklyn vs. National Population

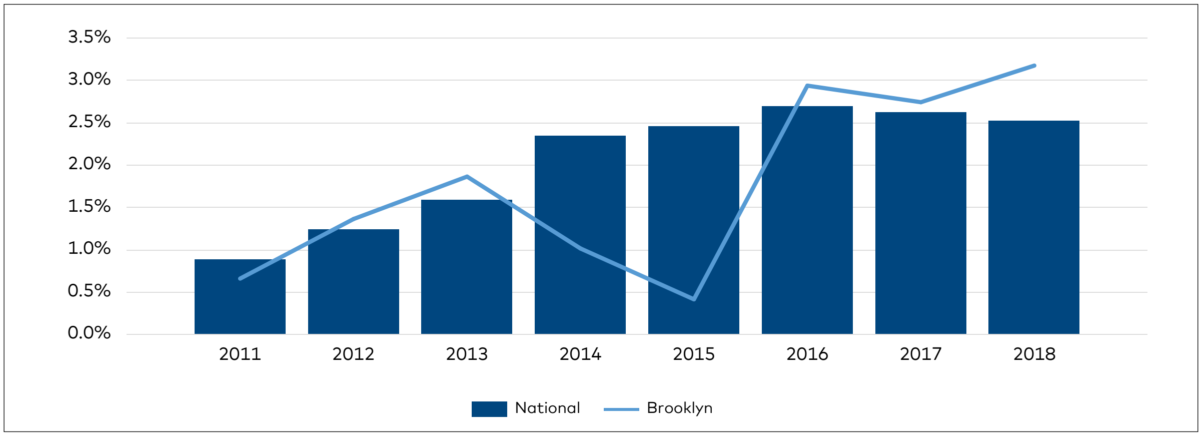
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Brooklyn Metro	2,605,783	2,626,644	2,643,546	2,650,859	2,648,771

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

Supply

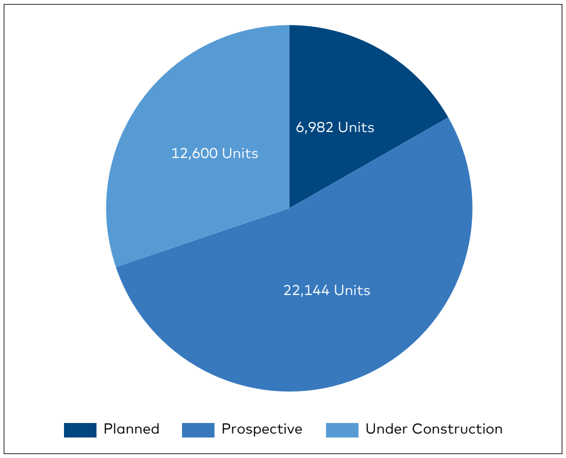
- Brooklyn added 4,651 units in 2018, marking a new cycle high for the borough. Despite substantial completions over the past three years, demand remains on the rise, especially in the Lifestyle segment. Almost all properties that came online last year are targeting high-income residents; the trend is set to continue, as roughly 85% of projects underway in the borough are in the upscale segment.
- With 12,600 units under construction as of January and an additional 29,126 apartments in the planning and permitting stages, Kings County is heading toward another banner year. According to the New York Department of Buildings, Brooklyn was the borough with the highest number of new building permits issued in 2018—2,756. Overall, we expect 12,150 units to come online in New York City in 2019.
- Williamsburg continued to lead the pipeline, with 2,631 units under construction as of January, while Greenpoint (1,339 units) and East New York (1,294 units) took the next two spots. Scheduled for completion in July, the 900-unit The Denizen Bshwk/Evergreen Gardens is the largest multifamily project underway in Brooklyn. Kings County-based developers All Year Management and Read Property Group own the partially affordable project.

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



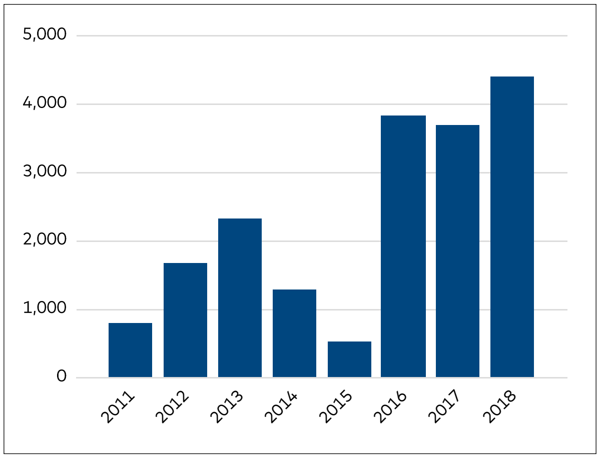
Source: YardiMatrix

Development Pipeline (as of January 2019)



Source: YardiMatrix

Brooklyn Completions (as of January 2019)

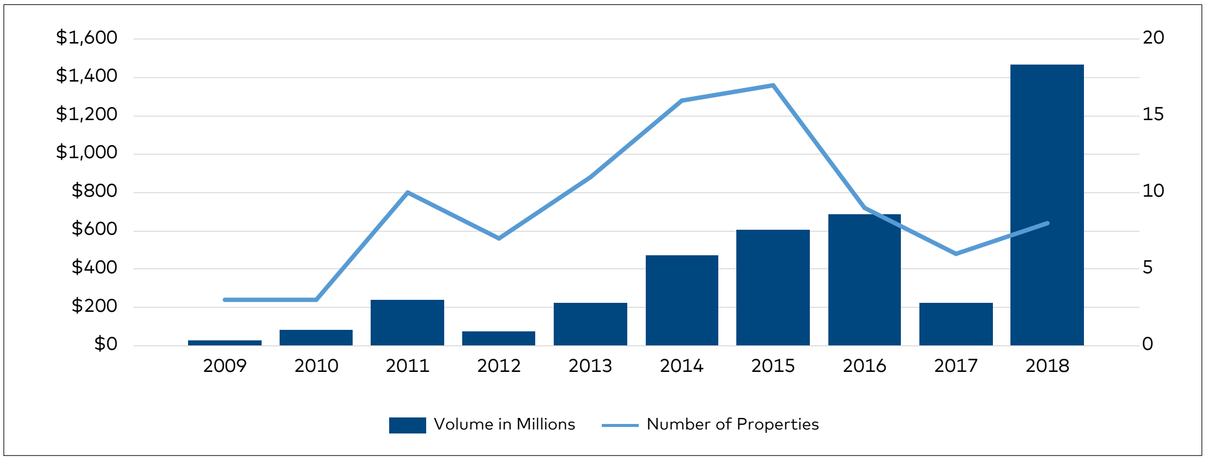


Source: YardiMatrix

Transactions

- Sales of Brooklyn assets with 50 or more units hit a cycle peak last year, with the total volume reaching $1.5 billion. Most properties that changed hands were in the Renter-by-Necessity segment, with acquisition yields ranging between 4.5% and 5.8% for stabilized Class B and C assets.
- Starrett City's $870 million sale of the 5,881-unit Spring Creek Towers was, by far, the largest deal of the year in the borough. Rockpoint Group acquired the partially affordable property in May, at $147,934 per unit. This transaction significantly influenced Brooklyn's per-unit average, which dropped to $179,185 from the previous year's $361,995. Even so, that was above the $154,634 U.S. figure.
- Thanks to the sale of Spring Creek Towers, East New York topped the list of the most transacted submarkets last year, followed by Prospect Heights ($156 million) and Bay Ridge ($149 million).

Brooklyn Sales Volume and Number of Properties Sold (as of January 2019)



Source: YardiMatrix

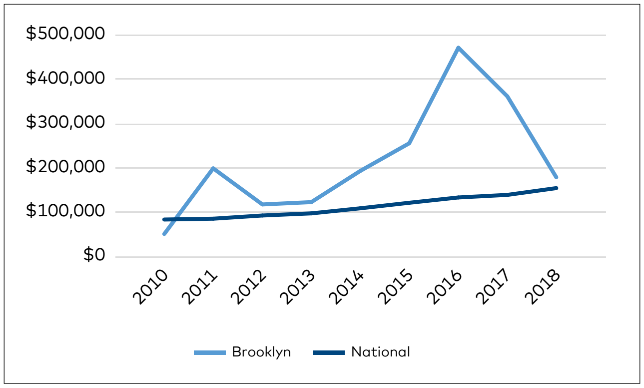
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East New York	870
Prospect Heights	156
Bay Ridge	149
Boerum Hill–Gowanus	81
Windsor Terrace	75
Crown Heights	53
Coney Island–Sea Gate	50
Sheepshead Bay–Gerritsen Beach	32

Source: YardiMatrix

[1] From January 2018 to December 2018

Brooklyn vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro Area

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Fully Affordable Community Changes Hands in Brooklyn

The 107-unit asset is located at 1701 W. Third St., in the borough's Gravesend submarket. Morris Weintraub Associates sold the property to Parkoff Organization for $28 million.

Stonehenge NYC Names New VP

The firm hired Kunal Chothani, an industry professional who will serve as vice president of acquisitions. Prior to this role, Chothani was head of the New York subsidiary of Akelius Residential Property AB.

$80M Luxury Community for Seniors Coming to NY

Triangle Equities is teaming up with GTIS Partners to develop Kensington Estates, an upscale community targeting seniors age 55 and over in Woodbury, N.Y.

Brooklyn Mixed-Use Development Lands $165M Financing

HFF worked on behalf of a joint venture partnership to arrange the construction loan, which will be used to develop One Boerum Place, a luxury property in downtown.

NYC Firm Launches Investment Platform

Hello Vision will provide financing for ground-up and renovation development projects, as well as invest in multiple asset categories.

Avanath Strengthens East Coast Presence

The company is the new owner of two assets in Harlem, N.Y., and Temple Hills, Md. For a combined $36.3 million, Avanath purchased 202 affordable housing units.

Executive Insight

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NYC's New Financing Landscape

By Alexandra Pacurar

Lower investment volume in New York City in 2016 and 2017 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 are 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 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.

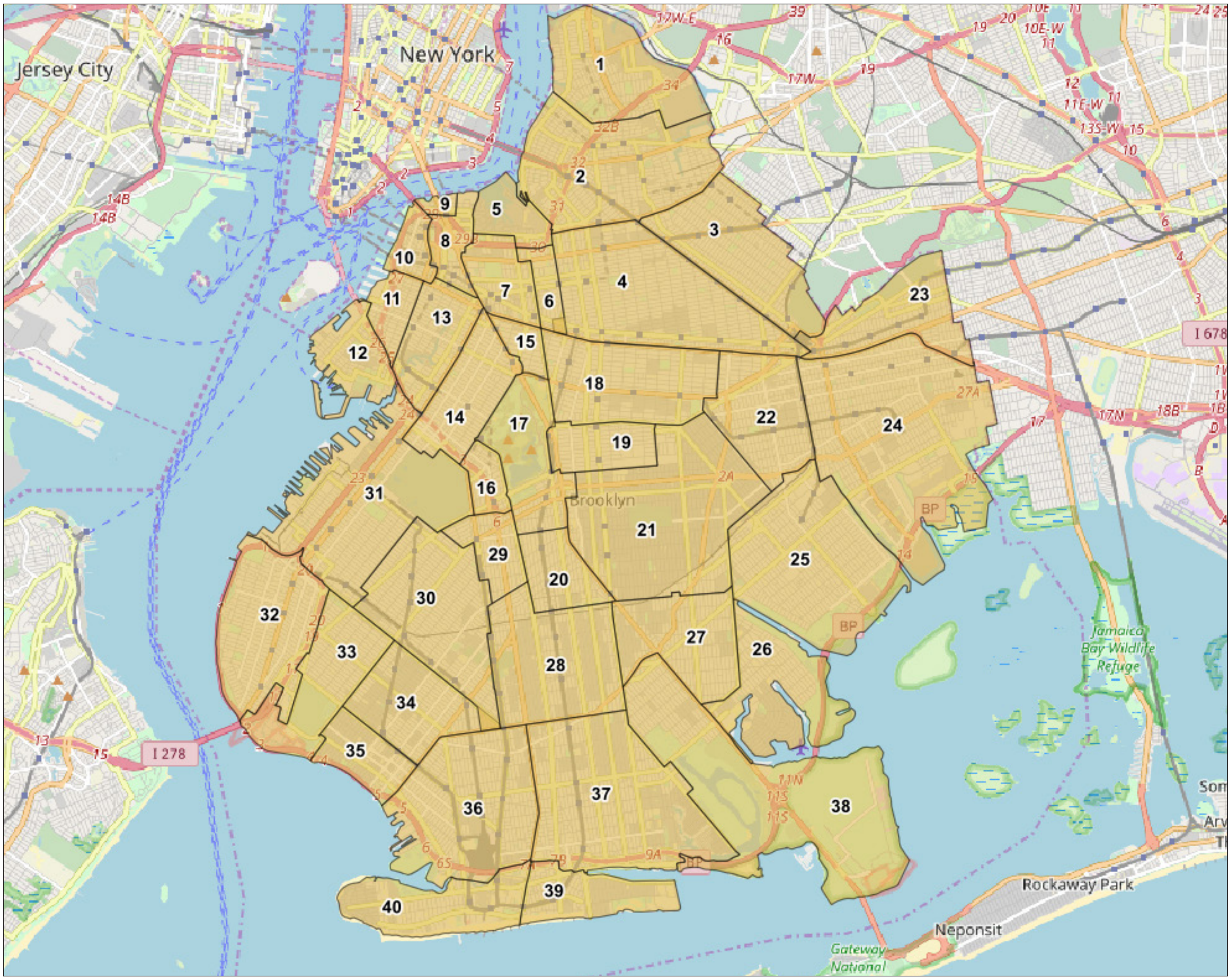
How does tech fit into the multifamily financing environment?

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.

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
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.

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

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