Yardi® Matrix

Manhattan Faces Affordability Struggles

Multifamily Report Winter 2019

Deliveries Slow Down

Rents Rebound in Second Half

Skilled Labor Demand Grows Further

Market Analysis
Winter 2019

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Manhattan Gears Up for More

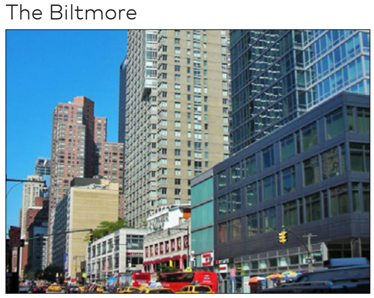
Manhattan kicked 2019 off with strong fundamentals in place, although affordability issues continue to shape most aspects of its rental market. Rents grew 2.1% year-over-year in the borough, mostly spurred by rates in Lifestyle properties, which reached an average of $4,558. Affordability will be a top concern in 2019, as highly skilled professionals will continue to flock to the market, pushing upscale rents further.

New York City's education and health services sector added 46,600 jobs, accounting for more than half of all jobs added in 2018. Median home prices exceeded $1 million in 2018, taking up roughly the same share of incomes as rents do for residents. The city's administration has rolled out several programs targeting the Housing Authority's portfolio, aiming to renovate properties housing 175,000 people. Tech giants Apple and Google announced plans to expand in New York City, driving further demand for a highly skilled labor force.

More than 3,700 units were added to Manhattan's rental stock in 2018, representing 1.1% of total inventory. The Financial District, East Harlem and Lincoln Square led construction, with more than half of the 7,083 units underway in Manhattan being built in those submarkets. Moving forward, we expect NYC rents to rise incrementally, at 0.7% for the year.

Recent Manhattan Transactions

The Biltmore

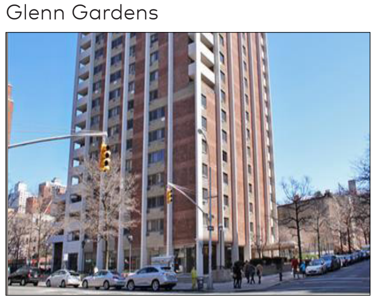


City: New York City
Buyer: GreenOak Real Estate
Purchase Price: $290 MM
Price per Unit: $625,000

800 Sixth

City: New York City
Buyer: Greystar
Purchase Price: $240 MM
Price per Unit: $902,256

Glenn Gardens



City: New York City
Buyer: A&E Real Estate Holdings
Purchase Price: $221 MM
Price per Unit: $828,947

160 E. 89th St.

City: New York City
Buyer: Ditmas Management
Purchase Price: $55 MM
Price per Unit: $1,080,392

On the cover: Photo by Wattanapong Plymat/iStockphoto.com

Rent Trends

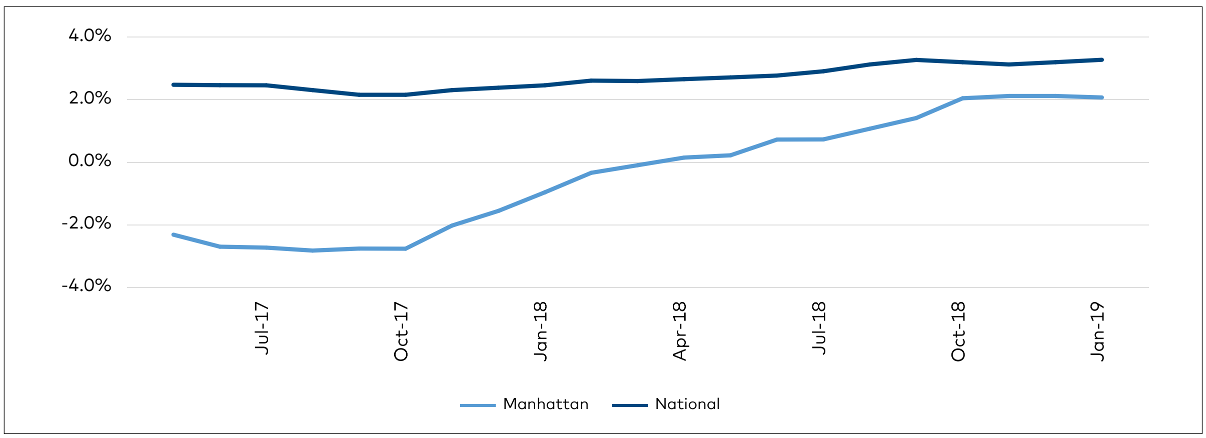
- Manhattan rents rose 2.1% year-over-year as of January. Following a prolonged streak of rent contraction, the second half of 2018 saw rates rebound in the borough to an average $4,196. Despite the positive turn, rental growth is still 120 basis points behind the national rate.

- Rents in the Lifestyle segment led gains, rising 2.6% year-over-year, up to an average of $4,558. Contrasting this growth, Renter-by-Necessity rents only appreciated 0.8% through that interval, reaching $3,448 on average.

- Despite a $148 slide in rents year-over-year, Tribeca was still the most expensive Manhattan submarket, with $5,475 in average rates. Rent hikes were strongest in the Civic Center submarket (up 11.0% year-over-year, to $3,678), followed by Harlem (6.9%, to $2,486), the Lower East Side (3.2%, to $4,317) and Flatiron (2.8%, to $4,148). The West Village, East Harlem, NoMad and the Theater District experienced rent contraction of more than $100 on average.

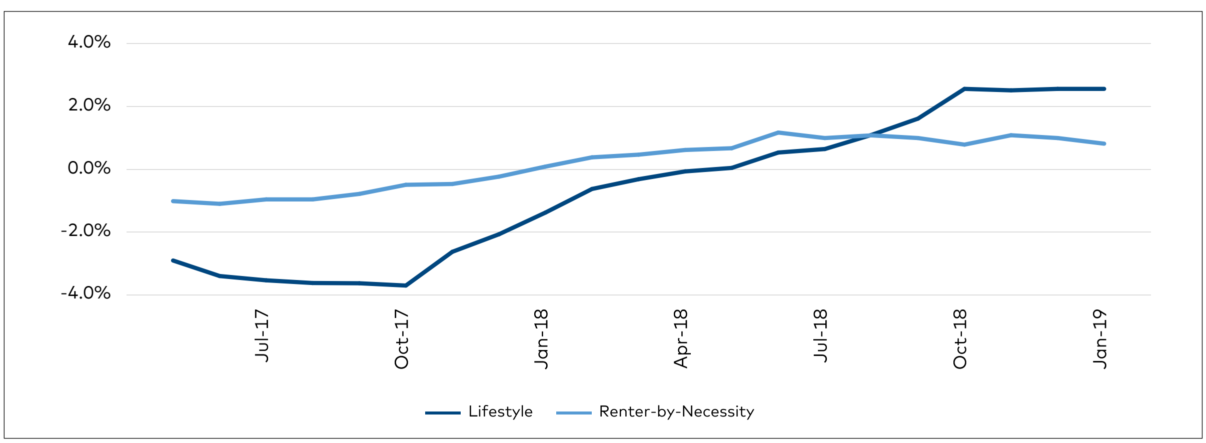
- As Manhattan struggles to find a solution to its affordability issues, growing support for more stringent rent control efforts has only increased. With inventory being limited and issues looming large, we expect rents in New York City to continue to inch upward, at 0.7% in 2019.

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)

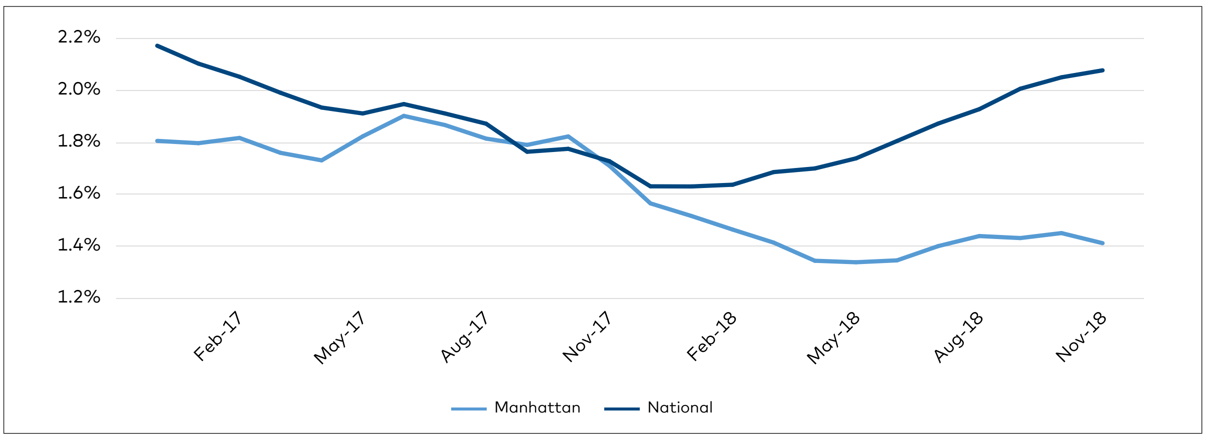


Source: YardiMatrix

Economic Snapshot

- New York City added 87,200 jobs in the 12 months ending in November, up 1.4% year-over-year, trailing the national 2.0% growth rate. The information, government and manufacturing sectors contracted by a combined 3,800 positions through that interval, with information losing the largest share—3,100 jobs.
- Gains were led by education and health services, which accounted for 46,600 jobs added in New York City in 2018, a 3.2% increase year-over-year. The sector comprises the largest share—21.2%—of all jobs in the metro, highlighting the growing need for a highly skilled labor pool across all areas of business. Manhattan also added 21,500 jobs in the professional and business services sector.
- Construction grew by 1.4%—3,700 jobs—in 2018. The new year will likely see a much larger number of positions added to the sector, as multiple large developments are planned for 2019.
- Despite affordability issues, Manhattan will likely continue to absorb the influx of new jobs at a steady pace. With Amazon no longer building its HQ2 project across the East River in Long Island City, Manhattan will continue to be the main job attractor in New York City. Google will also establish a presence in Manhattan with its $1 billion campus in Hudson Square, while Apple is currently in talks to obtain 60,000 square feet within the massive Hudson Yards development.

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

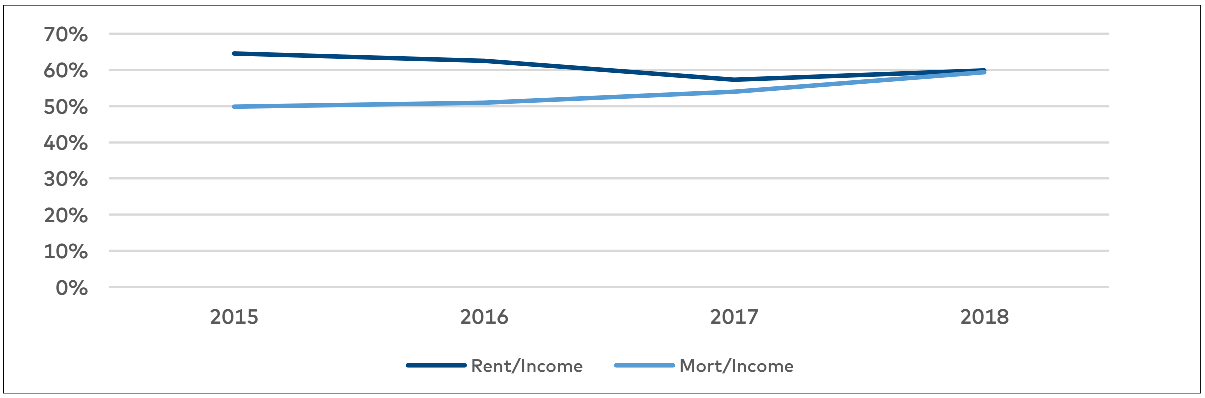
Demographics

Affordability

- Manhattan continues to be one of the least affordable places to live, with median home prices rising above $1 million in 2018. On average, residents allocated 60% of their income to making rent in 2018. Despite being on a gradual downward trend since 2015, when it was as high as 65%, the ratio remains one of the highest in the U.S. Owning was marginally less costly, with mortgages comprising 59%.

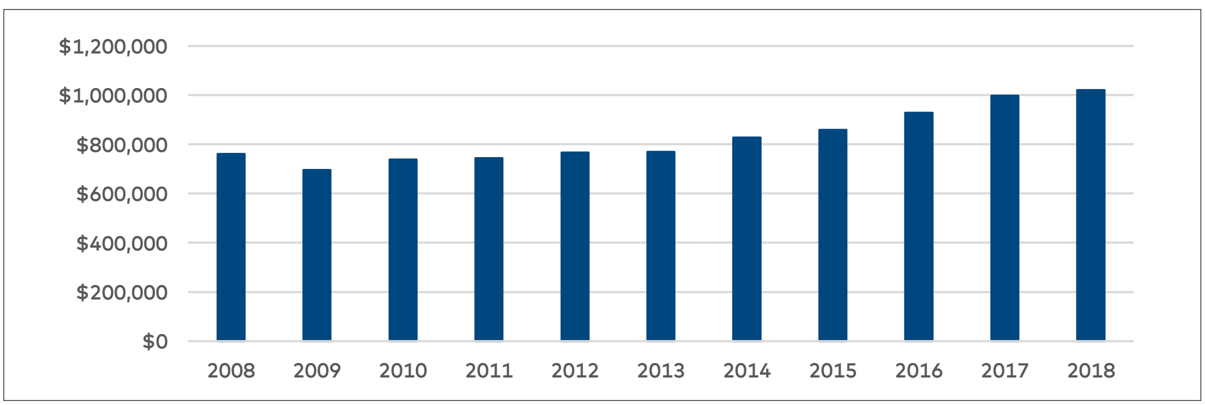
- The administration of New York City is currently seeking ways to increase access to more affordable housing—the billion-dollar revitalization of the Housing Authority portfolio and proposed strengthening of rent control are among the initiatives.

Manhattan Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Manhattan Median Home Price



Source: Moody's Analytics

Population

- New York County grew by 2,600 residents in 2017, a 0.2% increase year-over-year, a third of the national rate.
- Despite affordability issues, Manhattan's population will continue to inch upward, as immigration remains strong.

Manhattan vs. National Population

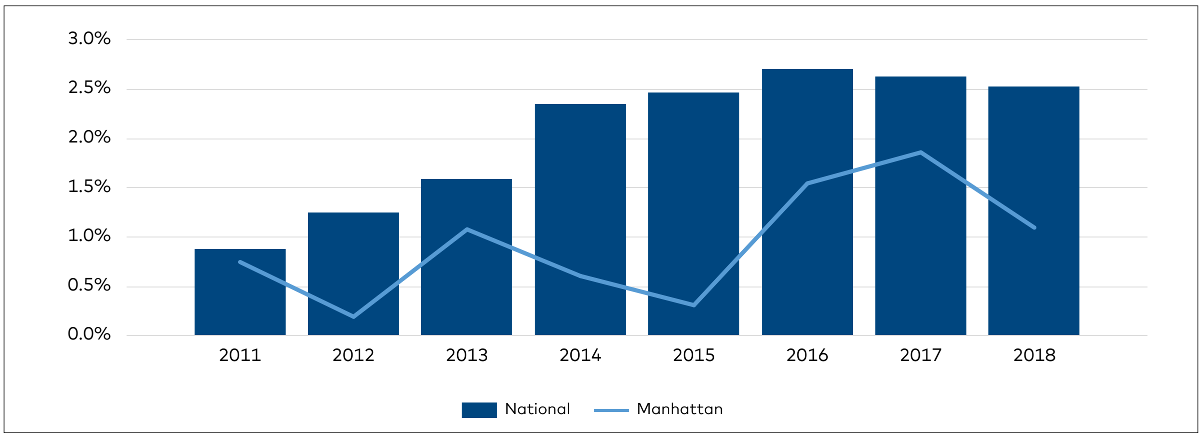
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Manhattan Metro	1,638,790	1,646,521	1,657,183	1,662,164	1,664,727

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

Supply

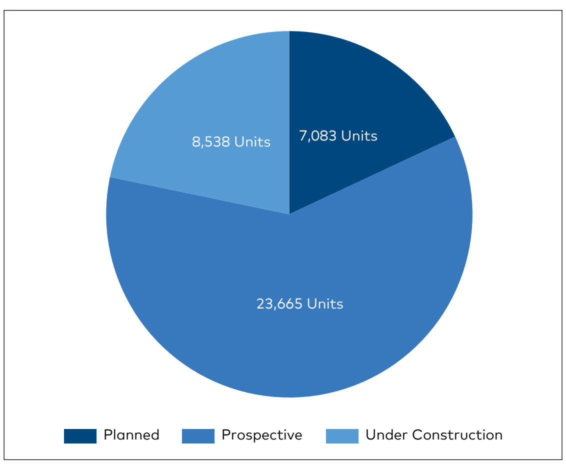
- Manhattan added 3,703 units across 13 properties in 2018, a 57% slide in deliveries since 2017. The newly added communities make up just 1.1% of total stock, below the 2.5% national rate. More than two-thirds of the inventory that came online in 2018 was in Lifestyle properties, accentuating the city's need for more affordable housing.
- Developers had 8,538 units underway in Manhattan as of January 2019. About 31,000 more units are in the planning and permitting stages. Of all 46 properties that were under construction, 35 were slated for completion in 2019. Only 47% of the multifamily rental pipeline comprises partially or fully affordable communities.
- The Financial District (1,612 units), East Harlem (1,099 units) and Lincoln Square (1,065 units) were the most active submarkets for multifamily development.
- Average occupancy in stabilized properties grew by 10 basis points year-over-year, reaching 98.5% as of December 2018. Delayed construction timetables and high demand have pushed up occupancy.

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



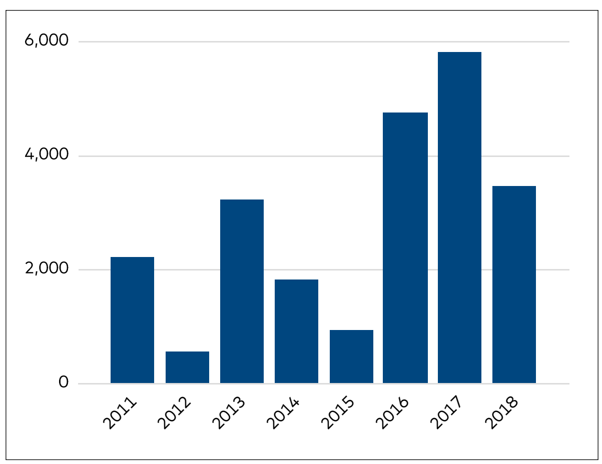
Source: YardiMatrix

Development Pipeline (as of January 2019)



Source: YardiMatrix

Manhattan Completions (as of January 2019)

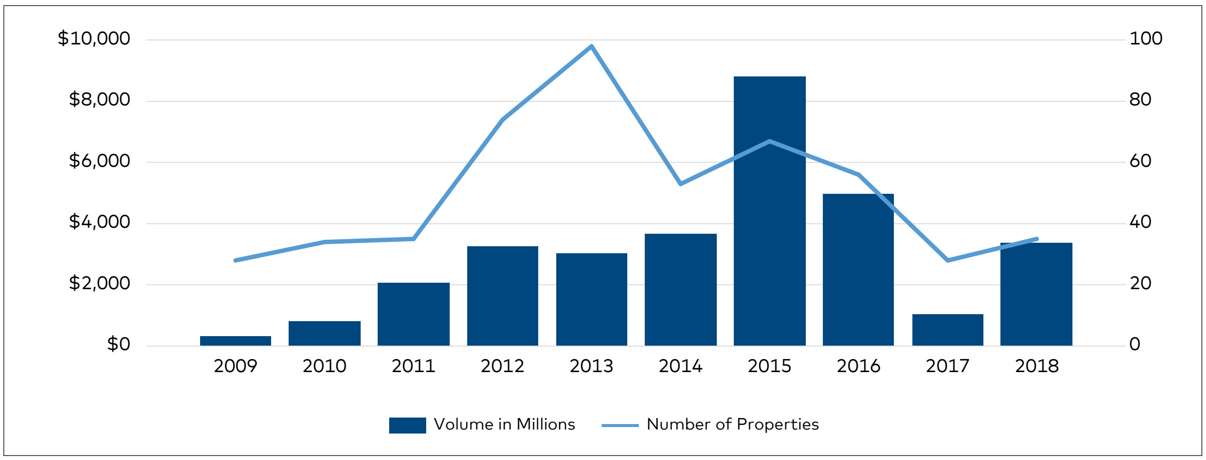


Source: YardiMatrix

Transactions

- Transaction volume in 2018 reached $3.4 billion, triple the 2017 figure but still well behind 2015's $8.8 billion cycle peak. A total of 35 properties changed hands in Manhattan, accounting for more than 3,000 units. Approximately two-thirds of assets that changed hands were in the working-class Renter-by-Necessity segment, highlighting the nationwide investment trend.
- Per-unit prices grew by 33% year-over-year, reaching a new cycle peak at $649,965 on average. Manhattan remains one of the priciest metros to do business in, as the national per-unit price was $154,633 in 2018. The Upper West Side ($769 million), Lincoln Square ($643 million) and the Garment District ($316 million) saw the largest volume of investment. The largest sale was recorded in Lincoln Square—Dermot Co.'s $416 million purchase of 101 West End. The 507-unit property traded for a per-unit price of $820,710.

Manhattan Sales Volume and Number of Properties Sold (as of December 2019)



Source: YardiMatrix

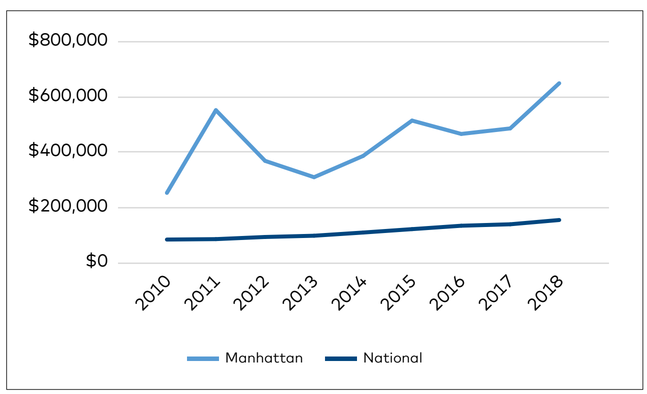
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Upper West Side	769
Lincoln Square	643
Garment District	316
Midtown East	301
Theater District	290
Hell's Kitchen	193
Financial District	125
Washington Heights	119

Source: YardiMatrix

[1] From January 2018 to December 2018

Manhattan vs. National Sales Price per Unit



Source: YardiMatrix

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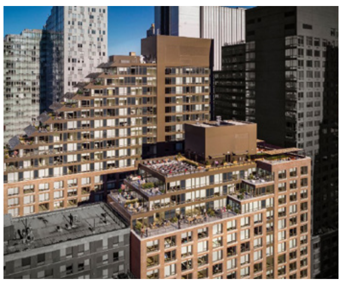


Manhattan Luxury Asset Gets $200M Refi

Greystone Bassuk arranged the 10-year, fixed-rate loan for the property's owners, a joint venture between Taconic Investment Partners LLC and Mitsui Fudosan America Inc.

Stonehenge NYC Names New VP

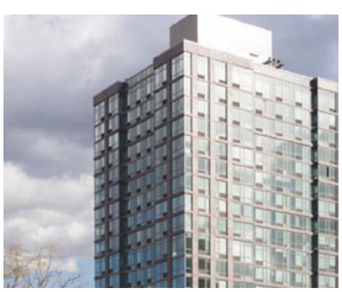
The firm hired Kunal Chothani, an industry professional who will serve as vice president of acquisitions. Prior to this role, Chothani was head of the New York subsidiary of Akelius Residential Property AB.

New Affordable Housing Slated for Midtown Manhattan

New York City has tapped several development firms to build 260 affordable apartments on two city-owned sites in the Clinton/Hell's Kitchen neighborhood.

Wells Fargo Refinances Manhattan Luxury Properties

The Gotham Organization received the permanent mortgage loans, totaling $184 million, for two upscale apartment buildings in Midtown West and Midtown South.



Manhattan Tower Lands $75M Refi Loan

Greystone closed the Fannie Mae loan to refinance Edison Properties' 23-story luxury high-rise located on the Lower East Side.

Mandarin Oriental To Brand, Manage NYC Luxury Condos

SHVO, BLG Capital and Deutsche Finance America own the 1920-built property on Fifth Avenue. Work started on conversion of the building's office component into 69 apartments.

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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?

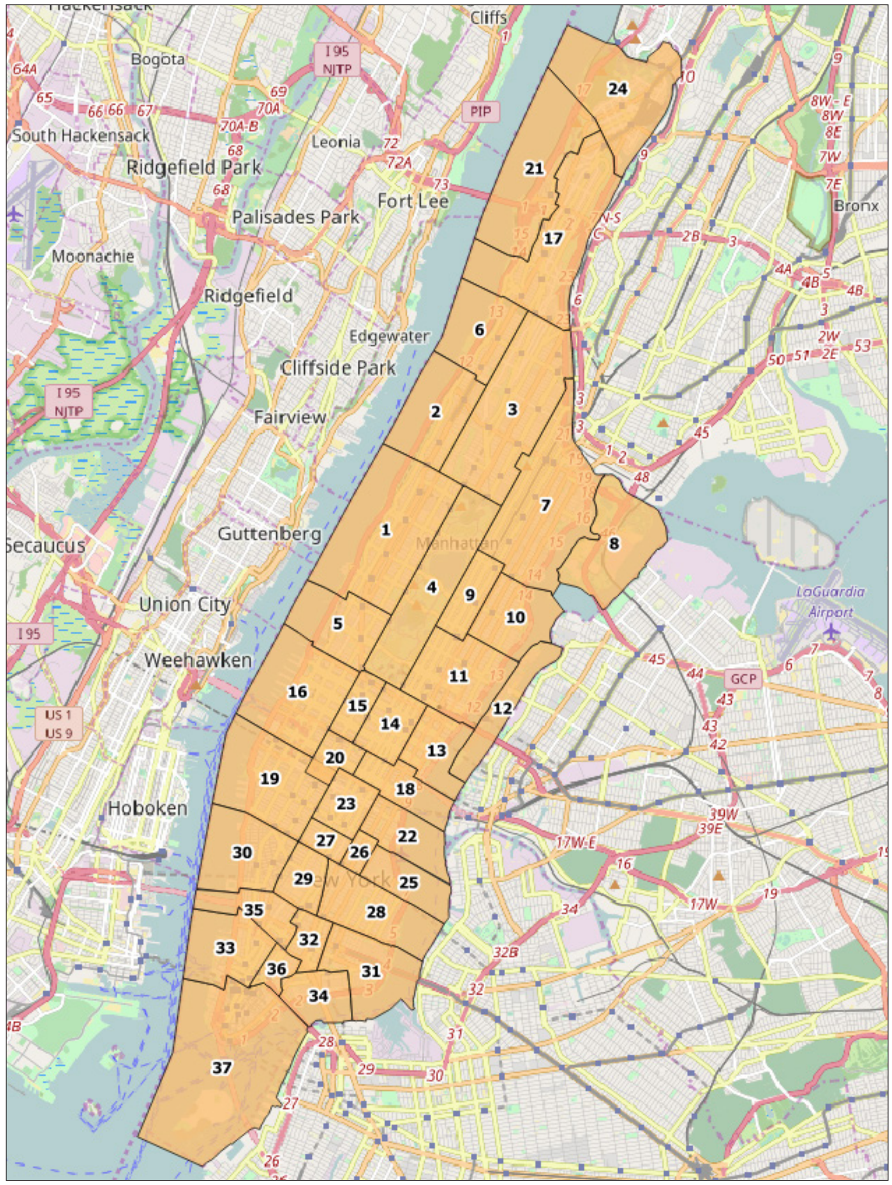
There are many lenders in the market offering similar terms and options. Maintaining comprehensive databases allows us to identify the best lenders for each deal so that we can work efficiently and productively. Technology also helps us compile comprehensive financing packages and comps so that we can 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.

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	Lennox 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.

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