

An aerial photograph of the Brooklyn skyline at sunset. The sky is filled with dramatic, orange and yellow clouds. The city below is densely packed with buildings of various heights and styles, including many brick structures and modern high-rises. The overall atmosphere is warm and vibrant.

Yardi® Matrix

High-Octane Brooklyn

Multifamily Report Summer 2019

Rent Growth Decelerates

Transaction Activity Slows Down

Developers Eye Northern Submarkets

Market Analysis

Summer 2019

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Demand Keeps Absorption Healthy

Brooklyn's multifamily market continued to perform well going into 2019. Although deliveries ramped up last year, the borough's occupancy rate in stabilized properties, at 98.7% as of March, remained one of the highest in the country.

New York City's education and health services sector led employment growth in the 12 months ending in March, accounting for more than half of the 103,300 new jobs. Professional and business services followed, with the addition of 20,800 positions. Tech giants are quickly filling up office space left empty by financial company relocations. In downtown Brooklyn, Tishman Speyer is working on a 10-story office property at 422 Fulton St., very close to Extell Development's upcoming 57-story condo tower, the borough's tallest high-rise. With buildings producing nearly 70 percent of the city's gas emissions, officials introduced new legislation that sets emissions caps. The state is also considering introducing a green component to the Brooklyn-Queens Expressway revamp project.

Developers added 5,010 units in Brooklyn last year and deliveries reached a new cycle high, but absorption kept up pace. With supply and demand in relative balance and new rent regulations on the horizon, we expect the average overall New York City rent to advance 0.7% in 2019.

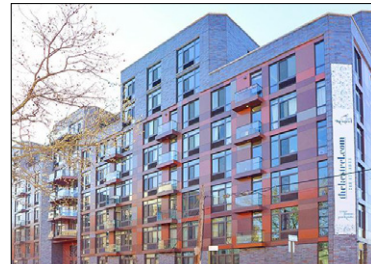
Recent Brooklyn Transactions

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

Berkshire



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

1701 W. Third St.

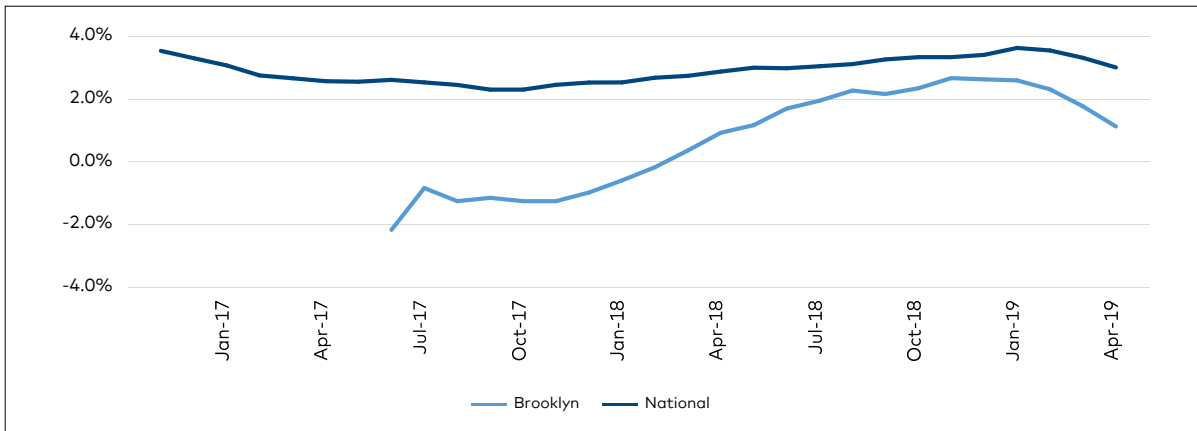


City: New York City
Buyer: Parkoff Organization
Purchase Price: \$28 MM
Price per Unit: \$261,945

Rent Trends

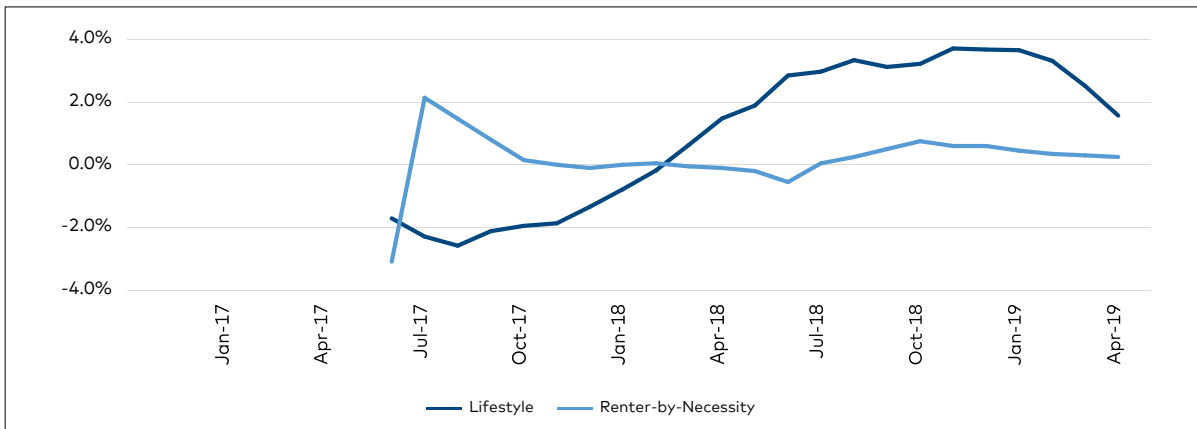
- Brooklyn rents rose 1.1% in the 12 months ending in April, 190 basis points below the U.S. average. However, at \$2,878, the average rate was more than double the \$1,436 U.S figure. Even so, Brooklyn remained way behind Manhattan, which had a whopping \$4,130 average rent.
- Rates in the Lifestyle segment rose 1.6% year-over-year through April, to \$3,426, but recent trends in Brooklyn's luxury market have started mirroring the national pattern of deceleration. While the vast majority of new supply is targeting high-income renters and thus dampening rent hikes in high-end communities, the average rate in the working-class Renter-by-Necessity segment increased by only 0.2%, to \$2,013.
- Rents grew fastest in northern submarkets, including popular Bushwick (9.7%) and Williamsburg (4.1%), but the area could struggle going forward, due to limited L train service that commuters rely on. The average Dumbo rent contracted by 3.9% to \$4,308, but the area remains the borough's priciest.
- With laws expiring in mid-June, stricter statewide rent control regulations on the horizon are keeping landlords and developers in defense mode. And with supply and demand in a sensitive balance across the five boroughs, we expect 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)

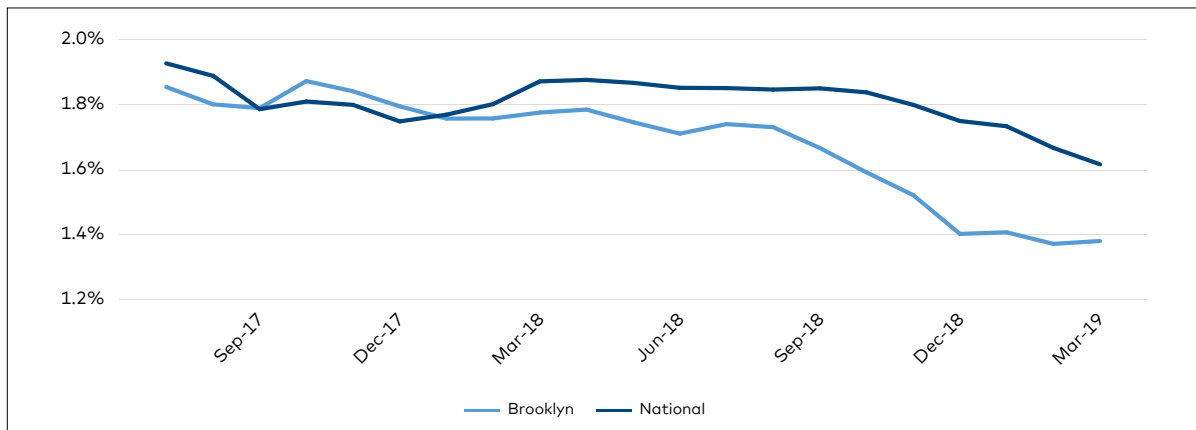


Source: YardiMatrix

Economic Snapshot

- Metro New York gained 103,300 jobs in the 12 months ending in March for a 1.4% expansion, only 20 basis points below the national rate. Education and health services accounted for more than half of the new jobs. Brooklyn is likely to further contribute to this growth, with NYC Health + Hospitals recently breaking ground on an 11-story building in Coney Island. The redevelopment of one of the borough's oldest hospitals is part of a \$922 million campus renovation of flood-damaged buildings.
- With a fair amount of startup activity that defines Silicon Valley and the wider West Coast moving to New York City, office-using jobs are in high demand. Google, Apple, Facebook, Uber and LinkedIn have all announced expansions in the city, fueling both office and residential demand. One of New York City's largest co-living developments is underway at 555 Broadway in Williamsburg. Capitalizing on the concept's increasing popularity, The Collective is investing \$450 million in a 350,000-square-foot project.
- Traditionally known as a hub for the finance and media industries, the city is increasingly relying on tech companies moving to the Northeast. New York City lost 3,200 jobs in the financial activities sector, with large institutions shifting resources. Credit Suisse moved 1,200 positions to Raleigh, N.C., and AllianceBernstein is in the process of relocating its headquarters to Nashville.

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	1543	21.6%	52,700	3.5%
60	Professional and Business Services	1155	16.2%	20,800	1.8%
15	Mining, Logging and Construction	271	3.8%	9,000	3.4%
80	Other Services	307	4.3%	7,700	2.6%
90	Government	940	13.1%	7,300	0.8%
70	Leisure and Hospitality	674	9.4%	3,100	0.5%
50	Information	254	3.6%	2,700	1.1%
40	Trade, Transportation and Utilities	1181	16.5%	2,200	0.2%
30	Manufacturing	207	2.9%	1,000	0.5%
55	Financial Activities	618	8.6%	-3,200	-0.5%

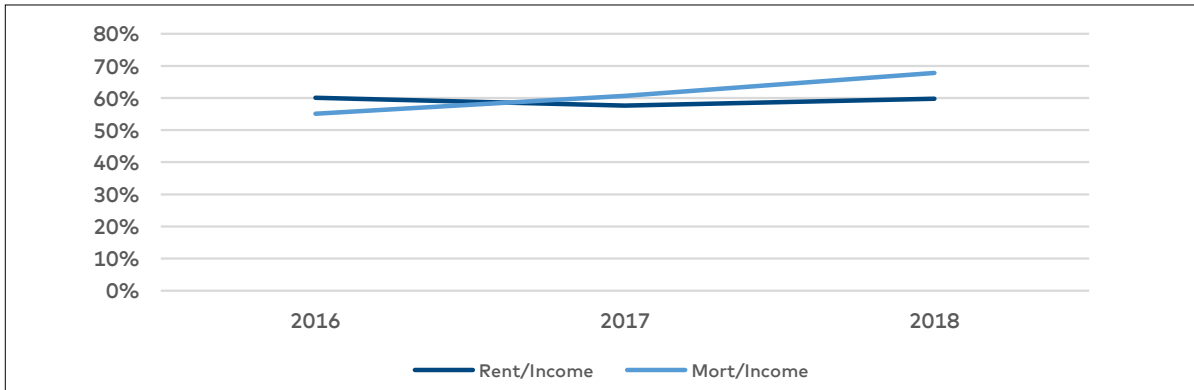
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

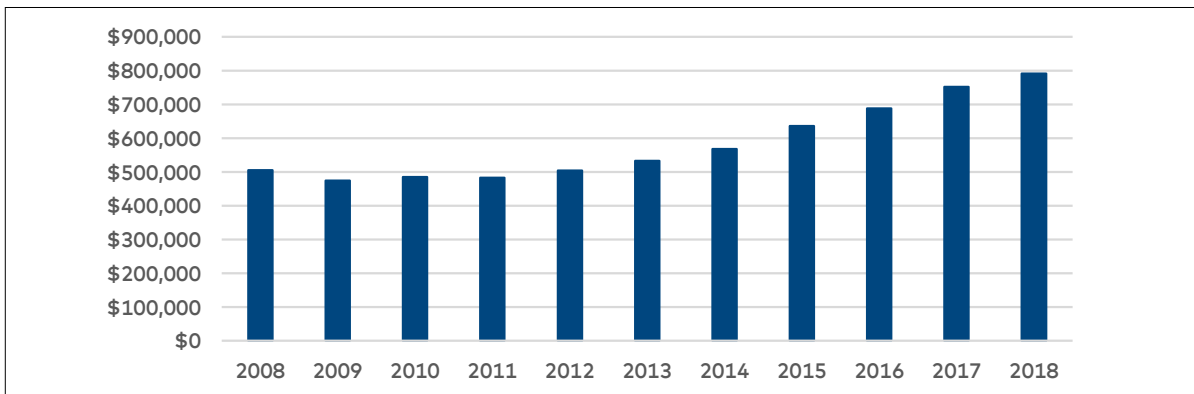
- The median home price in Brooklyn continued to rise, hitting \$791,495 in 2018 for another cycle peak. Although the average rent accounted for 60% of the area median income last year, renting is still more affordable than owning. The average mortgage payment equated to roughly 68% of the same amount.
- With nearly all new inventory geared toward high-income residents, Brooklyn's notorious affordable housing crisis is aggravating further. The city recently awarded a \$70 million contract for the construction of the first modular affordable housing project in the state—a 167-unit property at 581 Grant Ave. in East New York, next to the Grant Avenue subway station and close to Cypress Hills.

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 gained 43,000 residents between 2013 and 2017, marking a 1.6% expansion, significantly below the 3.0% U.S. rate.
- Brooklyn's population contracted in 2017 by 2,088 residents, a 0.1% decrease.

Brooklyn vs. National Population

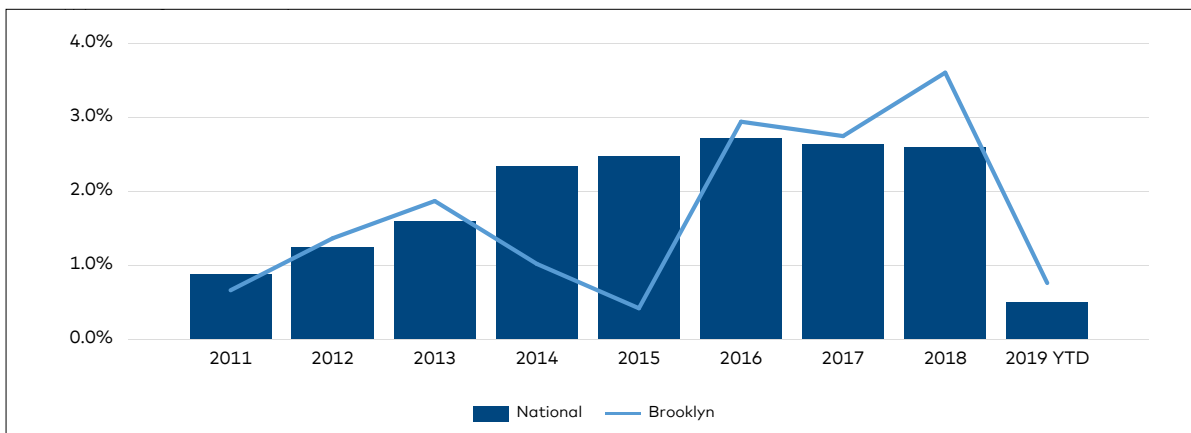
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Brooklyn	2,605,783	2,626,644	2,643,546	2,650,859	2,648,771

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

Supply

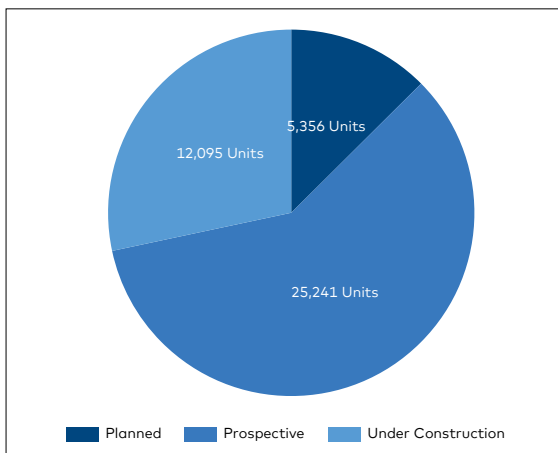
- Kings County had 12,095 units underway as of April, the majority of them in Lifestyle developments. Half of the upcoming inventory is concentrated in northern and northeastern submarkets, including Williamsburg (2,139 units), Bushwick (1,199), Greenpoint (980) and downtown Brooklyn (898). At 900 units, The Denizen Bshwk/Evergreen Gardens was the largest multifamily project underway, slated for completion in July. All Year Management and Read Property Group own the partially affordable asset.
- Brooklyn added 5,000 units last year, marking a new cycle peak. Construction activity is expected to remain strong, especially along transit corridors. However, according to the Department of Buildings, developers in New York City filed for 166,000 permits last year, marking the first dip since 2009.
- Despite a development surge over the past three years and nearly flat population growth in the borough, housing demand is still outpacing supply, putting pressure on workforce and middle-class households. The occupancy rate in stabilized properties was 98.7% as of March, significantly above the 94.8% national average. Among all the boroughs in New York City, only Queens, at 98.9%, managed to top Brooklyn.

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



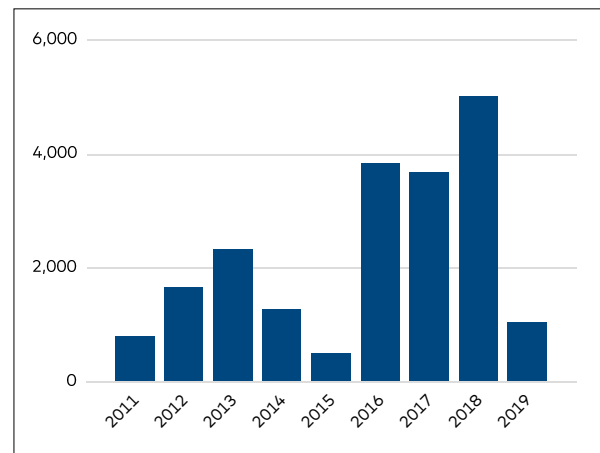
Source: YardiMatrix

Development Pipeline (as of April 2019)



Source: YardiMatrix

Brooklyn Completions (as of April 2019)

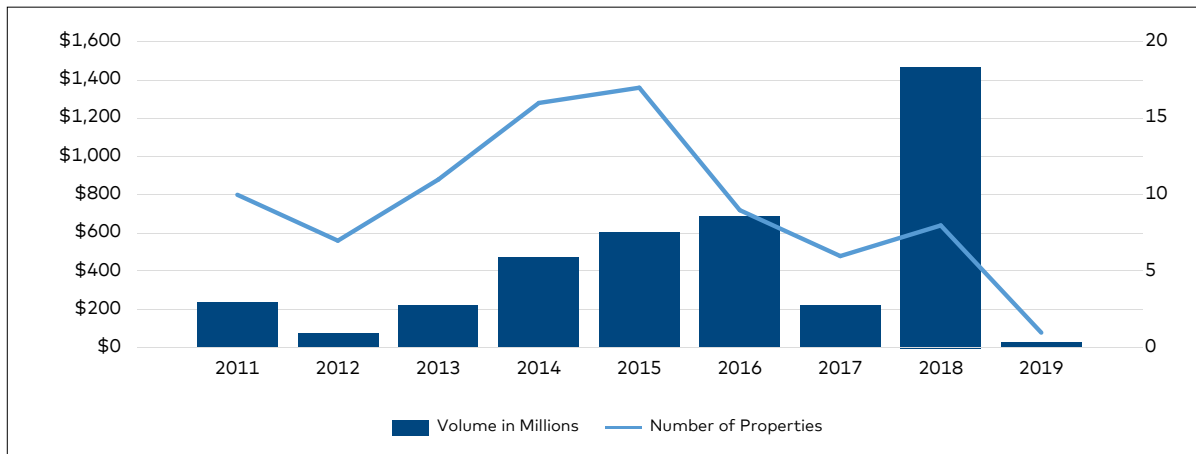


Source: YardiMatrix

Transactions

- A total of \$1.5 billion in assets of 50 or more units traded in the borough in 2018. The volume was substantially boosted by Rockpoint Group's \$870 million acquisition of the largest subsidized property in the U.S., the 5,881-unit Spring Creek Towers in East New York. The transaction considerably impacted the per-unit average, which dropped to \$179,185, less than half the 2017 value. Meanwhile, with statewide rent laws expiring this summer, regulatory uncertainties are being added to the New York City investors' headwinds list, which also includes high redevelopment costs and tight profit margins.
- Although transaction volumes are waning, Brooklyn continues to offer appealing prospects, and the Opportunity Zones program could provide a fresh boost. According to Yardi Matrix data, 46,469 multifamily units across 151 Brooklyn communities—or nearly one-third of the borough's stock—are located in opportunity zones. Of these, some 80% came online more than 30 years ago.

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



Source: YardiMatrix

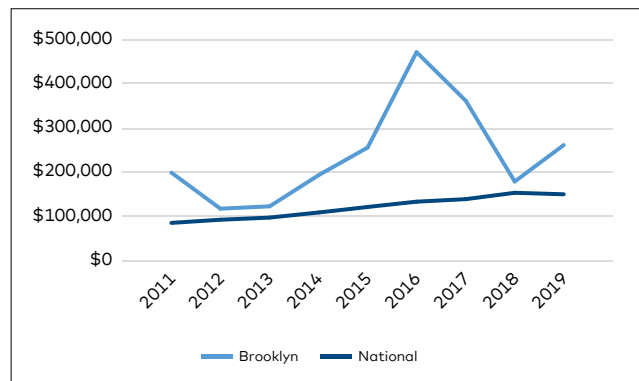
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
East New York	870
Bay Ridge	149
Boerum Hill–Gowanus	81
Windsor Terrace	75
Coney Island–Sea Gate	50
Sheepshead Bay–Gerritsen Beach	32
Gravesend	28

Source: YardiMatrix

¹ From May 2018 to April 2019

Brooklyn vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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JDS Lands \$664M Loan to Build Brooklyn Tower

At 1,066 feet upon completion, the skyscraper will become the loftiest New York City building outside of Manhattan.



Brooklyn Mixed-Use Tower Breaks Ground

A joint venture between Greenland Forest City Partners and The Brodsky Organization is developing 18 Sixth Ave., an 859-unit mixed-income property within Pacific Park. Construction is slated to be complete in 2022.



\$27M Financing Earmarked for NYC Development

Madison Realty Capital provided the loan for a new 68-unit mixed-use residential building and the rehab of a two-story community in Brooklyn's rising Bushwick neighborhood.



Hello Living Lands \$32M Refi For Brooklyn Project

Madison Realty Capital and Bluestone Group provided the financing for the 15-story, 55-unit luxury rental project in Prospect Lefferts Gardens.



Brooklyn's Tallest Building Tops Out

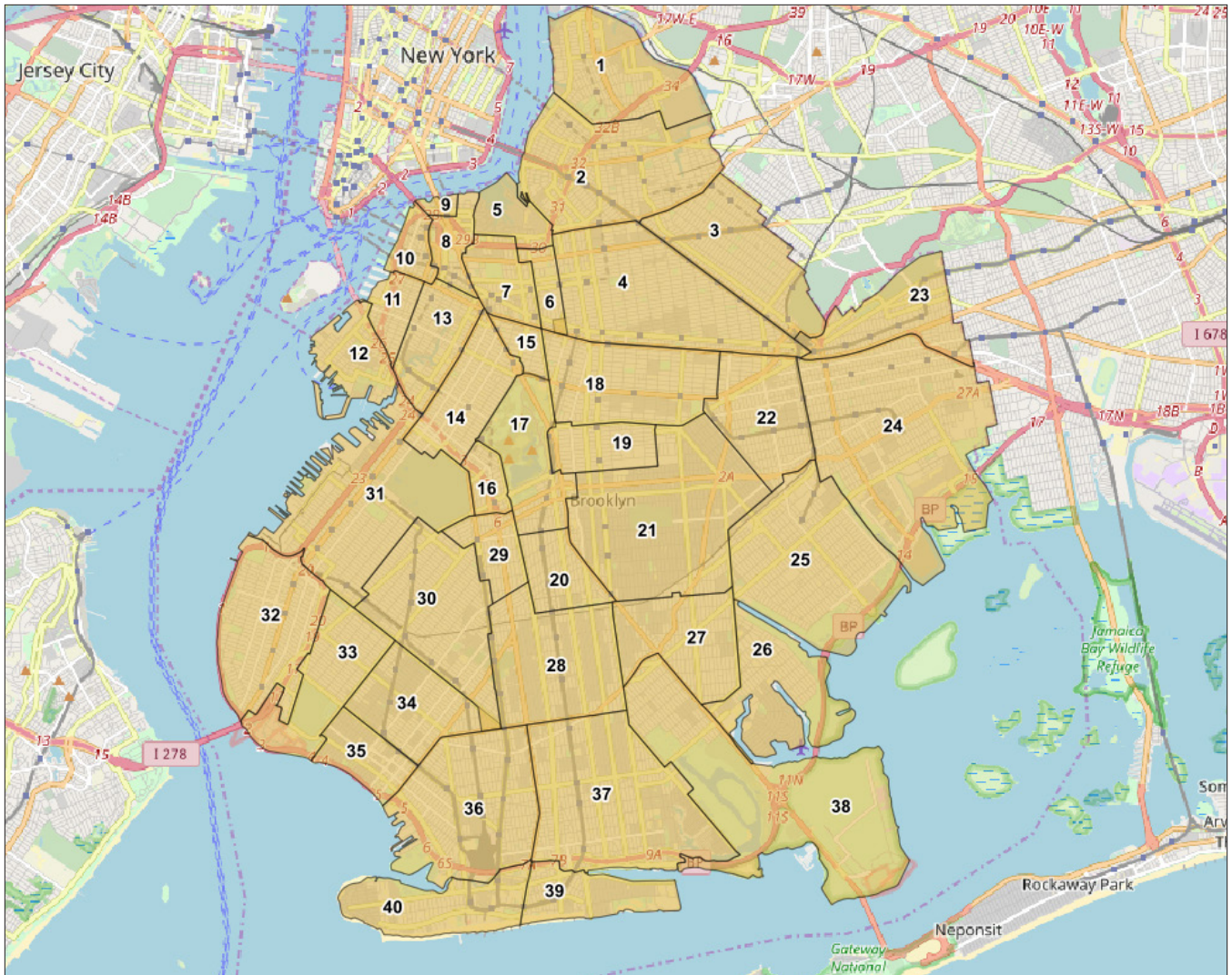
Extell Development Co.'s Brooklyn Point stands 720 feet tall. The luxury tower will include 458 condos, along with the highest rooftop infinity pool in the Western Hemisphere.



NYC Luxury Community Lands \$75M Refi

Cushman & Wakefield arranged the loan for Brooklyn's The Lane at Boerum Place, a 108-unit residential tower built in 2017 by Quinlan Development Group and Lonicera Partners.

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

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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President
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