Yardi® Matrix

High-on-the-Hog Brooklyn

Multifamily Report Fall 2019

Construction Pace Moderates

Transaction Activity Slows Down

Lifestyle Rent Growth Hits New High

Market Analysis
Fall 2019

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## Rent Growth Accelerates Again

Backed by solid employment gains across the metro and by Manhattan's spillover effect, Brooklyn's multifamily market continued to perform well, with rent growth still strong despite last year's development peak.

New York City gained 111,500 jobs in the 12 months ending in August, with education and health services leading growth (70,800). Developers focus on Brooklyn submarkets close to Manhattan, with several large mixed-use projects under construction. Meanwhile, the New York City Department of Design and Construction is working on a $62 million project that would upgrade street conditions and infrastructure in Bergen Beach. Furthermore, the city intends to expand its green infrastructure as part of a $20 billion strategy to address climate change. Construction has begun on more than 5,000 curbside rain gardens in Brooklyn, the Bronx and Queens.

Between 2013 and 2017, roughly $150 billion was spent on construction starts in New York City, according to Dodge Data & Analytics. Brooklyn was the only place where more than half of construction spending was used to build residential projects. Some 2,400 rental units had already been delivered across the borough this year through August, with an additional 11,905 units underway. With supply and demand in a somewhat relative balance, we expect the average New York City rent to rise just 1.3% this year.

Recent Brooklyn Transactions

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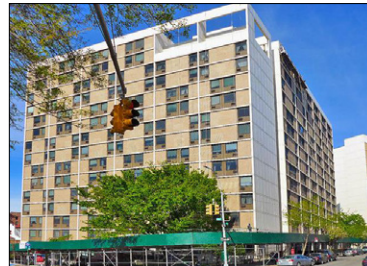
City: New York City
Buyer: Jonathan Rose Cos.
Purchase Price: $149 MM
Price per Unit: $267,281

Leonard Pointe

City: New York City
Buyer: UDR
Purchase Price: $130 MM
Price per Unit: $693,842

The Frederick

City: New York City
Buyer: Harbor Group International
Purchase Price: $117 MM
Price per Unit: $606,218

1701 W. Third St.

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

Rent Trends

■ Rents in Brooklyn rose 3.6% year-over-year through August, 30 basis points above the national figure. This was the cycle's highest growth rate yet in the borough, backed by strong demand and pointing toward a stabilizing rental market, following a record influx of new rentals over the past three years. At $2,940 as of August, the average rate was twice the $1,472 U.S. figure and second only to Manhattan ($4,272) among the metro's boroughs.

■ Lifestyle assets led growth by far, as the average rate rose 4.6%, to $3,515. Upscale rents continued their hike despite almost all new supply catering to high-income renters. Meanwhile, the average rate in the working-class Renter-by-Necessity sector increased only 0.2%, to $1,915.

■ Submarkets in eastern quadrants such as Dumbo ($4,371), Greenpoint ($3,775) and Downtown Brooklyn ($3,723) commanded the highest rental rates as of August, while Boerum Hill–Gowanus saw the strongest rent growth (9.7%), followed by Downtown Brooklyn (7.1%) and Williamsburg (6.5%).

■ This June, the State passed the Housing Stability and Tenant Protection Act, a bill slated to have long-term effects on NYC's roughly 1 million rent-regulated units and the market as a whole. New regulations impose sweeping restrictions on landlords' abilities to increase rates in rent-stabilized units.

Brooklyn vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
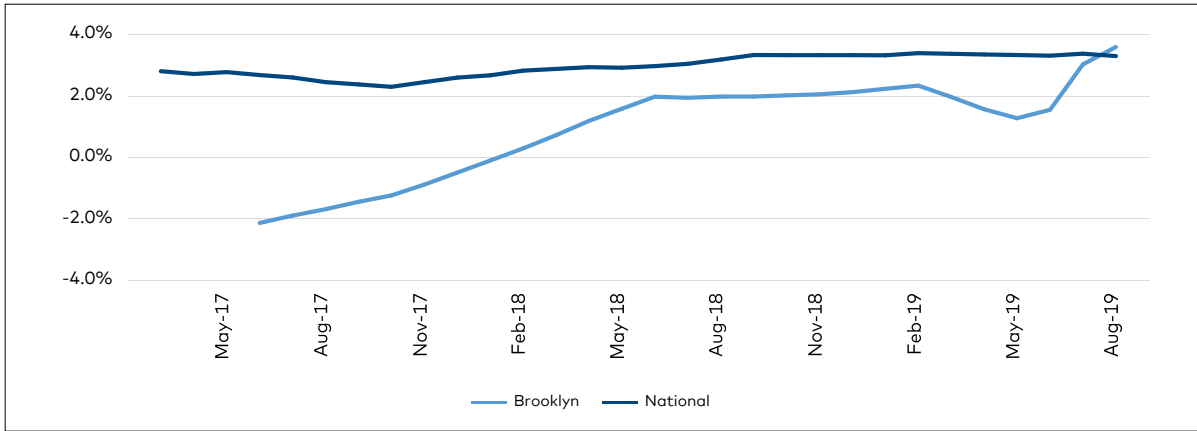
Source: YardiMatrix

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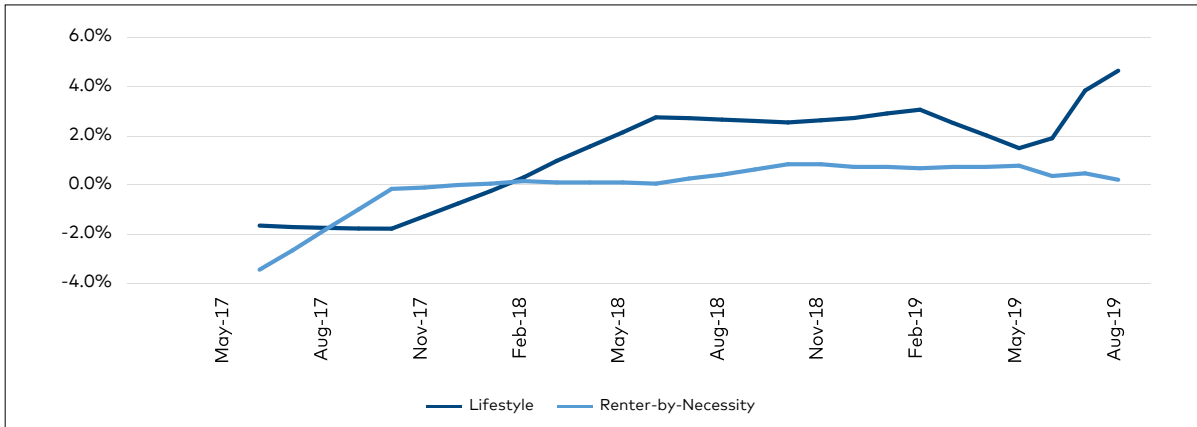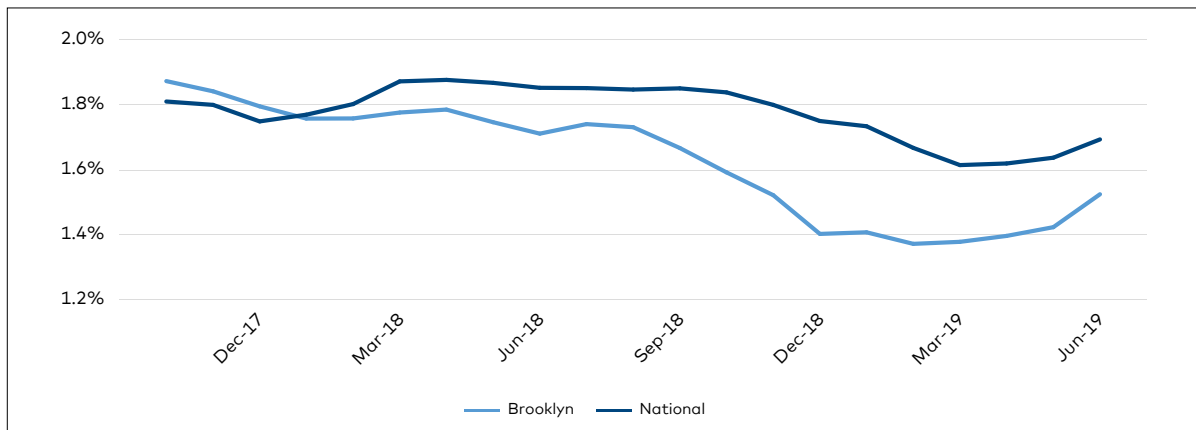

Source: YardiMatrix

Economic Snapshot

- New York City gained 111,500 jobs in the 12 months ending in June, for a 1.5% uptick, just 20 basis points below the U.S. average. Education and health services accounted for almost two-thirds of gains, followed by professional and business services (17,000 jobs) and leisure and hospitality (14,700 jobs).

- Submarkets close to Manhattan, such as Navy Yard, Dumbo and Williamsburg, are drawing interest from major development companies, which prefer building large mixed-use projects. Steiner NYC is redeveloping the swath of land at Flushing Avenue and Navy Street, while CIM Group and LIVWRK are working on a 1.1 million-square-foot project at 85 Jay St. in Dumbo. Dubbed Front & York, the former parking lot will include condos, rentals and retail. The old Dime Savings Bank building in Williamsburg is also being turned into a 23-story mixed-use tower, with construction set to wrap up this year.

- New York City lost 8,100 jobs in the financial activities sector, following a major wave of personnel cuts. In April, France's Societe Generale announced its intention to let go 1,600 employees, as part of its plan to reduce costs by $563 million. Although more than half of the layoffs affect its European operations, the lender is set to dismiss New York-based staff as well. Moreover, Deutsche Bank announced in July it was going to give up a fifth of its global workforce, with layoffs expected to hit its investment banking offices in London and New York, among others.

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	1539	21.1%	70,800	4.8%
60	Professional and Business Services	1184	16.2%	17,000	1.5%
70	Leisure and Hospitality	740	10.2%	14,700	2.0%
90	Government	942	12.9%	5,600	0.6%
15	Mining, Logging and Construction	282	3.9%	4,400	1.6%
80	Other Services	311	4.3%	4,100	1.3%
50	Information	258	3.5%	3,100	1.2%
30	Manufacturing	210	2.9%	1,100	0.5%
40	Trade, Transportation and Utilities	1196	16.4%	-1,200	-0.1%
55	Financial Activities	628	8.6%	-8,100	-1.3%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics
Affordability

- The median home price in Brooklyn continues to balloon, having peaked at $790,167 last year. Owning is more expensive than renting, with the average mortgage payment accounting for 68% of the area median income, while the average rent equated to 60% of the same amount.

- According to PropertyShark, the borough remained second only to Manhattan among the most expensive New York City neighborhoods as of the year's second quarter. Meanwhile, Brooklyn's acute workforce housing shortage is bound to intensify. New York's most recent rent regulations have had an immediate impact on property values and are likely to lead to less supply and an aging stock in the long run.

Brooklyn Rent vs. Own Affordability as a Percentage of Income
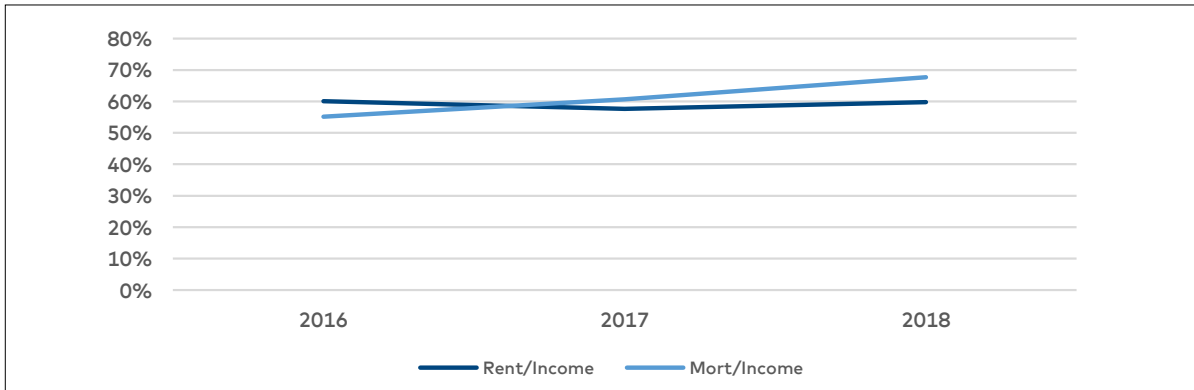
Sources: YardiMatrix, Moody's Analytics

Brooklyn Median Home Price
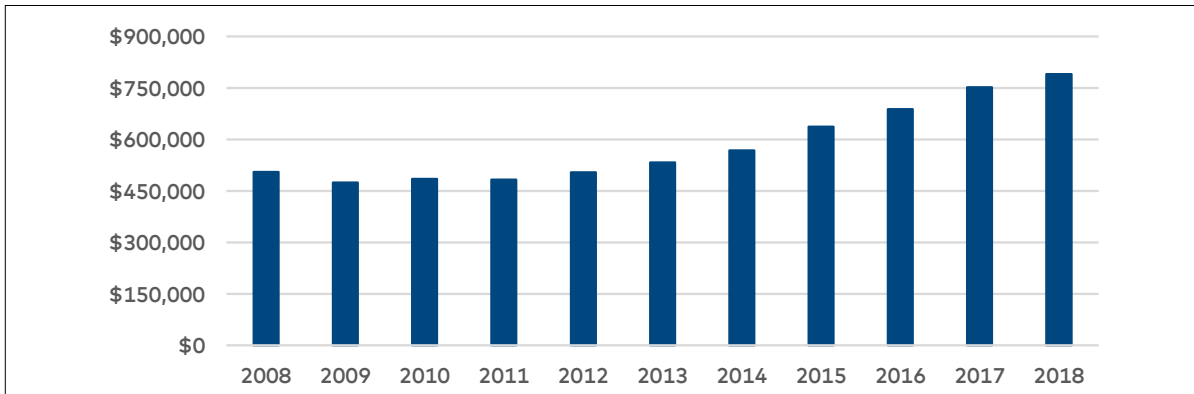
Source: Moody's Analytics

Population

- Between 2013 and 2017, New York City's largest borough added 42,988 residents, a 1.6% expansion.

- Kings County's population contracted by almost 2,100 residents in 2017, a roughly 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 11,905 units under construction as of August, two-thirds of them in upscale projects. Almost 65% of the upcoming inventory is concentrated in three submarkets: Williamsburg (2,142 units), East New York (1,778) and Coney Island–Sea Gate (1,355). The largest project underway as of August was Eliot Spitzer's 857-unit 420 Kent Avenue on the East River waterfront.

- During the first eight months of 2019, a total of 2,400 units came online. Developers delivered 12,525 units between 2016 and 2018, when construction was boosted by several factors, including rising land prices in Manhattan and the resulting spillover effect, as well as the expiring 421-a program. However, the number of new units becoming available started to slow down this year due, to some extent, to slight oversupply in key submarkets.

- In the context of last year's development surge, multifamily demand remained strong overall, despite weak demographic trends. At 98.3% as of July, Brooklyn's occupancy rate in stabilized properties dropped by roughly 60 basis points in 12 months but remained well above the 95.1% national rate.

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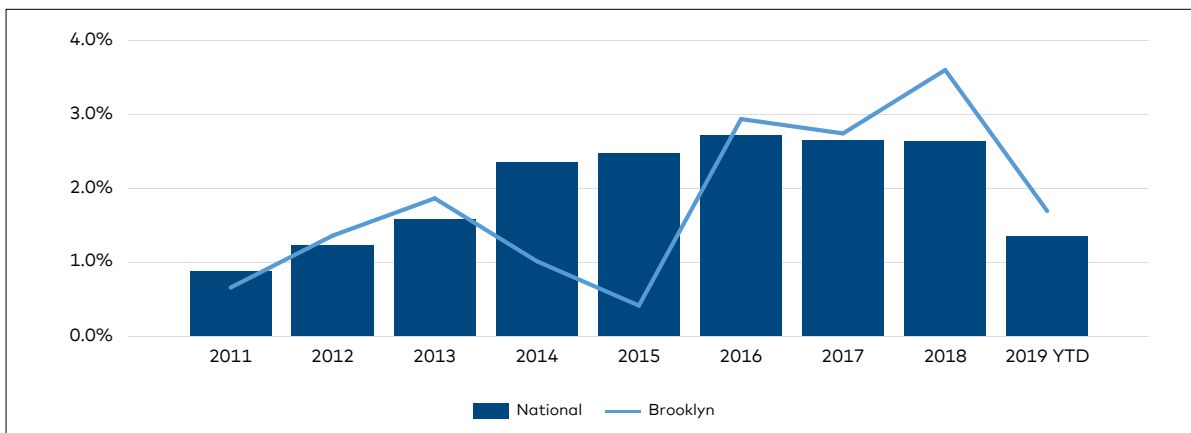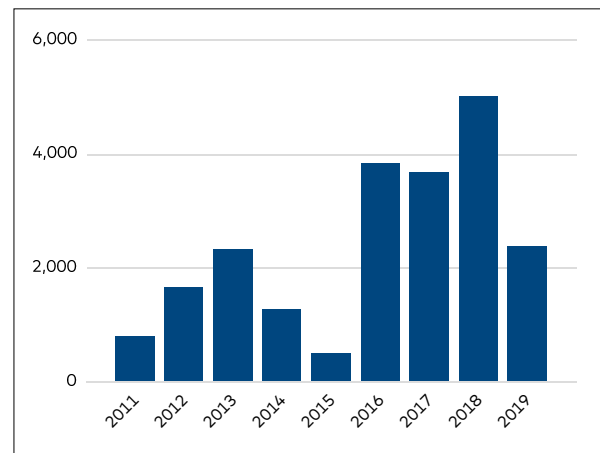

Source: YardiMatrix

Development Pipeline (as of August 2019)
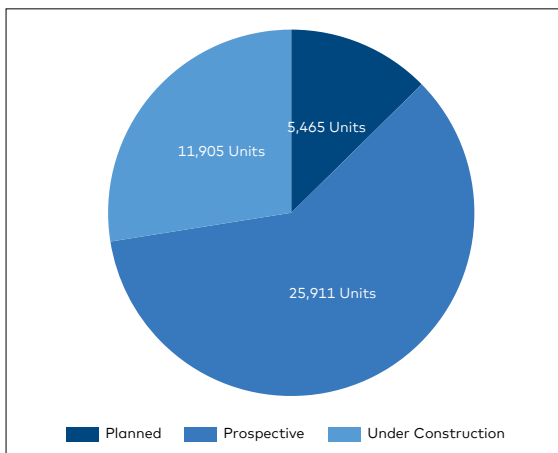
Source: YardiMatrix

Brooklyn Completions (as of August 2019)

Source: YardiMatrix

Transactions

- Only $275 million in multifamily assets of 50 or more units traded in Brooklyn in the first eight months of 2019, coming on the heels of last year's roughly $1.5 billion cycle high. Two out of the three properties that changed hands this year through August were Lifestyle assets, significantly impacting the per-unit average, which reached $537,188, almost four times the U.S. figure.

- Northern and western submarkets were the most coveted, with Bay Ridge ($149 million), Williamsburg ($130 million) and Crown Heights ($117 million) accounting for three-quarters of the $531 million total volume of the 12 months ending in August. A Jonathan Rose Cos. joint venture purchased Shore Hill Housing for around $150 million, marking the largest transaction over that period. The seller of the 559-unit, age-restricted property was NYU Langone, a hospital system affiliated with New York University.

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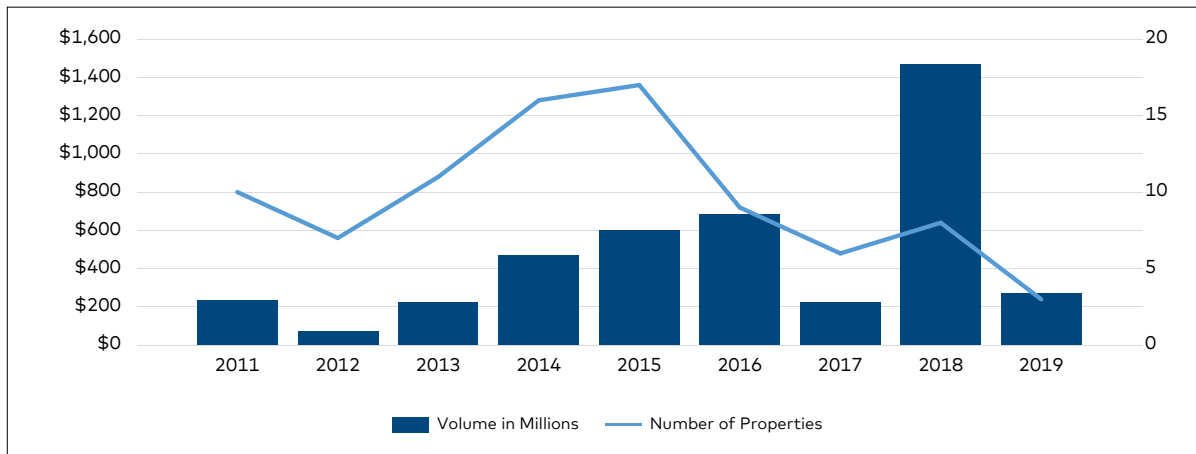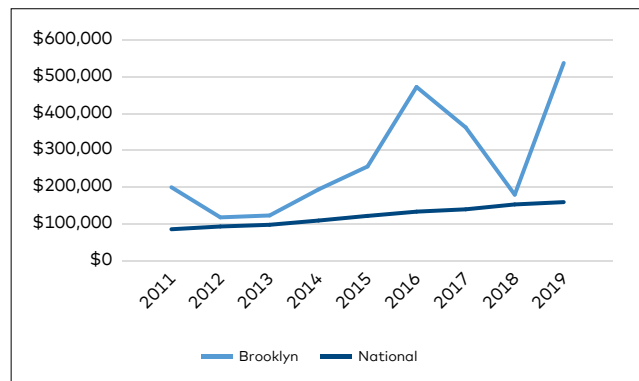

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Bay Ridge	149
Williamsburg	130
Crown Heights	117
Windsor Terrace	75
Sheepshead Bay–Gerritsen Beach	32
Gravesend	28

Source: YardiMatrix
[1] From September 2018 to August 2019

Brooklyn vs. National Sales Price per Unit

Source: YardiMatrix

Executive Insight

Q&A: Sustainable Operations Practices From FirstService Residential

By Anca Gagiuc

As FS Energy's director of energy management, Kelly Dougherty works with industry leaders and government agencies to keep property managers informed. FS Energy is FirstService Residential's internal advisory subsidiary, created to provide recommendations for energy management strategies that enhance building efficiencies.

FirstService Residential has been a presence in New York City's property management industry for almost three decades. Its local portfolio counts roughly 3,600 apartments, Yardi Matrix data shows.

What led FirstService Residential to start offering energy management solutions?

FirstService Residential's foray into energy management dovetailed with the adoption of benchmarking initiatives by major markets at the turn of the decade. We manage expenses and maximize operating budgets for associations that rely on our expertise and counsel. We observed that most multifamily buildings were allocating 20 to 30 percent of their annual operating budget for utilities and energy. We saw the opportunity to help our clients reduce costs related to energy inefficiencies, while fulfilling a social responsibility to safeguard the environment.

Please give us more details about the energy benchmarking program. Figures show it has saved a total of $50 million in energy costs, while also reducing the carbon footprint of your New York City portfolio by 15 percent.

FirstService Residential New York was one of the first property management firms to sign up for the New York City Carbon Challenge and made a commitment to reduce the emissions from 14 million square feet of buildings by 30 percent by 2030. Our energy benchmarking program is founded on the belief that the more informed clients are about the environmental impacts, recent legislation and costs of their building, the more empowered they will be to implement energy-efficiency strategies into their decision-making processes.

The FS data benchmarking database houses comprehensive historical data from hundreds of residences spanning a wide variety of building types. The database enables us to determine the Building Energy Rating Guide score—0 (lowest) to 10 (highest)—by measuring that building's current and past energy performance against similar properties in the database.

Since 2016, FirstService Residential has converted more than half of its properties across the city to 100 percent renewable energy. Please describe how you did that.

FS Energy leverages the size of the FirstService Residential portfolio to partner with multiple energy service companies to get the best pricing for renewable energy. Another option is the opportunity to participate in the Renewable Energy Credit program, which permits buildings to directly support the renewable energy industry and offset a portion of their emissions.

(Read the complete interview on www.multihousingnews.com).

News in the Metro

Get the latest in local real estate news on Multi-HousingNews.com

### JLJ Capital Provides $57M For Brooklyn Asset

The 17-story residential and retail tower at 329 Broadway will bring 63 apartment units to the Williamsburg neighborhood. Parkview Management is the developer of the project.

JV Breaks Ground On Brooklyn Project

Developed by START Treatment & Recovery Centers, Delshah Capital and OTL Enterprises, the 20-story will offer 180 housing units, as well as office, retail and community space.
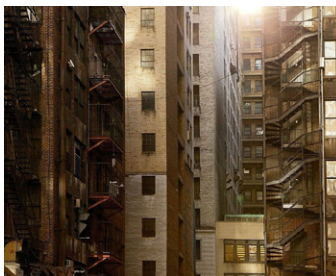
NYC Affordable Portfolio Lands $192M in Financing

A joint venture secured the fixed-rate financing to acquire and renovate 1,321 affordable housing units in Brooklyn. Hunt Real Estate Capital provided the financing, which included two loans.

Harbor Group Buys Brooklyn Community For $117M

The 193-unit rental property, named The Frederick, was built in 2017 and is located in the popular Crown Heights neighborhood. Westwood Realty Associates brokered the transaction.


Mixed-Income Tower Lands $178M Loan

The 26-story community received the financing through the New York State Housing Finance Agency's 80/20 Housing Program. Rose Associates and Benenson Capital Partners are developing the project.

Loft Apartment Building Sells For $61M in NYC

Meadow Partners sold the market-rate rental property in Brooklyn's Williamsburg neighborhood. Hodges Ward Elliott arranged the sale of the former industrial asset.

Brooklyn Submarkets
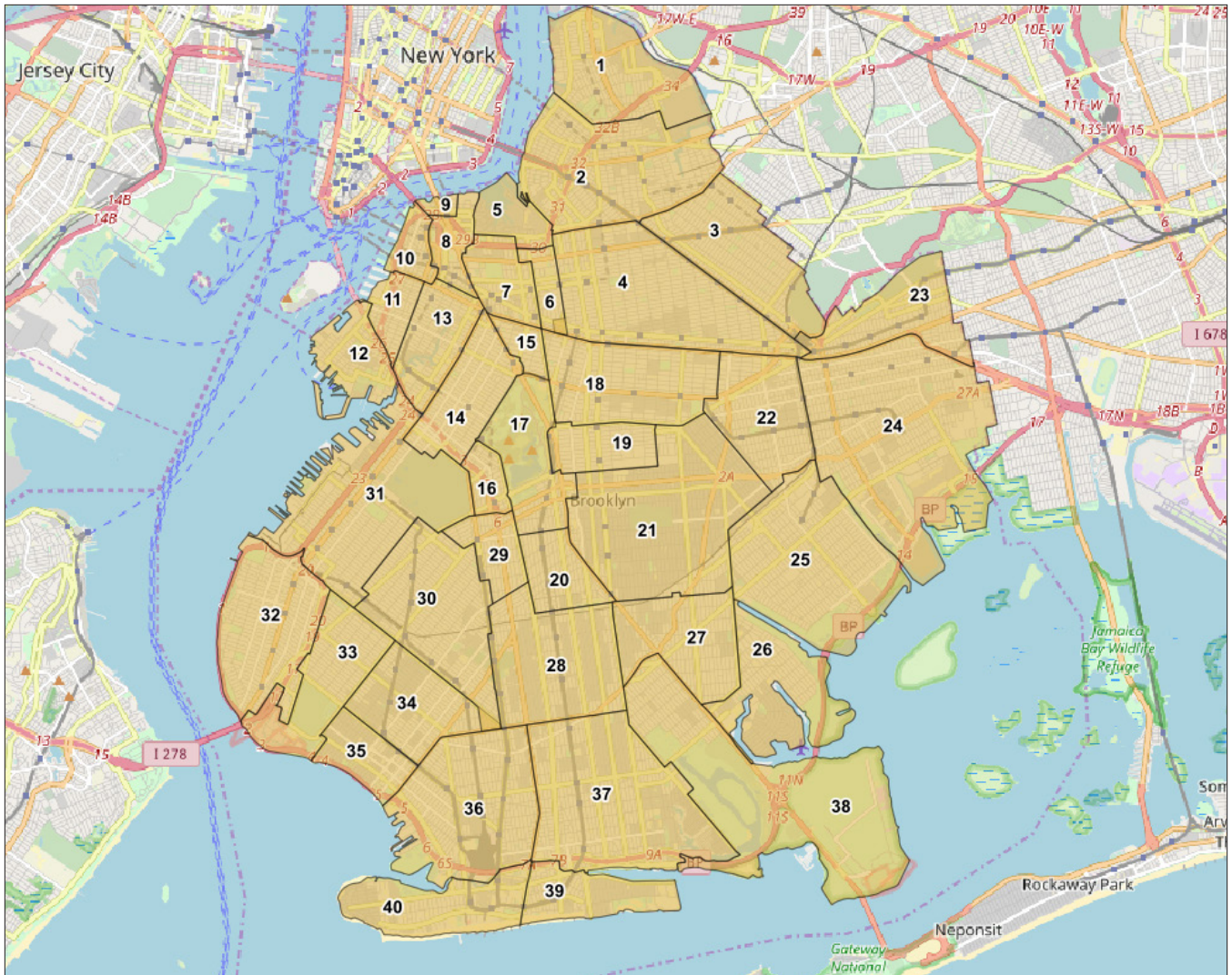
Area #	Submarket
1	Greenpoint
2	Williamsburg
3	Bushwick
4	Bedford-Stuyvesant
5	Navy Yard
6	Clinton Hill
7	Fort Greene
8	Downtown Brooklyn
9	Dumbo
10	Brooklyn Heights
11	Cobble Hill
12	Red Hook
13	Boerum Hill–Gowanus
14	Park Slope–South Slope
15	Prospect Heights

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.

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