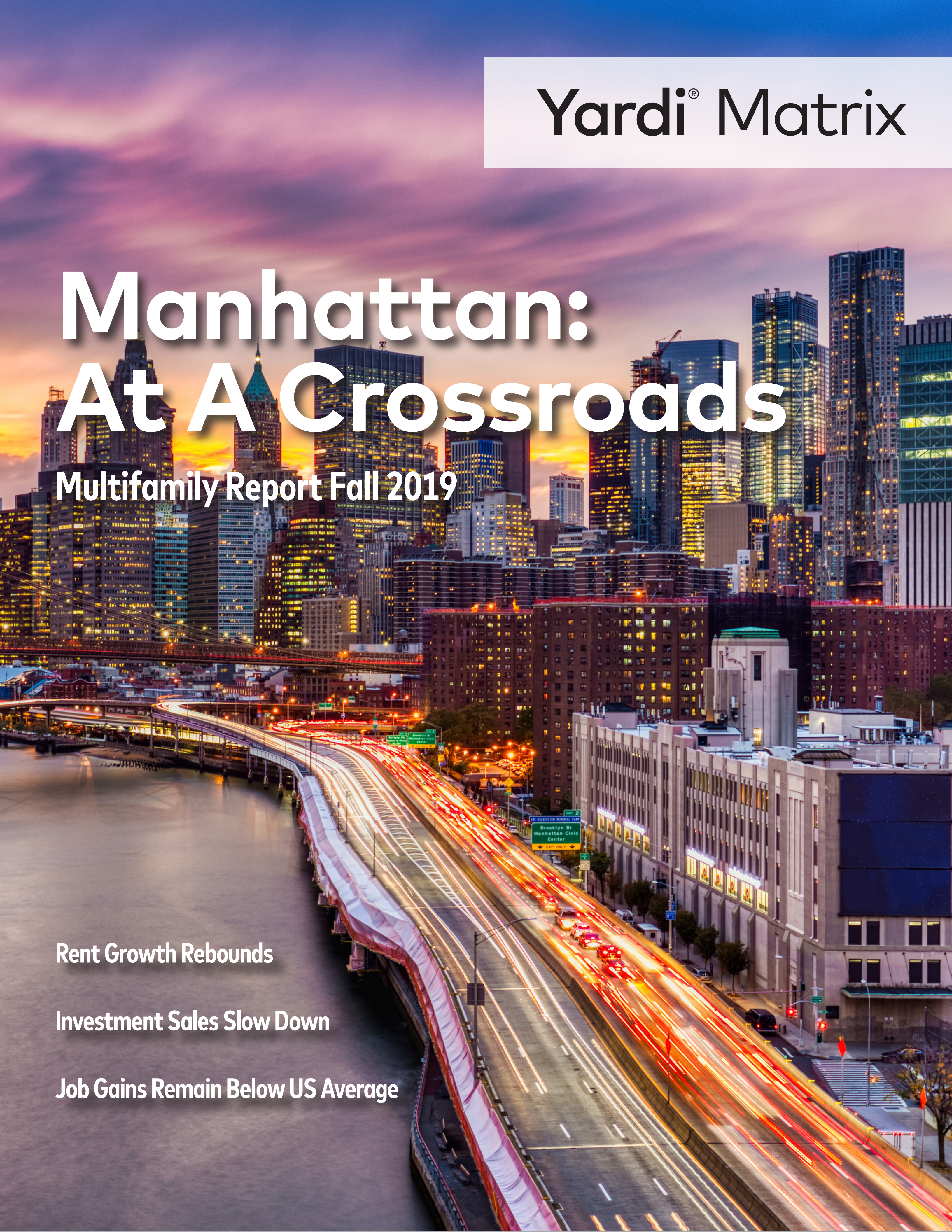
Yardi® Matrix

Manhattan: At A Crossroads

Multifamily Report Fall 2019



Rent Growth Rebounds

Investment Sales Slow Down

Job Gains Remain Below US Average

Market Analysis
Fall 2019

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Rent Growth Picks Up

Looking past this summer's new statewide rent regulations that managed to shake investors and raise more questions about the city's proverbial housing crisis, Manhattan's multifamily sector is on an upswing. The borough's year-over-year rent growth as of August surpassed the U.S. figure for the first time in many years. Meanwhile, at 98.5% as of July, occupancy in stabilized assets remained flat over 12 months.

New York City gained 111,500 jobs in the 12 months ending in June, with education and health services accounting for nearly two-thirds of this total. While developing at a slower pace than late-cycle bloomers such as Austin, Phoenix or Las Vegas, New York remains one of the country's top economic engines, as well as a primary destination for international migration and the main target for institutional and cross-border capital.

The borough had some 8,200 units underway as of August, with almost 1,400 apartments completed in the first eight months of the year. Meanwhile, the multifamily transaction volume dropped across the city, partially due to investors' precaution following the latest statewide rent regulations. Considering the relative balance between supply and demand, as well as the metro's affordability issues, we expect rent growth to slightly dampen across New York City by year-end, falling behind the U.S. average.

Recent Manhattan Transactions

The Hanley New York

City: New York City
Buyer: CIM Group
Purchase Price: $210 MM
Price per Unit: $ 1,381,579

Stonehenge 86

City: New York City
Buyer: Pan Am Equities
Purchase Price: $91 MM
Price per Unit: $1,810,000

25 E. 67th St.

City: New York City
Buyer: Black Spruce
Purchase Price: $70 MM
Price per Unit: $1,320,755

725 W. 184th St.

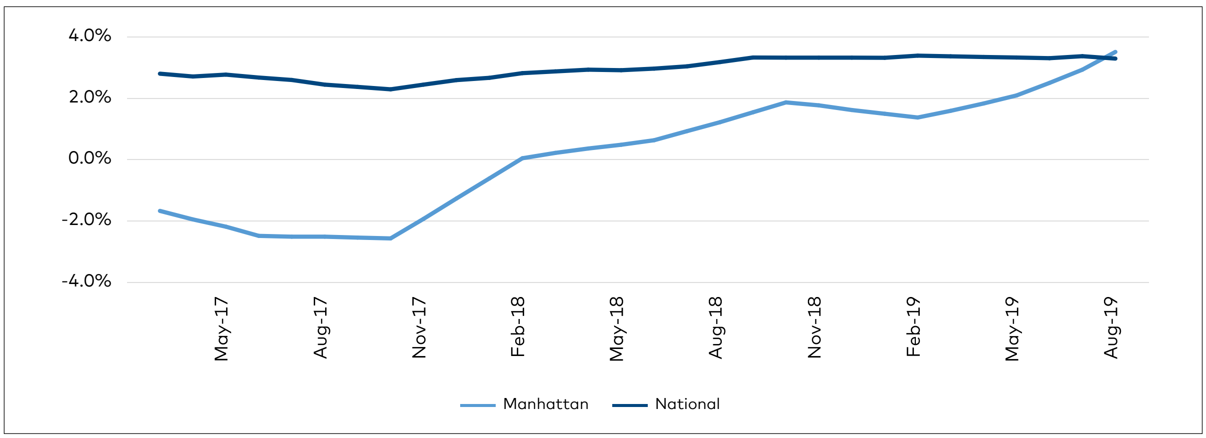
City: New York City
Buyer: Newcastle Realty Services
Purchase Price: $23 MM
Price per Unit: $295,570

On the cover: Photo by roman_slavik/iStockphoto.com

Rent Trends

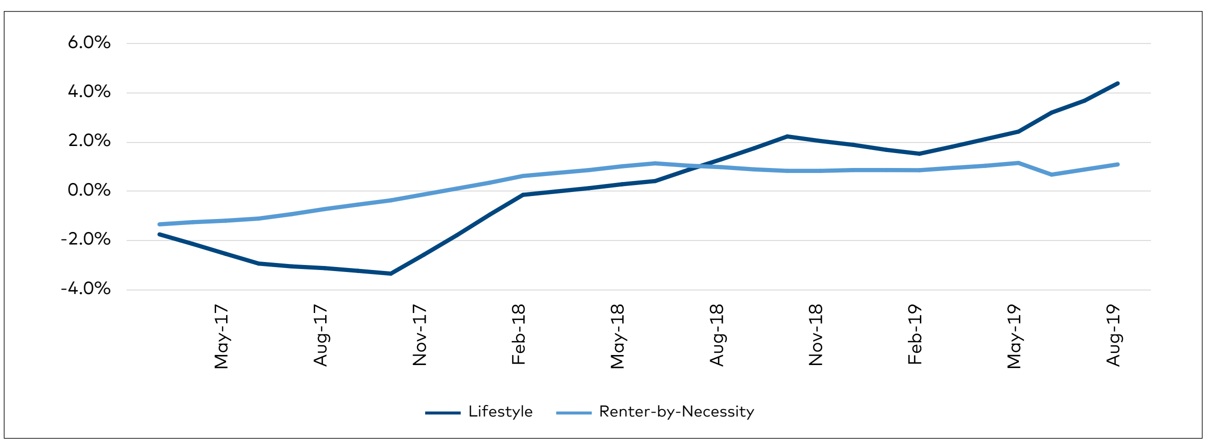
- While the new rent regulations have shaken investment sales, rent growth remains unabated for now, managing to rebound from the negative figures recorded less than two years ago. The average Manhattan rate was up 3.5% year-over-year through August, 20 basis points above the U.S. figure. This is the first time in more than three years that the borough outperforms the nation for rent growth.
- At $4,272 as of August, the average Manhattan rent was nearly three times the $1,472 U.S. figure and continued to sport consistent premiums over neighboring Brooklyn ($2,940), Queens ($2,586) and Long Island ($2,165). Manhattan's Lifestyle segment led growth, with rates up 4.4% year-over-year, to $4,706. Meanwhile, working-class Renter-by-Necessity rates rose 1.1%, reaching $3,405.
- The list of submarkets driving growth included the Financial District (8.0%), Lincoln Square (7.2%), Hell's Kitchen (6.6%) and Chelsea (4.8%). Meanwhile, rents were still dropping or were flat in submarkets such as Lennox Hill (-2.8%), Gramercy Park (-1.1%) and Flatiron (0.0%).
- Considering the relative balance between supply and demand, as well as the metro's affordability issues and shock waves propagated by the new regulations, we expect rent growth across New York City to moderate, returning below the U.S. average by year-end.

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)

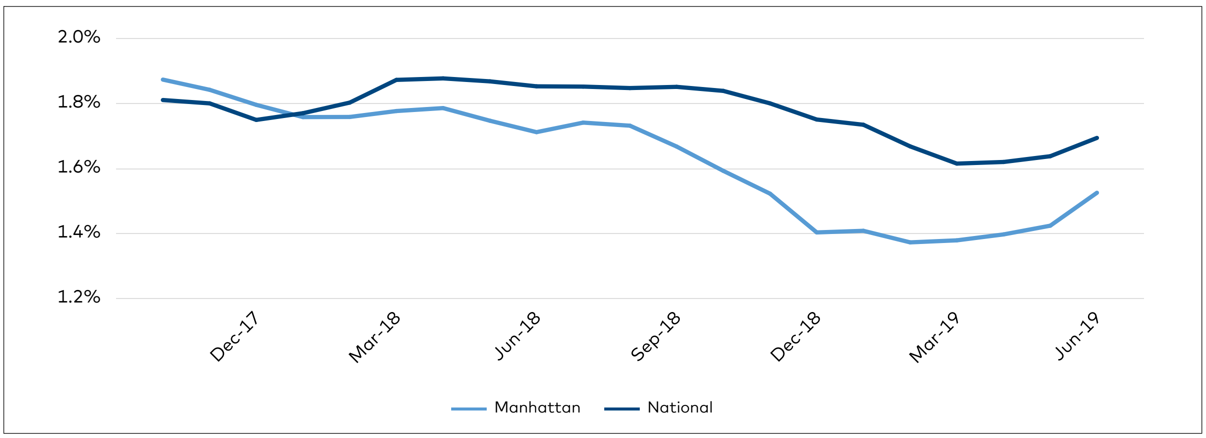


Source: YardiMatrix

Economic Snapshot

- New York City gained 111,500 jobs in the 12 months ending in June, with education and health services alone accounting for two-thirds of the total. Employment gains marked a 1.5% expansion, just 20 basis points below the national growth rate. Although domestic migration is not favoring expensive gateway metros at this stage in the cycle, Greater New York remains a prime destination for international migration, as well as the country's largest real estate haven.
- While employment growth lagged national figures for the past two years, New York continues to be a global economic juggernaut and the country's preferred destination, by far, for both domestic and cross-border capital. Manhattan is an epicenter for megadevelopments: Apart from the $25 billion Hudson Yards, which officially opened in March and is slated for full completion in 2024, the borough has more than a handful of skyscrapers underway or getting closer to breaking ground.
- The borough's list of major projects includes SL Green's $3.1 billion, 1.6 million-square-foot One Vanderbilt, which topped out this September. Meanwhile, JPMorgan Chase is planning a 1,300-foot-high tower at 270 Park Avenue and Brookfield is moving forward with its 5.4 million-square-foot Manhattan West master plan. Overall, Manhattan had 22.4 million square feet of office space under construction as of September, according to Yardi Matrix data, and that's just one asset class.

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	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%

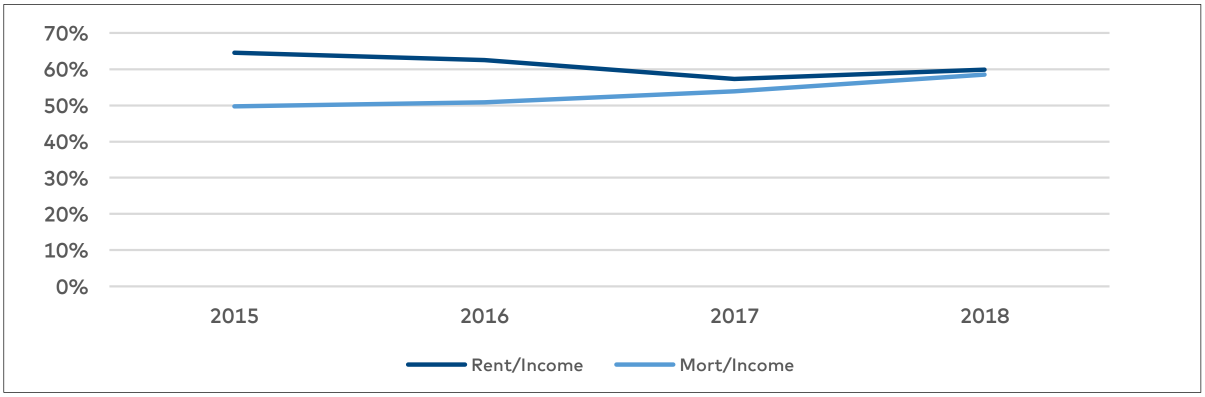
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

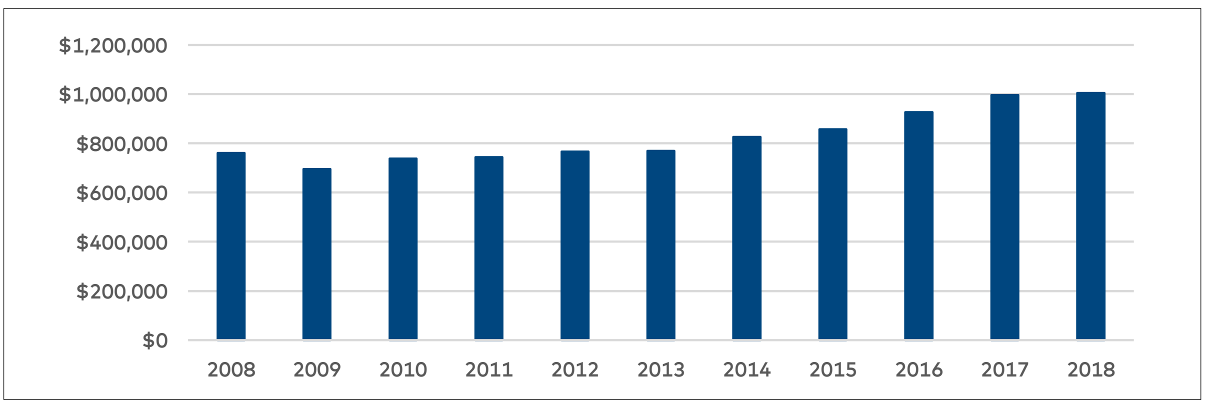
- With the metro's proverbial housing crisis deepening, Manhattan's median home value surpassed the $1 million mark last year, representing a 44% hike since 2009. Renting and owning are nearly equally unaffordable: In 2018, the average mortgage payment accounted for 58% of the area median income, while the average rent equated to as much as 60%.
- Costs are on the rise in the borough and there's little relief in sight for Manhattan's affordability crisis in the near future. According to Freddie Mac research, Greater New York's number of multifamily units considered affordable to very low-income households dropped by 5.6% between 2010 and 2017.

Manhattan Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Manhattan Median Home Price



Source: Moody's Analytics

Population

- Manhattan gained 75,000 residents between 2010 and 2017. That marked a 4.8% uptick, below the 5.3% U.S. figure.
- The borough added 2,600 people in 2017, for a 0.2% expansion.

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	1,638,790	1,646,521	1,657,183	1,662,164	1,664,727

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

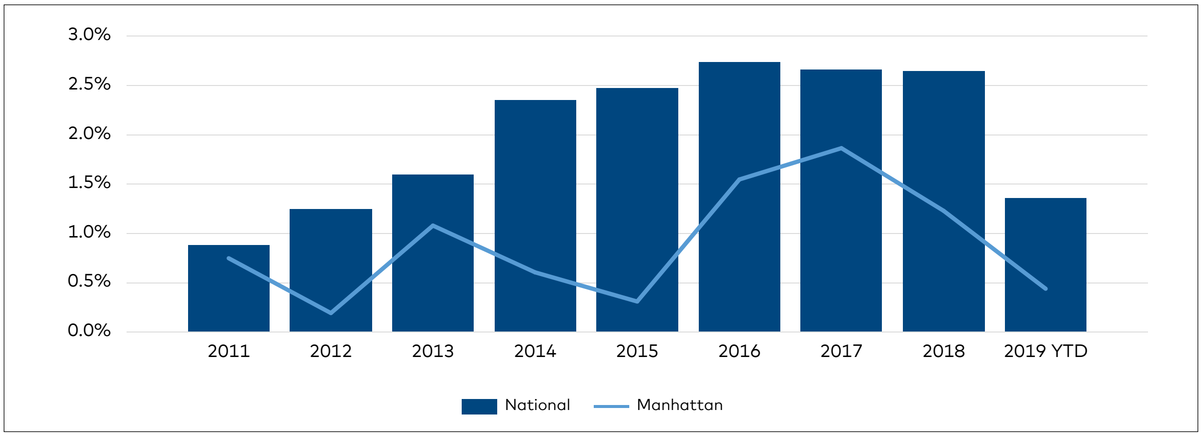
Supply

- Manhattan had 8,231 units underway in 44 projects as of August, with 1,394 units already completed in the first eight months of 2019. This follows the 3,890 units that came online last year, which accounted for 1.2% of the borough's rental stock, less than half the 2.6% U.S. figure. Since the beginning of 2015, more than 16,500 apartments came online in Manhattan, the vast majority of which are in upscale communities. Overall, we expect developers to add some 7,600 units to New York City's stock in 2019.

- The Financial District (1,558 units) led development, followed by East Harlem (1,099 units), Harlem (990 units), Murray Hill (959 units) and Lincoln Square (949). The first three submarkets encompass nearly half of the borough's total pipeline. While Lower Manhattan's shift toward more residential projects is not exactly breaking news, Harlem's recent resurgence is opening many new investment opportunities. The borough had almost 2,000 apartments underway north of Central Park as of September, many of which are within or very close to designated Opportunity Zones in Harlem.

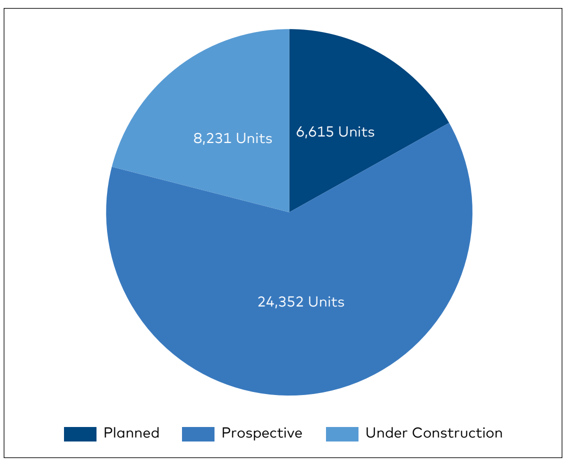
- In the context of decelerating development, occupancy in stabilized assets remained flat over 12 months, at 98.5% as of July, with the previous 12 months having recorded a 10-basis-point uptick.

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



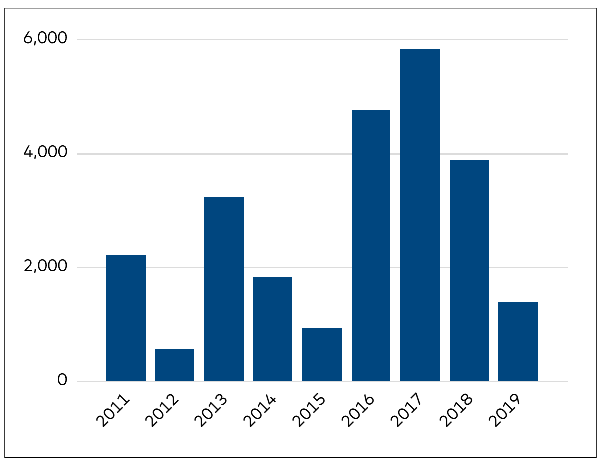
Source: YardiMatrix

Development Pipeline (as of August 2019)



Source: YardiMatrix

Manhattan Completions (as of August 2019)

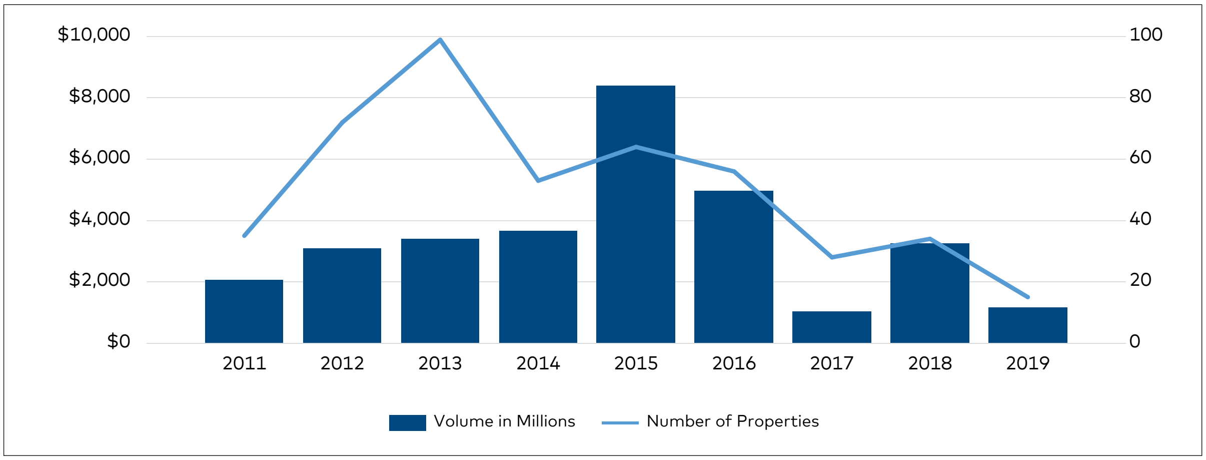


Source: YardiMatrix

Transactions

- Fifteen assets of 50 or more units traded in Manhattan this year through August, for a total of nearly $1.2 billion. This comes on the heels of last year's 34 transactions totaling $3.3 billion, a far cry from the $8.4 billion cycle peak recorded in 2015. With the market already sluggish in the first half of the year, the new statewide rent regulations that came into effect this summer caught many in the industry off guard, which in turn deepened the significant drop in transactions activity, as investors are reeling and recalibrating their strategies and balance sheets.
- The average per-unit price in Manhattan reached $909,635 through the year's first eight months, nearly seven times the U.S. figure and marking a significant gain over 2018's overall average of $641,542. Prices could soon drop as a result of the same rent control laws: With investors taking a step back and valuations dropping, owners looking to sell are feeling increasing market pressure.

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



Source: YardiMatrix

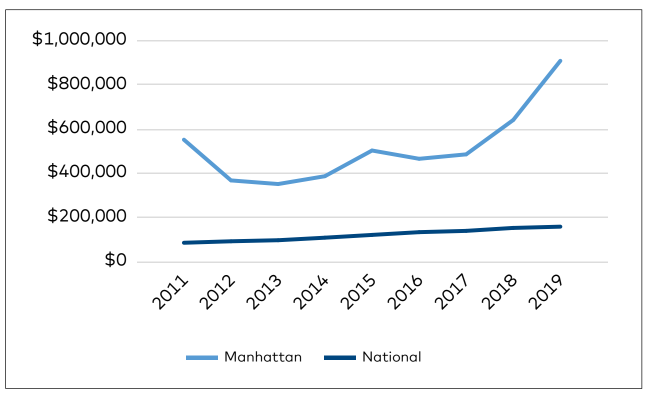
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Lincoln Square	643
Carnegie Hill	358
Lennox Hill	333
Theater District	290
Tribeca	260
NoMad	238
Upper West Side	229
Hell's Kitchen	193

Source: YardiMatrix

[1] From September 2018 to August 2019

Manhattan vs. National Sales Price per Unit



Source: YardiMatrix

Executive Insight

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MULTI-HOUSING NEWS

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 New York has converted more than half of its managed properties across the city to 100 percent renewable energy. Please describe to our readers 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

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Verbena Lands $103M For Rental Tower

Built in 1998, The Lanthian underwent recent renovations including upgraded apartment interiors, common areas and building amenities.

High-End, High-Profile High-Rise Tops Out

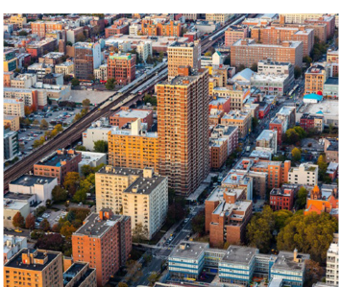
The joint-venture project of SJP Properties and Mitsui Fudosan America reaches 52 stories, legal challenges notwithstanding.

Related, Hudson Cos. Top Out Affordable Housing Project

The 340-unit property is the first newly built, permanently affordable housing community to be developed on New York City's Roosevelt Island.

BH3 Buys $195M Loan on Distressed Skyscraper

The firm has taken over the defaulted mortgage on 125 Greenwich St., an 88-story luxury condo tower situated in the Financial District.



L+M, Invesco Partner For $1.2B NYC Housing Deal

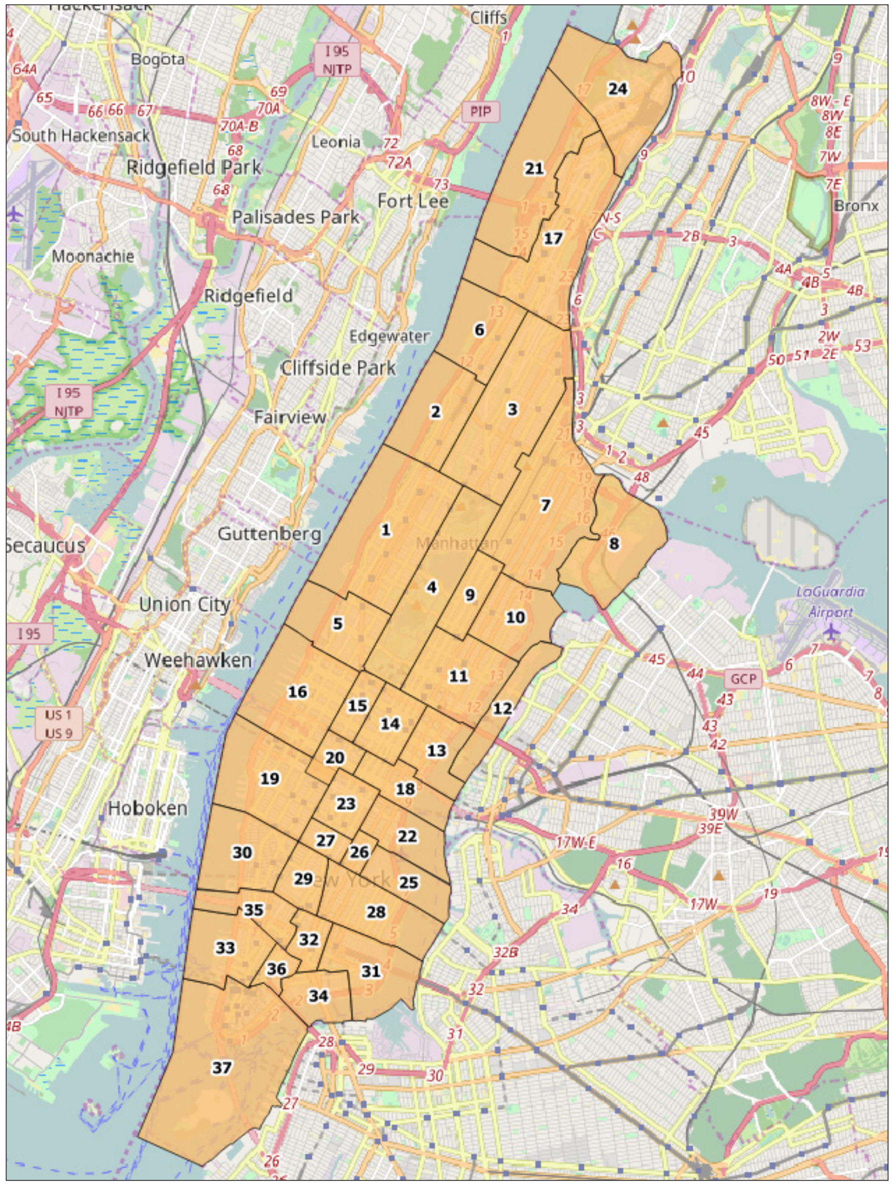
The duo agreed to buy more than 2,800 market-rate apartments in Manhattan from Urban American and Brookfield Asset Management.

$260M Harlem Project Moves Forward

Empire State Development approved a modified plan, along with $4.5 million in grants for the redevelopment project.

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.