Yardi® Matrix

Fine-Tuning Queens

Multifamily Report Fall 2019

Construction Boom Lingers

Occupancy Rate Tops Nation

Workforce Housing Rents Surge

Market Analysis
Fall 2019

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New Rental Laws Derail Investment Plans

Unrestrained by this summer's new statewide regulations, Queens rents rose sharply over the past two quarters. At 5.3% year-over-year through August, rent growth in the borough's working-class Renter-by-Necessity segment was the highest across the metro. The average RBN rate surpassed the $2,000 mark for the first time this summer, reaching $2,031.

New York City added 111,500 jobs in the 12 months ending in August, marking a 1.5% increase. Long Island City continued to be Queens' main development engine, with several large-scale projects underway. The borough's pipeline also includes Flushing Commons, a 1.8 million-square-foot megaproject, and the 17-acre Willets Point redevelopment. Furthermore, Queens' airports are undergoing major revamps. Apart from the $8 billion LaGuardia overhaul, American Airlines and British Airways announced a $344 million investment at JFK's Terminal 8.

Queens is on track to score a new development cycle peak, as more than 2,000 units already came online this year through August. Investment sales of larger assets, however, have shifted down a gear due to regulatory uncertainties before June, and might linger while investors weigh the effects of policy changes. With new supply and demand in relative balance, we expect the average New York City rent to increase just 1.3% in 2019.

Recent Queens Transaction

Parker Towers

City: New York City
Buyer: LivCor
Purchase Price: $475 MM
Price per Unit: $357,950

On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

- After accelerating from 1.8% as of May to 4.7% in June—when the new rent regulations were enacted—rate growth in Queens clocked in at 3.9% year-over-year through August, 60 basis points above the U.S. rate. At $2,586 as of August, the average rent in the borough still trailed Manhattan ($4,272) and Brooklyn ($2,940), but remained significantly above the $1,472 national average.

- The working-class Renter-by-Necessity segment led rent growth in Queens, with the average rate advancing 5.3%, to $2,031. Meanwhile, rents in the Lifestyle segment rose 2.7%, to a $3,433 cycle high.

- Rents advanced across all submarkets, with areas rich in workforce housing leading the pack: Jackson Heights (7.3%), Little Neck (7.1%) and Jamaica (6.5%). Nonetheless, Long Island City (3.4% to $3,771) remained the borough's priciest submarket by far, followed by Astoria (3.0% to $2,659).

- Despite the more than 6,000 units that came online since the beginning of 2017, Queens' occupancy rate in stabilized properties actually inched up 20 basis points over 12 months, to 99.1% as of July, higher than all other boroughs and topping the country's list of major metros. Overall, Yardi Matrix expects the average New York City rent to rise 1.3% in 2019.

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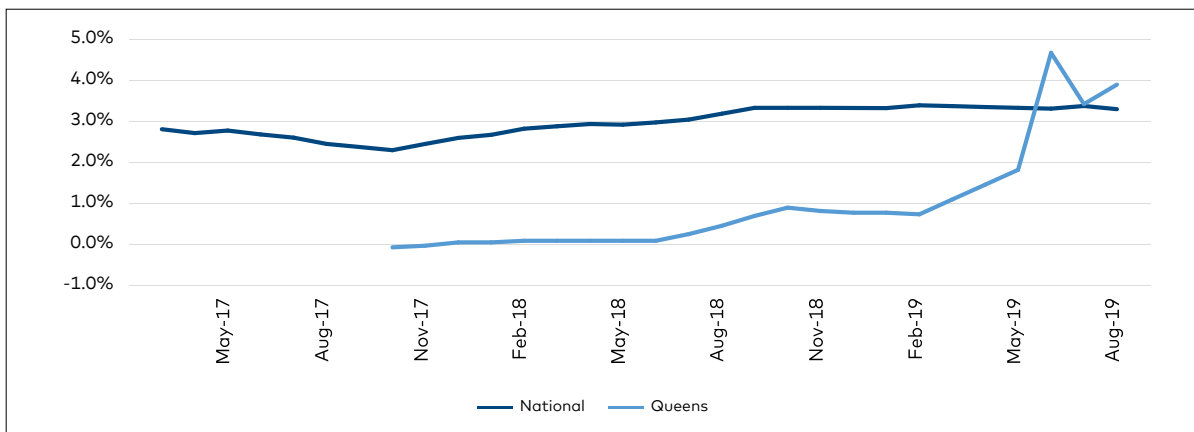
Source: YardiMatrix

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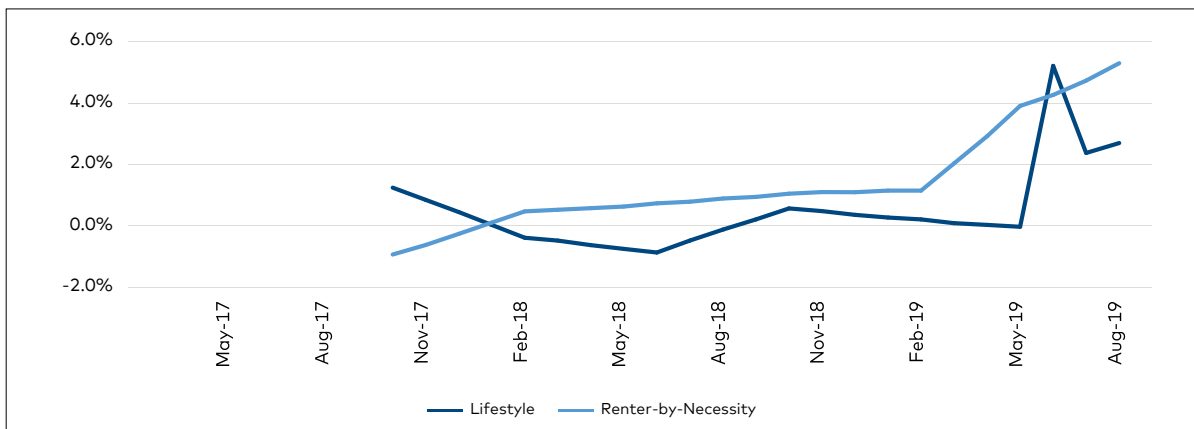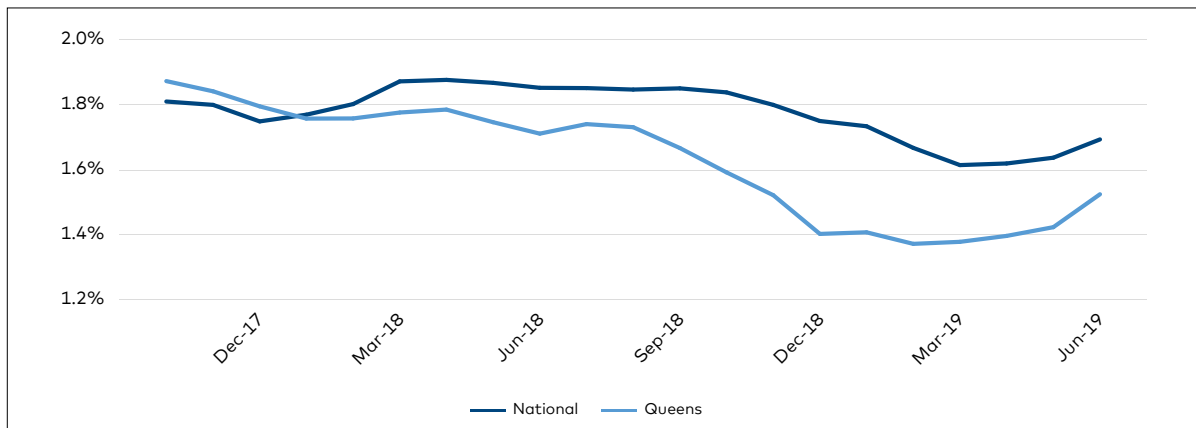

Source: YardiMatrix

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 national figure. Education and health services led growth by far (70,800 jobs), followed by professional and business services (17,000).

- Long Island City continues to be a development beehive. Providing easy access to several subway lines, Manhattan employment hubs, the Cornell Tech campus on Roosevelt Island and MoMA PS1, the submarket is a development magnet. After Amazon's decision to scrap its Queens HQ2 plans, city officials and developers started figuring out the future of the 28-acre swath of waterfront. Preliminary proposals include office space, apartments, schools and parks. Outside Long Island City, Flushing is also brimming with development. F&T Group is building The Tangram, a 1.2 million-square-foot project set to feature luxury residential, hotel and retail space, a theater and office condos.

- Queens' warehouse and light industrial properties are seeing renewed interest as a result of New York City's rent reform legislation, which has made some investors shy away from residential assets. Innovo Property Group purchased an old warehouse for $75 million and intends to redevelop it into a logistics center. Big institutional players such as Seagis Property Group and Turnbridge Equities have also expanded their Queens industrial footprints.

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

- After seven years of appreciation, Queens' median home price reached $585,344 in 2018, a 61.3% rise since 2012. Renting was slightly more affordable than owning last year; the average rent comprised 42% of the area median income, while the average mortgage payment accounted for 45%.

- Despite remaining less expensive than Brooklyn or Manhattan, Queens keeps its share of severe affordability issues. The new statewide rent regulations came into effect this summer, but it is yet too early to determine their actual effects. Long Island City remained the most expensive Queens neighborhood, with the average rent reaching $3,771 in August.

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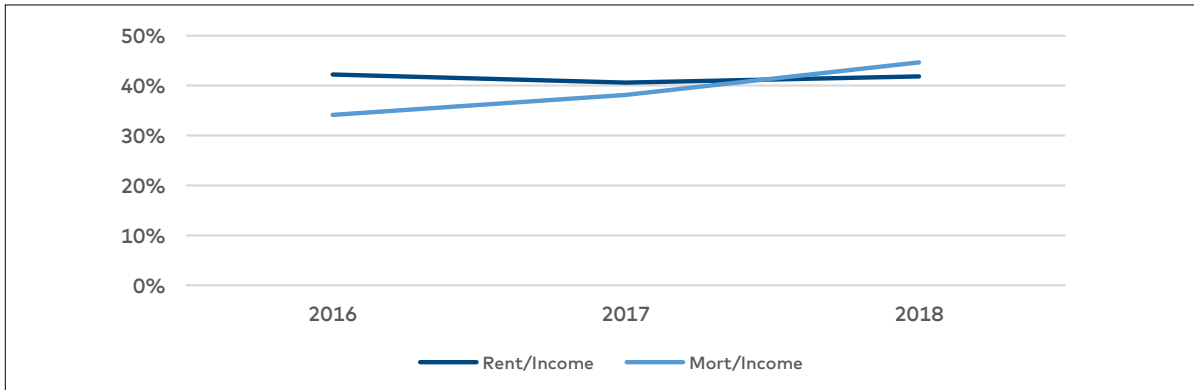
Sources: YardiMatrix, Moody's Analytics

Queens Median Home Price
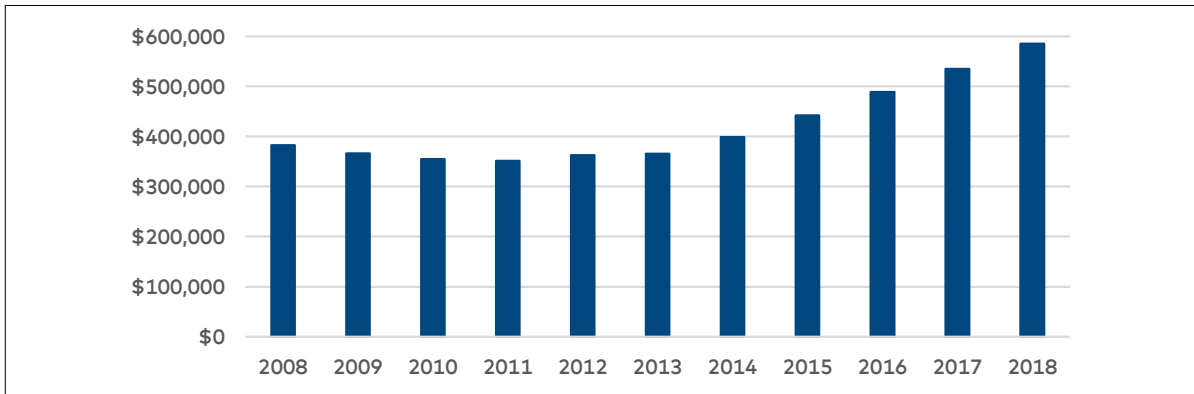
Source: Moody's Analytics

Population

- Queens gained 50,816 residents between 2013 and 2017, for a 2.2% expansion.

- Population losses have been mostly limited to upstate New York until recently, but the trend is slowly advancing toward the five boroughs.

Queens vs. National Population

	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Queens County	2,307,766	2,328,004	2,346,005	2,356,044	2,358,582

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

Supply

- A total of 8,760 units in 20 properties were underway in Queens as of August, with Long Island City accounting for almost two-thirds of the borough's construction pipeline. In a few short years, Long Island City has undergone a complete makeover—from a submarket defined by parking lots and warehouses to one of New York City's most coveted residential destinations.

- A total of 2,458 units came online in Queens last year for a new cycle high, as the development surge is showing no signs of stopping. More than 2,000 units were completed this year through August, and the borough is on track to surpass the 2018 cycle peak.

- Some of the largest projects underway are in Long Island City, with Tishman Speyer among the area's most prolific developers. Using a $640 million construction loan from Bank of America, the company is wrapping up work at Jackson Park, an 1,872-unit community that will include co-living spaces. Directly across the street, Tishman Speyer is also building The JACX, a 1.2 million-square-foot, fully leased office development set to open next year.

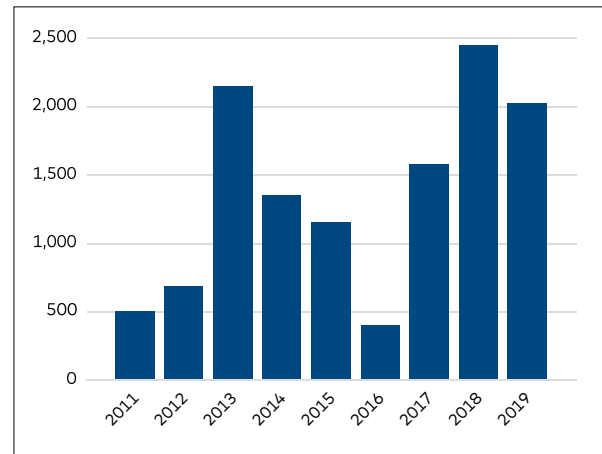**Queens vs. National Completions as a Percentage of Total Stock** (as of August 2019)
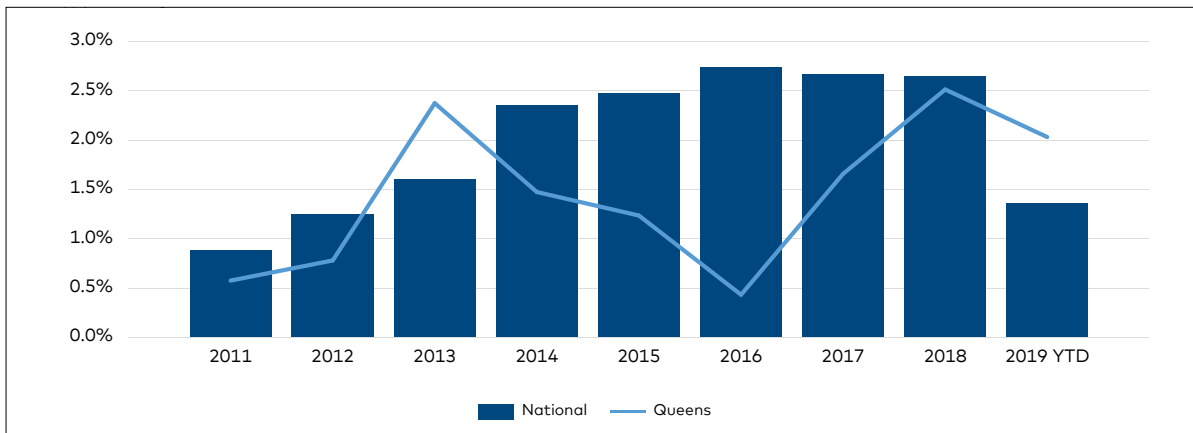
Source: YardiMatrix

Development Pipeline (as of August 2019)
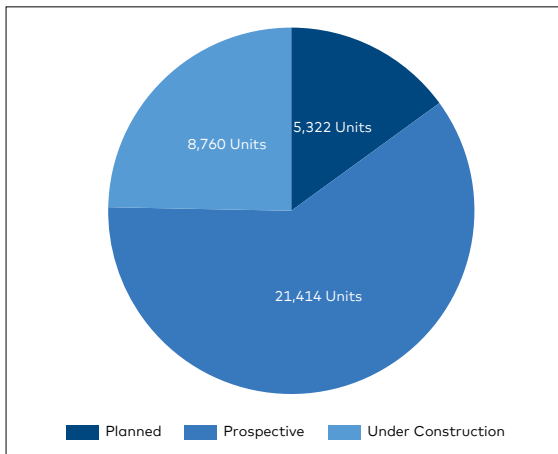
Source: YardiMatrix

Queens Completions (as of August 2019)

Source: YardiMatrix

Transactions

- Tempered by regulatory uncertainties ahead of this summer's statewide changes, the multifamily investment sales market shifted down a gear, with no properties of 50 or more units trading in the borough year-to-date through August. This comes on the heels of last year's total transaction volume of $700 million, Queens' second-highest annual peak during this cycle.

- LivCor's $475 million acquisition of the 1,327-unit Parker Tower in November significantly impacted last year's $328,069 average price per unit. Blackstone Group's apartment portfolio company purchased the 1960-built asset in the heart of Forest Hills from Jack Parker Corp.

- With investors on the sidelines prior to and right after the new rent control law went into effect, this year's investment activity, at least for larger assets, is likely to remain among the slowest in a decade.

Queens Sales Volume and Number of Properties Sold (as of August 2019)
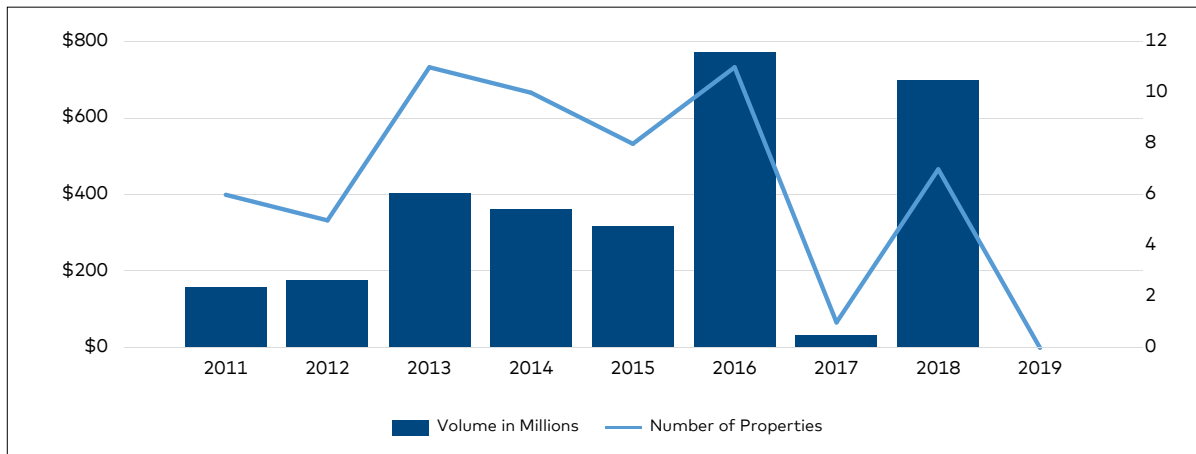
Source: YardiMatrix
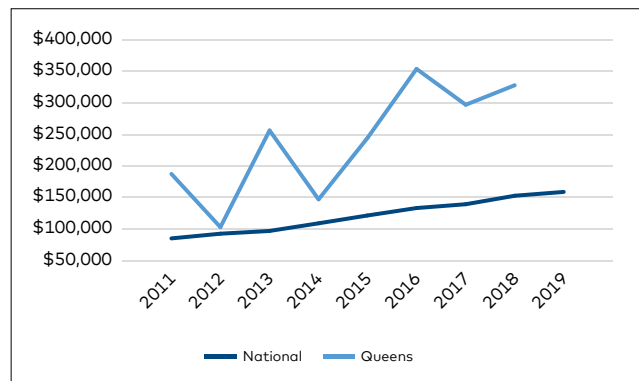
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Forest Hills–Rego Park	475

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

Queens vs. National Sales Price per Unit

Source: YardiMatrix

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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Long Island City Community Breaks Ground

JMH Development and Mettle Property Group are building the 143-unit property. The development team secured a $56 million construction loan from Scale Lending in May.

Affordable Passive House Community Breaks Ground

The 152-unit building in the South Bronx is reserved for formerly homeless and low-income seniors. The development secured funding through several local entities.

### World's Tallest Residential Building Tops Out

Located on Billionaire's Row, Extell Development's Central Park Tower rises 1,550 feet above New York City. The 179-unit supertall condo building is located at 57th St.

Related, Hudson Cos. Top Out Affordable Housing Project

Situated in the East River, between Manhattan and Queens, the 340-unit building is the first newly built, permanently affordable housing to be developed on New York City's Roosevelt Island.

Queens Submarkets
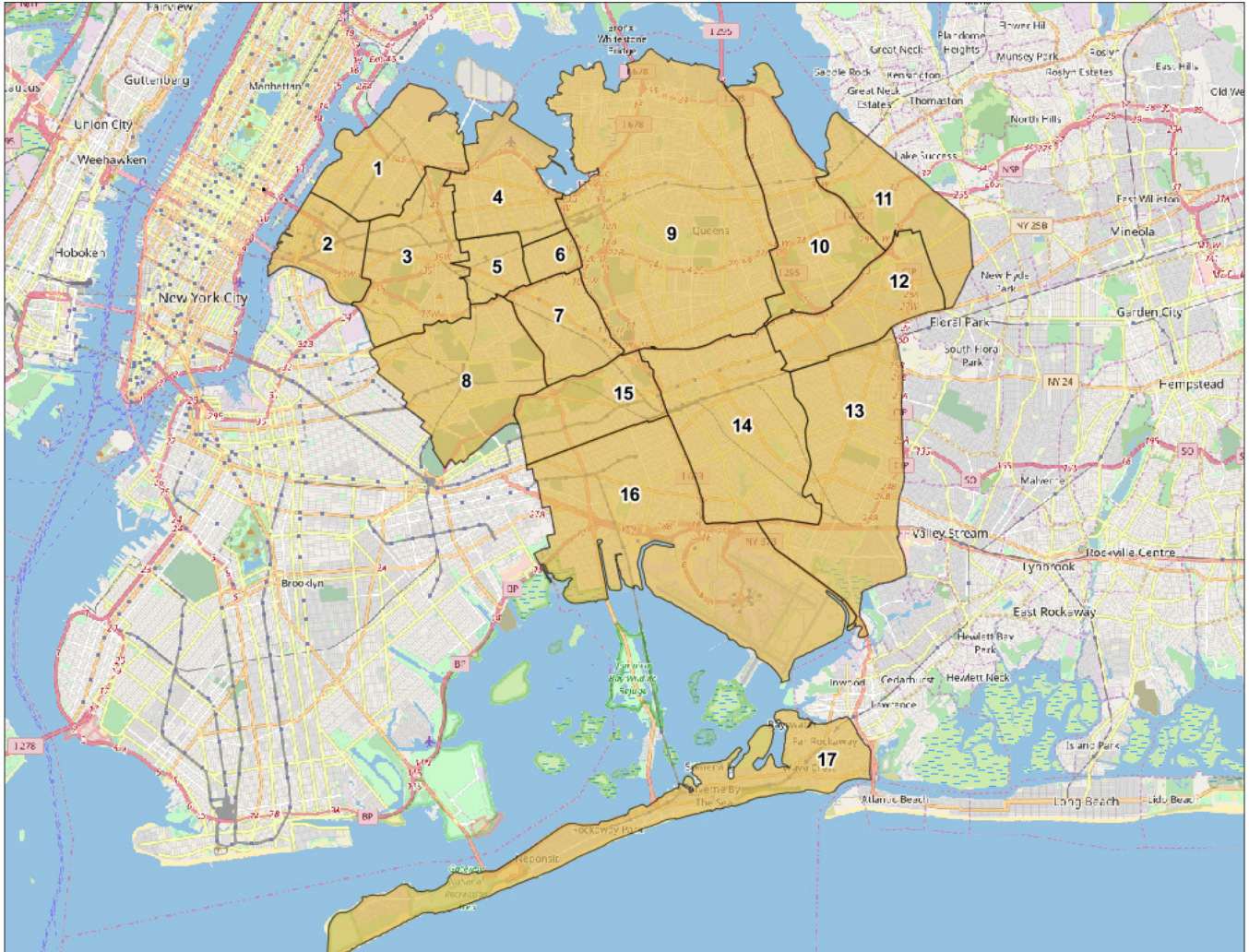
Area #	Submarket
1	Astoria
2	Long Island City
3	Woodside
4	Jackson Heights
5	Elmhurst
6	Corona
7	Forest Hill–Rego Park
8	Middle Village
9	Flushing

Area #	Submarket
10	Bayside
11	Little Neck
12	Queens Village
13	St. Albans
14	Jamaica
15	Kew Gardens
16	Ozone Park–JFK
17	Rockaway

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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