Marcus & Millichap

Multifamily Research
Market Report

Second Quarter 2017

New York City

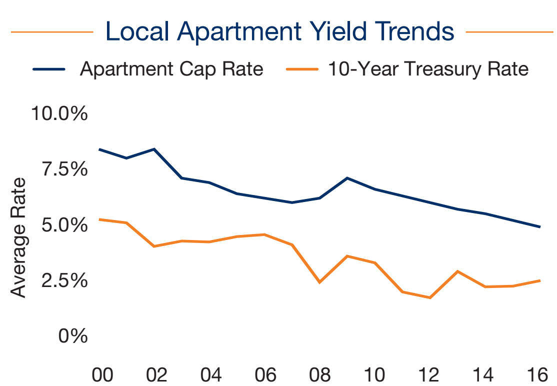
Vacancy Remains Extremely Tight Amid Abundant Multifamily Pipeline

Job creation and household formation underpin apartment demand. Boasting a diverse range of industries and professions, New York City establishments remain steady job creators, even as the pace of employment growth has moderated in recent years. Due to the high cost of owner-occupied housing, the vast majority of new housing demand has gone into the multifamily rental segment, particularly in the core boroughs of Manhattan and Brooklyn. As a result of these factors, vacancy remains extremely tight, while underlying submarket performance has varied based on the timing and delivery of major residential and mixed-use projects.

Extensive development pipeline dominated by Brooklyn, Manhattan and Queens. With more than 35,000 units slated for delivery in 2017, builders remain highly active in the metro. The slate of projects is widespread, with the highest volumes in Long Island City, Downtown Brooklyn and the Far West Side of Manhattan. In addition to the wide array of locations, the scale and scope of the projects are also expanding. Eleven projects are each slated to deliver more than 500 units, led by the Hayden in Long Island City with nearly 1,000 apartments. Despite the significant development over the past several years, operational demand remains steady, supporting extremely low vacancy rates.

Multifamily 2017 Outlook

Metro	Vacancy	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y Change
Bronx	1.3%	-40	$1,360	1.1%
Brooklyn	3.1%	70	$2,170	2.4%
Manhattan	2.9%	20	$3,600	0.5%
Queens	1.4%	-20	$2,000	1.9%
Staten Island	3.1%	-20	$1,520	1.6%
Westchester County	3.9%	20	$1,890	1.5%

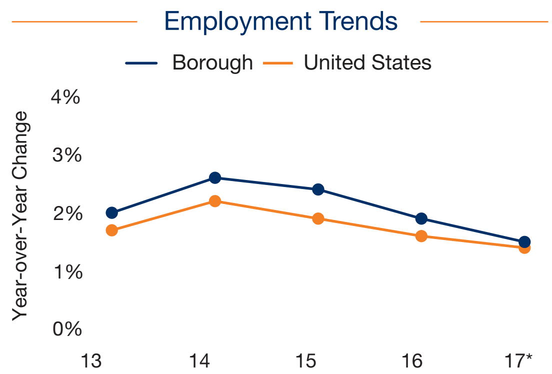


Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

- Deal flow and dollar volume slipped roughly 20 percent over the past 12 months, driven by a slowdown in listings amid uncertainty over the outlook for interest rates and 421-a regulation. Investors remain most active in Manhattan and Brooklyn.
- While institutional investors have focused primarily on marquee Class A buildings in Manhattan, deal flow and transactions have been dominated by Class C offerings, particularly in Brooklyn. Cap rates for these offerings are roughly 10 to 30 basis points higher than the Class A assets.
- Metrowide, cap rates are in the high-4 percent band, driven primarily by the low-4 percent first-year returns in Manhattan. Meanwhile, outer boroughs' assets typically trade in the high-4 and mid-5 percent range.
- A widening gap between buyers and sellers has emerged over the past months as operations have become more challenged, lengthening closing times and placing upward pressure on cap rates.

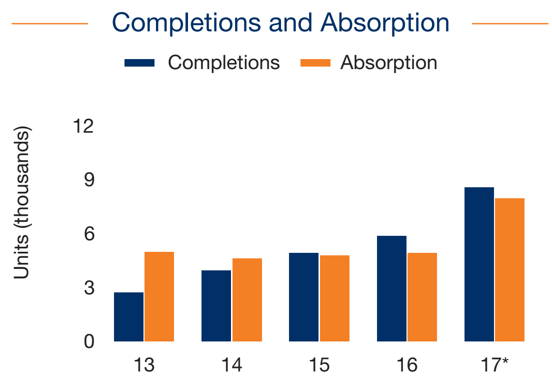
CURRENT TRENDS



EMPLOYMENT:

1.9% increase in total employment Y-O-Y

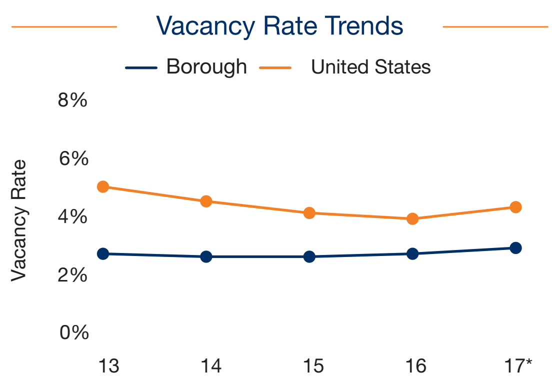
- Manhattan establishments added 47,200 employees during 2016, expanding total employment by 1.9 percent. The increase follows growth of 2.4 percent and 2.5 percent in 2015 and 2014, respectively.
- Since the current expansion began in 2009, more than 318,000 positions have been created in the borough, a 14.4 percent rise in total employment.



CONSTRUCTION:

6,000 units completed Y-O-Y

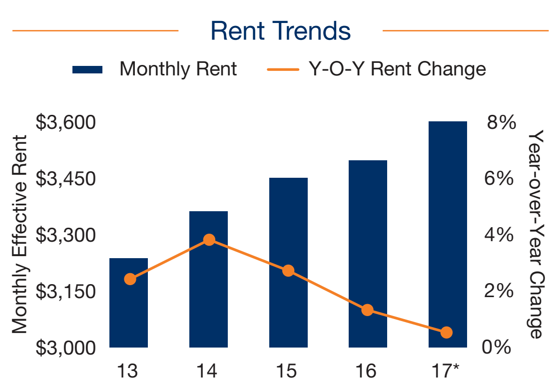
- Over the past year, two large projects were completed. The Eugene at Hudson Yards contained 844 units and the American Copper Buildings in Murray Hill contained 761 rentals.
- Through the remainder of this year, 5,750 apartments are expected to be delivered. Nearly 2,900 target the Chelsea/Far West Side submarket.



VACANCY:

10 basis point decrease in vacancy Y-O-Y

- Submarket performance was heavily varied over the past year, with Wall Street/Battery Park falling 150 basis points to 4.1 percent, while vacancy in the Chelsea/Far West Side submarket rose 150 basis points to 3.7 percent.
- Vacancy drops were recorded most often in lower-rent submarkets, underscored by the 100-basis-point drop in Morningside Heights to 3.6 percent.



RENTS:

0.2% increase in effective rents Y-O-Y

- Rent growth varied, led by properties in Roosevelt Island, where rates expanded by 5.8 percent to $3,487 per month. East Harlem properties posted a 5.4 percent decline to $2,425 per month.
- Due to significant construction, Chelsea/Far West Side and Flatiron/Gramercy/Murray Hill posted sharp vacancy increases, up 1.5 percent and 1.2 percent, respectively.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

25,800

FIVE-YEAR HOUSEHOLD GROWTH*

25,000

* 2017-2022

1Q17 POPULATION AGE 20-34
(Percent of total population)

Metro **30%**

U.S. 21%

POPULATION OF AGE 25+
PERCENT WITH BACHELOR DEGREE+**

Metro **60%**

U.S. Average 29%

**2Q16

1Q17 MEDIAN HOUSEHOLD INCOME

Metro **$77,991**

U.S. Median $58,218

1Q17 TOTAL HOUSEHOLDS*

52% Rent

48% Own

* NYC Metropolitan Statistical Area

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
East Harlem	1.7%	-30	$2,425	-5.4%
Roosevelt Island	1.9%	0	$3,487	5.8%
East Village/Lower East Side	1.9%	0	$3,930	1.2%
Upper East Side	2.0%	-70	$3,702	2.8%
North Manhattan	2.1%	-40	$1,825	1.6%
Soho/Tribeca/West Village	2.1%	-40	$4,144	2.3%
Harlem	2.7%	-10	$1,787	-1.3%
Midtown East	2.8%	40	$3,888	2.2%
Upper West Side	3.4%	-20	$4,183	1.0%
Morningside Heights	3.6%	-100	$2,716	-1.3%
Overall Metro	**2.7%**	**-10**	**$3,603**	**0.2%**

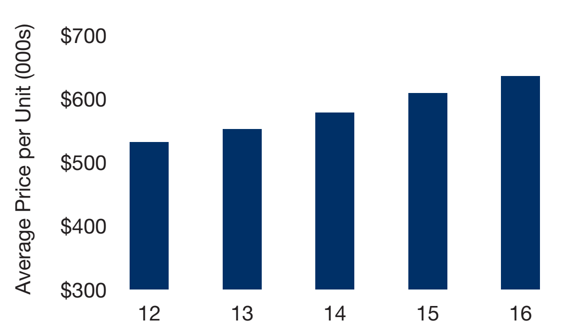
SALES TRENDS

Slower Pace of Deals as Buyers Focus on Assets in Transitioning Neighborhoods

- Over the past year, transaction velocity fell roughly 20 percent as fewer listings came to market. The Upper East Side and Flatiron/Gramercy/Murray Hill submarkets led investment volume and activity.
- The average price per unit slid nearly 7 percent to more than $560,000 per door as lower-quality assets dominated trading. The highest prices were paid in the Soho/Tribeca/West Village submarket, nearing $1 million per unit.

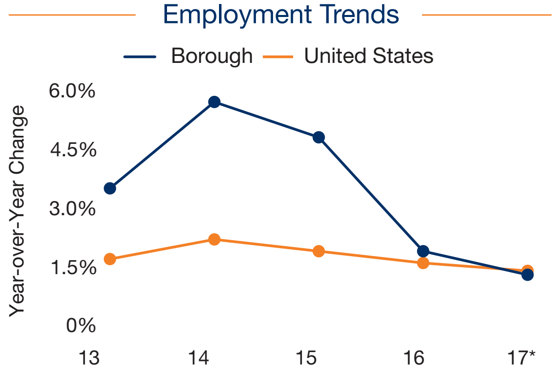
Outlook: The re-tenanting of mixed-use properties in transitioning neighborhoods provides excellent value potential.

Pricing Trends



Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

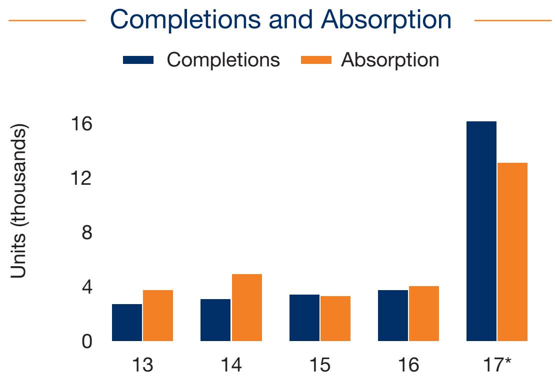
CURRENT TRENDS



EMPLOYMENT:

1.9% increase in total employment Y-O-Y

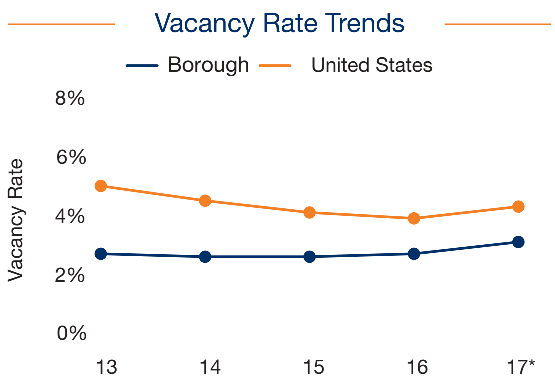
- Over the past year, Brooklyn employers hired 13,100 workers, which follows the expansions of 4.8 percent and 5.7 percent in 2015 and 2014, respectively.
- More than 149,000 people have found work since the beginning of 2009, accounting for a 27 percent rise in total employment.



CONSTRUCTION:

5,860 units completed Y-O-Y

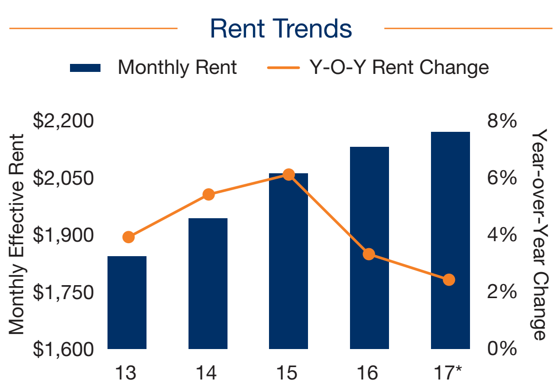
- Over the past year, builders completed roughly 45 percent more apartments than in the previous year, when 4,400 units were delivered. Popular sites included Greenpoint, Williamsburg and Downtown Brooklyn.
- More than 12,750 rentals are slated for completion this year, led by 33 Bond Street, which will contain 714 units in a 25-story building.



VACANCY:

10 basis point increase in vacancy Y-O-Y

- Vacancy ticked up to 2.7 percent as the high volume of development outpaced strong net absorption.
- Vacancy fell sharply in areas farther away from the East River, where development was much less concentrated. Meanwhile, the Williamsburg/Greenpoint/Navy Yard vacancy rate rose 30 basis points to 4.3 percent as development accelerated.



RENTS:

3.1% increase in effective rents Y-O-Y

- The average effective rent rose to $2,148 per month, driven by a 6.1 percent gain in the Bed-Stuy/Ft. Greene/Bushwick submarket to $2,155 per month.
- Under considerable development, the DUMBO/Downtown Brooklyn and Williamsburg/Greenpoint/Navy Yard submarkets fell 0.2 percent and 0.6 percent to $3,354 and $3,029 per month, respectively.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

73,800

FIVE-YEAR HOUSEHOLD GROWTH*

46,000

* 2017-2022

1Q17 POPULATION AGE 20-34
(Percent of total population)

Metro **25%**

U.S. 21%

POPULATION OF AGE 25+
PERCENT WITH BACHELOR DEGREE+**

Metro **31%**

U.S. Average 29%

**2Q16

1Q17 MEDIAN HOUSEHOLD INCOME

Metro **$52,940**

U.S. Median $58,218

1Q17 TOTAL HOUSEHOLDS*

52% Rent

48% Own

* NYC Metropolitan Statistical Area

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Southern SE Brooklyn	0.9%	-50	$1,658	3.4%
Ditmas Park/Flatbush	1.2%	0	$1,823	1.3%
Crown Heights/Prospect Lefferts Gardens	1.6%	-20	$1,470	0.6%
Southwest Brooklyn	1.9%	-40	$1,527	2.4%
Bed-Stuy/Ft. Greene/Bush-wick	3.1%	50	$2,155	6.1%
Park Slope/Prospect Heights	3.8%	40	$2,276	3.8%
Williamsburg/Greenpoint/ Navy Yard	4.3%	30	$3,029	-0.6%
DUMBO/Downtown Brooklyn	9.2%	140	$3,354	-0.2%
Overall Metro	**2.7%**	**10**	**$2,148**	**3.1%**

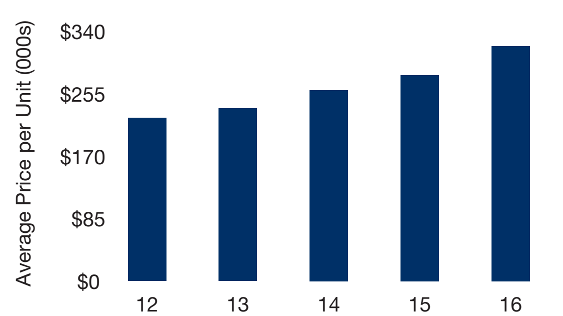
SALES TRENDS

Prices Remain Elevated as Deal Flow and Dollar Volume Contract

- Amid an environment of rapidly rising prices, buyers are slowing their purchases in Brooklyn, leading to a 27 percent decline in transactions over the past year.
- The average price per unit exceeded $300,000, up roughly 3 percent from the prior year, while cap rates remained in the high-4 percent band. Buyers were particularly active in the Southwest Brooklyn, Crown Heights and Williamsburg/Greenpoint submarkets.

Outlook: Properties that can be converted from industrial space into apartments will command a robust premium in the marketplace.

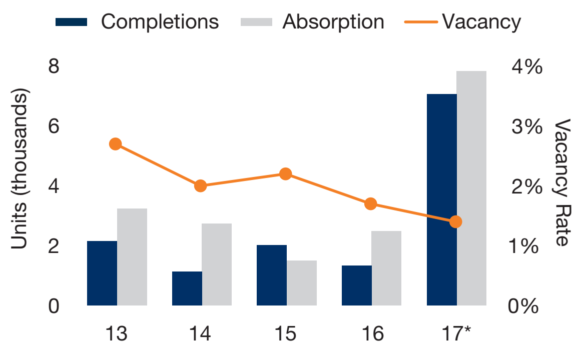
Pricing Trends



Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Marcus & Millichap

Supply and Demand



VACANCY AND RENT:

50 basis point decrease in vacancy Y-O-Y

- Vacancy declined to 1.6 percent over the past year, driven by a tenant shift toward more affordable properties during the period.

1.8% increase in effective rents Y-O-Y

- The average effective rent climbed to $1,982 per month, boosted by the delivery of several Class A properties in Long Island City. In the previous year, the average rent tacked on 6.4 percent.

CONSTRUCTION:

1,720 units completed Y-O-Y

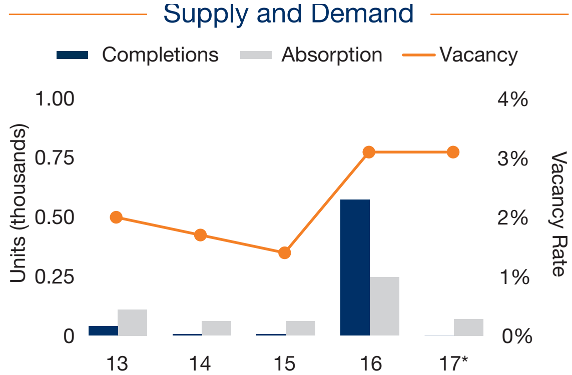
- A slower pace of development, down from 2,130 apartments delivered in the previous 12 months, was led by the delivery of Queens Plaza South in Long Island City.
- Several large projects will be completed this year and will account for 6,440 units, highlighted by the Hayden and Eagle Lofts in Long Island City. The projects account for 974 and 790 rentals, respectively.

INVESTMENT HIGHLIGHTS:

- Transaction velocity contracted significantly over the past year, with closed deals down nearly 30 percent. Buyers focused on properties in Astoria and Flushing.
- Cap rates remain in the low-4 percent band, with prices in the mid-$250,000 range, depending on quality and location. Dollar volume was up considerably during the year.

STATEN ISLAND

Supply and Demand



VACANCY AND RENT:

160 basis point increase in vacancy Y-O-Y

- Vacancy rose to 3.3 percent as tenants sought new accommodations throughout the metro over the past year, despite limited development during the period.

7.2% increase in effective rents Y-O-Y

- Despite a sharp rise in vacancy, the average effective rent soared to $1,503 per month. However, concessions also picked up during the past year; they now account for 2.9 percent of asking rent.

CONSTRUCTION:

570 units completed Y-O-Y

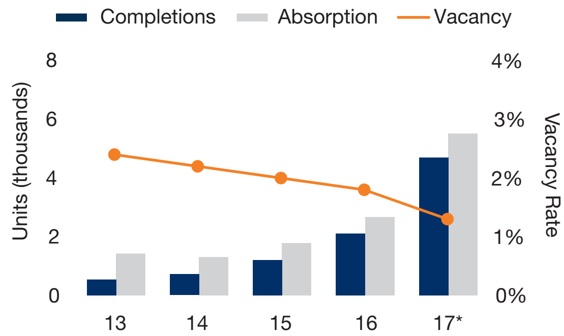
- After delivering 570 units in the second quarter of last year, the pace of development has slowed to a halt. There are two projects currently underway with delivery dates in 2018 and 2019. In the 12 months ending in the first quarter last year, a minimal number of units were completed, underscoring the lack of construction currently taking place in the borough.

INVESTMENT HIGHLIGHTS:

- Transaction velocity fell moderately over the past year as fewer owners opted to list their properties. Closed transactions were executed with cap rates in the low-9 percent band.
- The average price per unit was in the high-$170,000 per door range, driven by the quality of assets that changed ownership.

* Forecast

Supply and Demand



VACANCY AND RENT:

50 basis point decrease in vacancy Y-O-Y

- Despite the high volume of construction, vacancy remains extremely low at just 1.6 percent. Net absorption nearly doubled completions over the past year.

1.9% increase in effective rents Y-O-Y

- While net absorption remains extremely strong, the high volume of units coming to market is weighing on rent growth in the borough. Effective rent growth declined 1.6 percent from the previous year.

CONSTRUCTION:

2,000 units completed Y-O-Y

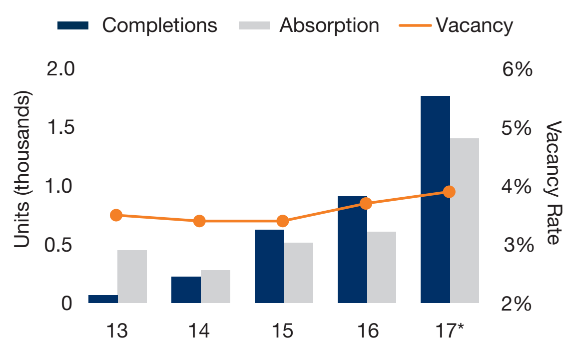
- Development activity picked up moderately over the past year. The South Bronx submarket was the most active during the year.
- Several large projects will be completed through the remainder of the year, with more than 4,100 units slated for delivery. The largest project, located at 1520 Story Avenue, will contain 435 apartments.

INVESTMENT HIGHLIGHTS:

- Tremendous appreciation in asset prices prompted a considerable slowdown in transaction velocity, with deal flow falling roughly 25 percent.
- The average price per unit rose roughly 4 percent to more than $150,000 per door, while cap rates sank into the mid-5 percent band. Deal flow centered around the Fordham/West Bronx and South Bronx submarkets.

WEST CHESTER COUNTY

Supply and Demand



VACANCY AND RENT:

40 basis point increase in vacancy Y-O-Y

- The vacancy rate ticked up to 3.5 percent following the completion of several projects over the past year. Net absorption remains positive.

2.5% increase in effective rents Y-O-Y

- Boosted by the delivery of several units at higher asking rents, the average effective rent rose to $1,868 per month. Concessions remained similar to the prior year and accounted for 1 percent of the average rent.

CONSTRUCTION:

500 units completed Y-O-Y

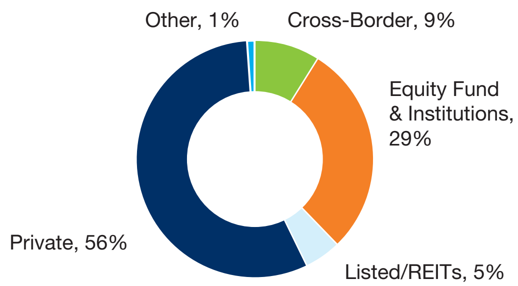
- Builders completed six projects over the past year, including Harbor Square Apartments in Ossining with 188 units and Quarry Place in Tuckahoe with 108 rentals.
- Development will pick up meaningfully for the remainder of the year, with more than 1,760 rentals set to be delivered. The River Tides at Greystone in Yonkers will be the largest completion at 330 apartments.

INVESTMENT HIGHLIGHTS:

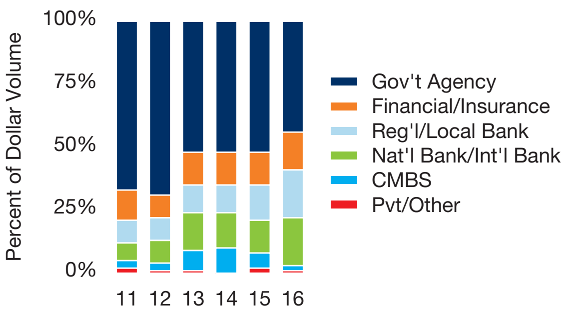
- Transaction volume advanced roughly 8 percent over the past year as investors sought higher rates of return. Closed deals averaged low-7 percent cap rates.
- Properties changed hands with prices per unit in the mid- to high-$100,000 range, with deal volume most active in the Getty Square, Park Hill, Yonkers and White Plains submarkets.

* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy actions set to accelerate.** The 10-year U.S. Treasury rate held below 2 percent until a surge following the election raised the rate above that threshold and potentially established a new and higher range for the benchmark. Moderate economic growth and muted inflation throughout the growth cycle allowed the Federal Reserve to hold off on rate hikes, which has supported additional cap rate compression. However, the Trump administration's fiscal plans built on higher spending and reduced taxes could accelerate economic growth. Intensifying inflationary pressure under that scenario could encourage the Federal Reserve to quicken the pace of its efforts to raise its short-term benchmark.
- **Inflation on the upswing, but for the right reasons.** Though inflationary pressures are beginning to grow, increases are occurring from a historically low base. Further, inflationary pressure has arisen from wage growth and stabilization of oil prices, both positives for the overall economy. Higher wages will encourage spending while inflationary pressure on prices will raise overall consumption, the primary driver of economic growth.
- **Underwriting discipline persists; ample debt capital remains.** Multifamily originations increased in 2016, with agency lending dominating the overall marketplace. The government agencies underwrote about $105 billion in loans last year and remain a primary source of multifamily originations in 2017 due to their efficient execution. Acquisition debt remained plentiful throughout 2016, but borrowers' rates rose late in the year in conjunction with higher Treasury yields and loan-to-value ratios compressed. The combination of higher rates and tighter lender underwriting created some investor caution that could carry over into 2017. A potential easing of Dodd-Frank regulations on financial institutions could create additional lending capacity for other capital sources.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; MPF Research; TWR/Dodge Pipeline; U.S. Census Bureau.