Marcus & Millichap

Multifamily Research Market Report

New York City

First Quarter 2018

Construction Slowdown Powering Vacancy Declines; Rent Growth Subdued

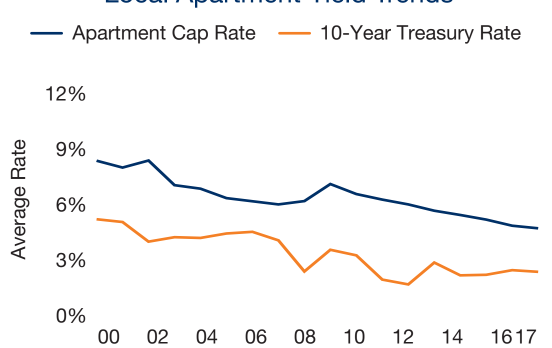
Low unemployment, consistent job growth boosting apartment demand. Broad-based hiring and more than 8.5 million residents are driving significant net absorption in the apartment sector, particularly due to the high cost of single-family homes. As the pace of construction soared, net absorption outpaced new supply every year since 2012, fostering a metrowide vacancy rate that reached 2 percent by the end of 2017. Meanwhile, development will roll over from the cycle high reached last year, providing a tailwind to the overall market. Rent growth will re-emerge as the year progresses, primarily due to a lessened use of concessions to fill new units. However, the shutdown of the L Train in Brooklyn will foster a more selective uptake of apartments, creating uneven gains across submarkets in Brooklyn.

Midtown South Manhattan and East River waterfront top construction pipeline. As rental rates have risen throughout the cycle, builders have begun expanding more affordable options along the East River in both Brooklyn and Queens. These areas have seen tremendous popularity over the past several years and will highlight overall deliveries in 2018. Meanwhile, additions to Manhattan will be underpinned by locations in Hudson Yards and Hell's Kitchen, providing new options in western Midtown and Midtown South. Deliveries in the Bronx and on Staten Island will remain subdued.

Multifamily 2018 Outlook

Metro	Vacancy	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y Change
Bronx	1.0%	-10	$1,425	2.0%
Brooklyn	2.0%	-20	$2,150	2.3%
Manhattan	2.1%	-20	$3,510	1.3%
Queens	1.9%	10	$2,060	3.0%
Staten Island	3.1%	-30	$1,530	1.7%
Westchester County	3.8%	-20	$1,945	1.4%

Local Apartment Yield Trends



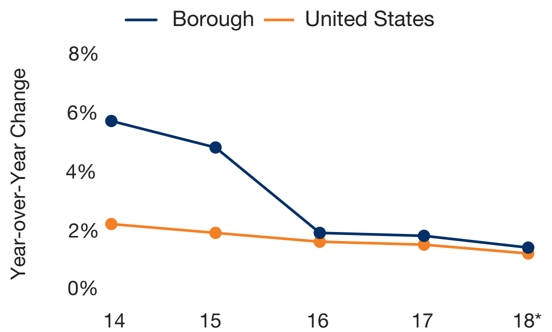
Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

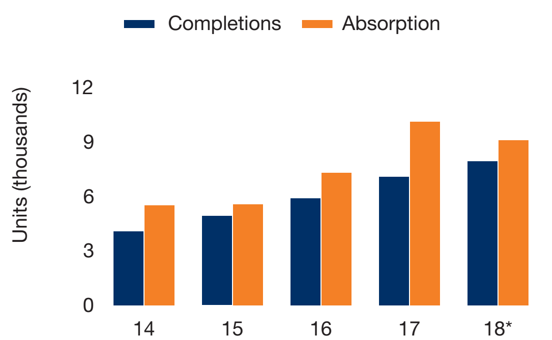
- While overall deal flow and dollar volume declined from the cycle highs reached in 2016, an appetite for apartments in Manhattan and Brooklyn drove the average price per unit to new highs.
- Brooklyn investors are routinely targeting assets in Dumbo, Williamsburg, Greenpoint and Bed-Stuy, where the tenant mix is rapidly improving due to a favorable mix of new restaurants, shopping and relatively affordable rentals.
- Stable communities in Soho, Tribeca and the Upper East Side are drawing buyers seeking capital appreciation in Manhattan. These upscale neighborhoods have seen prices soar over the past several years, encouraging investment allocations even as prices per unit reach nearly $750,000.
- Buyers seeking locations along the East River should revisit opportunities in Long Island City, where the shutdown of the L Train in Brooklyn will have extremely limited impact. Deal flow and dollar volume in the neighborhood should rise to reflect this lessened risk.

CURRENT TRENDS

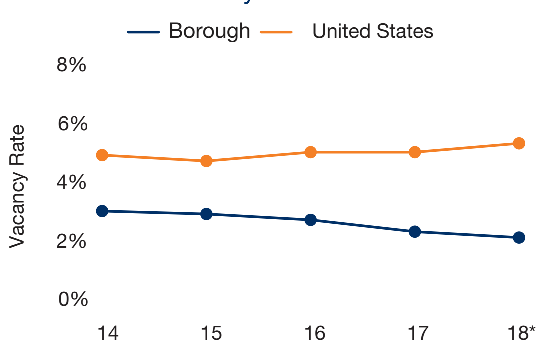
Employment Trends



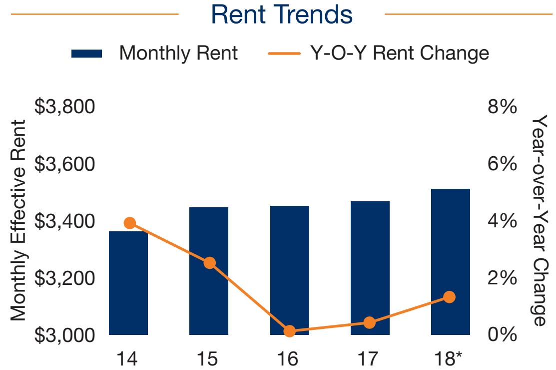
Completions and Absorption



Vacancy Rate Trends



Rent Trends



* Forecast

4Q17 – 12-MONTH PERIOD

EMPLOYMENT:

1.8% increase in total employment in 2017

- Businesses added 12,700 employees during 2017, expanding total employment by 1.8 percent. The borough will create 9,700 positions this year, a 1.4 percent growth rate.
- Since the current expansion began in 2009, more than 161,800 positions have been created in the borough, a 29 percent rise in total employment.

CONSTRUCTION:

7,075 units completed Y-O-Y

- Over the past year, the pace of deliveries increased moderately, rising from 5,880 units to 7,075 apartments in 2017. The Midtown South submarket received the bulk of the new supply, with 3,940 rentals brought online.
- Completions in 2018 will center on several large projects along the Hudson River, including 15 Hudson Yards at 391 units and 606 W. 57th St. with 1,028 rentals.

VACANCY:

40 basis point decrease in vacancy Y-O-Y

- Robust net absorption of more than 10,100 rentals trimmed the vacancy rate to 2.3 percent. All submarkets except Roosevelt Island recorded falling or flat vacancy.
- The Midtown submarket outperformed the broader metro as vacancy contracted 90 basis points to 3 percent. Less than 725 rentals came online in the submarket, while more than 1,525 units were absorbed.

RENTS:

0.4% increase in effective rents Y-O-Y

- An 11.9 percent drop in average effective rents on Roosevelt Island contributed to a 0.4 percent gain overall in Manhattan, with average rents now at $3,466 per month.
- Rent growth was most robust in Midtown and Lower Manhattan, rising 1.7 percent to $3,990 per month and 1.3 percent to $3,998 per month, respectively. Rents slipped 1 percent in Midtown South to $3,947 per month.

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

21,400

4Q17 POPULATION AGE 20-34
(Percent of total population)

Metro 30%

U.S. 21%

4Q17 MEDIAN HOUSEHOLD INCOME

Metro $78,033

U.S. Median $58,714

FIVE-YEAR HOUSEHOLD GROWTH*

26,000

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

Metro 37.1%

U.S. Average 29%

4Q17 TOTAL HOUSEHOLDS

49% Rent

51% Own

* 2017-2022

**2016

*NEW YORK-NEWARK-JERSEY CITY, NY-NJ-PA METROPOLITAN STATITICAL AREA

SUBMARKET TRENDS

Lowest Vacancy Rates 4Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Harlem	1.9%	-40	$2,113	1.0%
Lower Manhattan	2.1%	-40	$3,998	1.3%
Upper Manhattan	2.3%	-30	$3,875	-0.4%
Midtown South	2.9%	0	$3,947	-1.0%
Midtown	3.0%	-90	$3,990	1.7%
Roosevelt Island	4.1%	190	$3,116	-11.9%
Manhattan	**2..3%**	**-40**	**$3,493**	**0.4%**

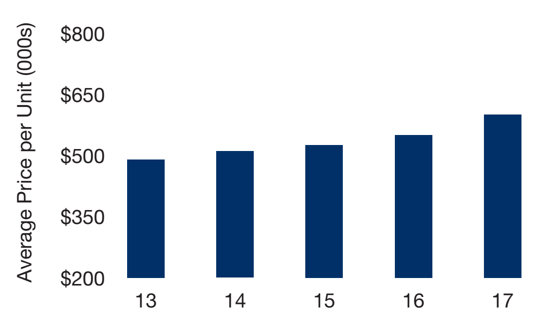
SALES TRENDS

Slowdown in Transactions Does Little To Halt Upward Price Momentum

- The average price per unit soared above $600,000 last year as prices in the East Village, Tribeca and the Upper East Side exchanged ownership above $700,000 per door.
- Cap rates remain in the high-3 percent to low-4 percent range, with smaller properties and transitioning neighborhoods reaching the mid-4 percent band.

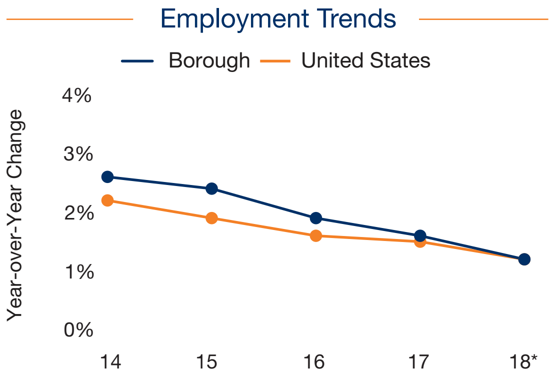
Outlook: Transformative projects in Hudson Yards and zoning changes throughout the borough are powering deal flow as buyers seek higher relative returns, primarily through rising rents and capital appreciation.

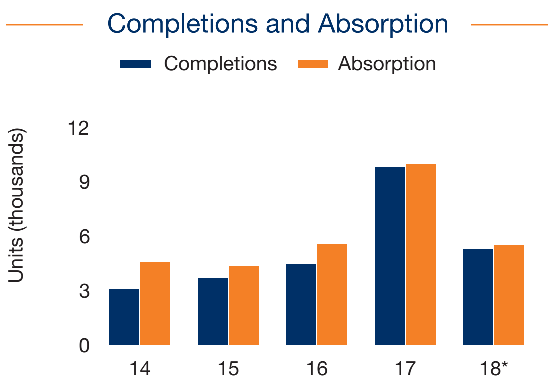
Pricing Trends

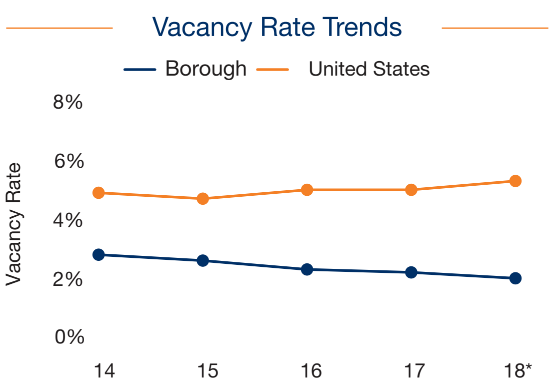


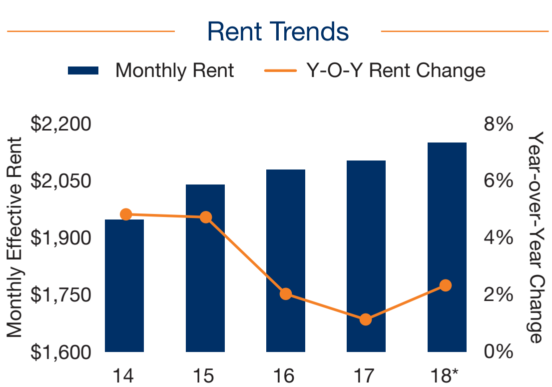
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

CURRENT TRENDS









* Forecast

4Q17 – 12-MONTH PERIOD

EMPLOYMENT:

1.6% increase in total employment in 2017

- Over the past year, Brooklyn employers hired 39,400 workers. More than 29,600 jobs will be created this year, increasing employment by 1.2 percent.
- More than 356,000 people have found work since the beginning of 2009, accounting for a 16 percent rise in total employment.

CONSTRUCTION:

9,810 units completed Y-O-Y

- Construction more than doubled over the past year, with completions rising from 4,460 units to more than 9,810 in 2017. Deliveries were mostly focused on East River neighborhoods such as Williamsburg and DoBro.
- A sharp slowdown in supply will occur this year as developers complete roughly 5,270 apartments this year. The same neighborhoods remain the primary focus.

VACANCY:

10 basis point decrease in vacancy Y-O-Y

- Vacancy contracted 10 basis points to 2.2 percent last year as submarket performance varied significantly. Vacancy is lowest in Southwest Brooklyn at 1.5 percent.
- Vacancy plummeted 140 basis points to 5.1 percent in Downtown Brooklyn, while the Williamsburg/Greenpoint/Navy Yard submarket increased 80 basis points to 4.7 percent.

RENTS:

1.1% increase in effective rents Y-O-Y

- The average effective rent ticked up 1.1 percent to $2,102 per month, led by a 1.9 percent gain to $1,744 per month in the Southern Southeast Brooklyn submarket.
- The average effective rent slipped in Williamsburg/Greenpoint/Navy Yard as operators lifted concessions in order to fill the influx of new supply in the submarket. Net absorption fell roughly 400 units below deliveries.

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*
61,100

FIVE-YEAR HOUSEHOLD GROWTH*
49,000

* 2017-2022

4Q17 POPULATION AGE 20-34
(Percent of total population)
Metro **25.4%**
U.S. 21%

POPULATION OF AGE 25+
PERCENT WITH BACHELOR'S DEGREE+**
Metro **31.8%**
U.S. Average 29%

**2016

4Q17 MEDIAN HOUSEHOLD INCOME
Metro **$55,551**
U.S. Median $58,714

4Q17 TOTAL HOUSEHOLDS
49% Rent
51% Own

*NEW YORK-NEWARK-JERSEY CITY, NY-NJ-PA METROPOLITAN STATITICAL AREA

SUBMARKET TRENDS

Lowest Vacancy Rates 4Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Southern Southeast Brooklyn	0.8%	-10	$1,744	1.9%
Ditmas Park/Flatbush	0.9%	30	$1,901	1.5%
Southwest Brooklyn	1.5%	-50	$1,582	1.2%
Crown Hts/Prospect Lefferts Gardens	1.7%	-30	$1,551	1.4%
Bed-Stuy/Ft. Greene/Bush-wick	2.6%	10	$2,272	0.1%
Park Slope/Prospect Heights	3.2%	0	$2,383	-0.1%
Williamsburg/Greenpoint/ Navy Yard	4.7%	80	$3,146	-2.4%
Downtown Brooklyn	5.1%	-140	$3,456	0.1%
Brooklyn	**2..2%**	**-10**	**$2,102**	**1.1%**

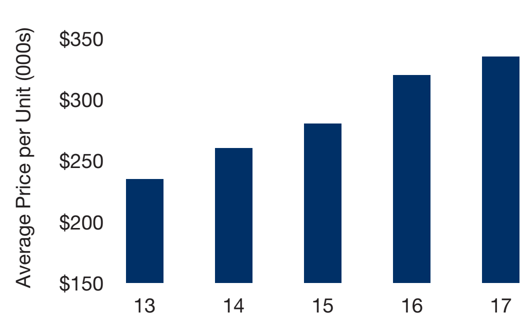
SALES TRENDS

Broad-Based Strength Pushes Prices Higher; Deal Flow Contracts Moderately

- The average price per unit edged higher over the past year, reaching the $335,000 range. Appreciation was largely driven by higher prices in Downtown Brooklyn and Crown Heights.
- A drop in transactions did little to affect cap rates, with the average first-year return remaining in the high-4 percent range.

Outlook: Areas unaffected by the shutdown of the L Train are receiving greater attention from investors seeking to deploy capital in Brooklyn over the long term.

Pricing Trends

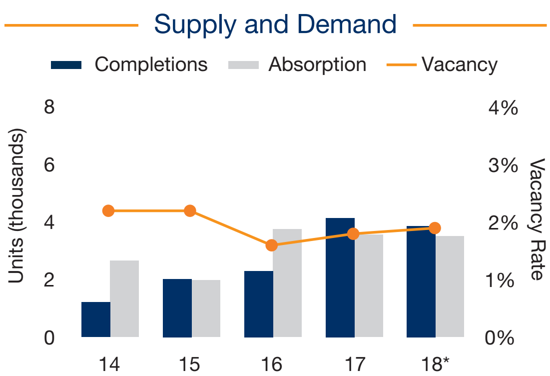


Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

QUEENS

Marcus & Millichap

4Q17 – 12-MONTH PERIOD



VACANCY AND RENT:

20 basis point increase in vacancy Y-O-Y

- Net absorption fell short of deliveries by roughly 600 units, lifting vacancy 20 basis points to 1.8 percent in 2017 as construction accelerated meaningfully.

No change in effective rents Y-O-Y

- The influx of completions prompted greater competition among operators to fill new units, keeping effective rents at $2,000 per month.

CONSTRUCTION:

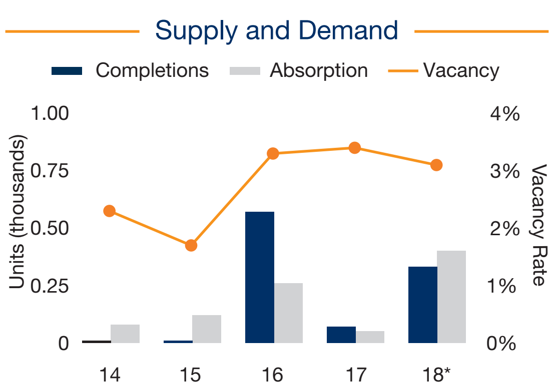
4,120 units completed Y-O-Y

- Developers finished 4,120 units last year, roughly doubling the prior year. The vast majority of the offerings came online in Long Island City and Astoria.
- The largest expected completion this year is the Court Square City View Tower in Long Island City. The 660-unit tower will also feature 100,000 square feet of commercial space.

INVESTMENT HIGHLIGHTS:

- Deal flow contracted meaningfully, while the average price per unit rose to nearly $275,000 per door. Locations in Long Island City made up nearly half of all transactions in the borough.
- Cap rates remain in the low-4 percent band while extending into the low-5 percent range for assets farther away from the East River.

STATEN ISLAND



VACANCY AND RENT:

10 basis point increase in vacancy Y-O-Y

- Limited new supply and weak net absorption spurred a 10-basis-point increase in vacancy to 3.1 percent last year in the borough.

4.4% increase in effective rents Y-O-Y

- The average effective rent advanced 4.4 percent to $1,504 per square foot as a lack of optionality and extremely low vacancy prompted higher prices.

CONSTRUCTION:

67 units completed Y-O-Y

- Developers completed one project over the past year at 533 Bay St., down from 571 rentals in the previous yearlong period.
- The future pipeline remains limited. The second phase of URBY Staten Island will come online with 325 units this year, representing the only major completion for 2018.

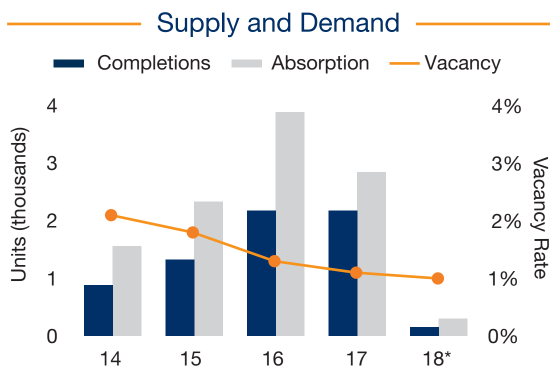
INVESTMENT HIGHLIGHTS:

- Deal flow contracted significantly over the past year despite rapidly improving local fundamentals. One property of more than 50 units exchanged ownership, indicating buyer interest was generally driven by private parties.
- Buyers paid roughly $132,000 per unit on average, ranging from approximately $90,000 to $200,000 per door. Smaller properties dominated local activity.

* Forecast

BRONX

4Q17 – 12-MONTH PERIOD



VACANCY AND RENT:

20 basis point decrease in vacancy Y-O-Y

- Demand outstripped supply growth for the fifth straight year, contracting vacancy 20 basis points to 1.1 percent over the past year.

1.3% increase in effective rents Y-O-Y

- The average effective rent ticked up 1.2 percent to $1,397 per month, limited by the amount of affordable housing in the borough.

CONSTRUCTION:

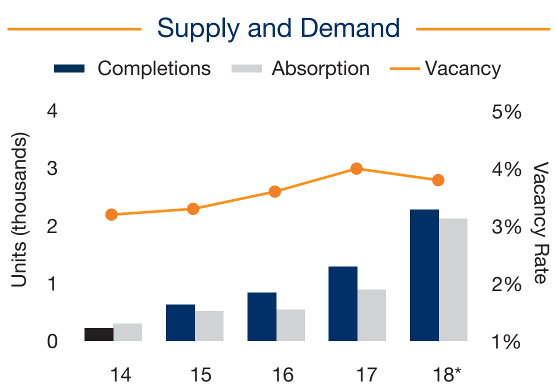
2,170 units completed Y-O-Y

- Development remained roughly unchanged over the past year, with completions near the highest point of the current cycle.
- The pipeline will slow over the coming year, with 1,480 units underway with completion dates slated before year end. The largest project is the 465-unit tower at 198 E. 135th St.

INVESTMENT HIGHLIGHTS:

- Transactions moderately slightly over the past year, while the average price per unit rose to the mid-$180,000 per door range, boosted by activity in Fordham and the South Bronx at prices exceeding the borough average.
- Cap rates remain in the mid-5 percent range as buyers pursued higher-yielding opportunities throughout the borough. Cap rates are lowest in Riverdale and Kingsbridge.

WESTCHESTER COUNTY



VACANCY AND RENT:

40 basis point increase in vacancy Y-O-Y

- Vacancy increased 40 basis points last year to 4 percent as net absorption fell short of completions, yet it still rose compared to 2016 totals.

1.5% increase in effective rents Y-O-Y

- The average effective rent rose 1.5 percent to $1,919 per month, boosted by an influx of Class A units and continued performance at Class B and C properties.

CONSTRUCTION:

1,290 units completed Y-O-Y

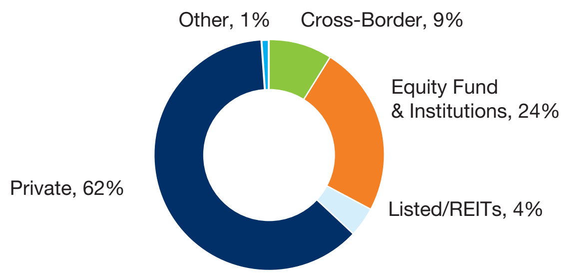
- The pace of construction increased moderately over the past year, rising from 840 units to nearly 1,300 in 2017.
- More than 2,280 apartments are underway in the county, with slightly less than half underway in Downtown Yonkers. Construction is also elevated in Downtown New Rochelle and White Plans.

INVESTMENT HIGHLIGHTS:

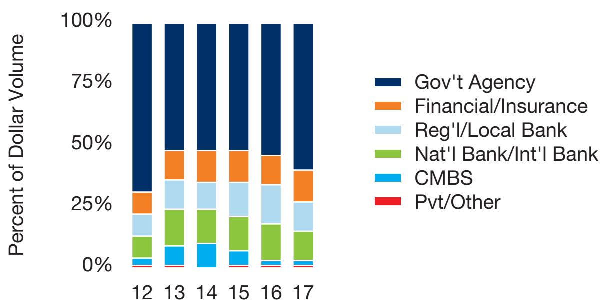
- Transaction volume contracted slightly over the past year, driven by a focus on higher-yielding, more suburban locations, particularly in Yonkers and New Rochelle.
- The average price per unit rose to the low-$190,000s, while cap rates remain in the low-6 percent range, drawing a broad array of capital to the marketplace.

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

2017 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Include sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

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

- **Fed raises benchmark interest rate, plots path for additional increases.** The Federal Reserve increased the federal funds rate by 25 basis points, lifting the overnight lending rate to 1.5 percent. While the Fed noted that the inflation outlook had moderated in recent months, an upgraded economic forecast factoring in recent tax cuts and a rollback in regulation strengthened growth projections for the next two years. As a result, the Fed has guided toward two additional rate hikes this year, while setting the stage for as many as four increases in 2019.
- **Lending costs rise alongside Fed rate increase.** As the Federal Reserve lifts interest rates, lenders will face a rising cost of capital, which may lead to higher lending rates for investors. However, in an effort to compete for loan demand, lenders may also choose to absorb a portion of the cost increases. While higher borrowing costs may prompt buyers to seek higher cap rates, the positive economic outlook should provide rent growth that outpaces inflation over the coming year. As a result, sellers remain committed to higher asking prices, which has begun to widen an expectation gap as property performance and demand trends remain positive.
- **The capital markets environment continues to be highly competitive.** Government agencies continue to consume the largest share, just slightly over 50 percent, of the apartment lending market. National and regional banks control approximately a quarter of the market. Global markets and foreign central banks are keeping pressure down on long-term interest rates. Pricing resides in the 4 percent realm with maximum leverage of 75 percent. Portfolio lenders will typically require loan-to-value ratios closer to 70 percent with interest rates in the high-3 to mid-4 percent range. The passage of tax reform and rising fiscal stimulus will keep the U.S. economy growing strongly and rental demand will remain high with the national apartment vacancy rate at 5 percent at the end of 2017.

National Multi Housing Group

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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