MARKET REPORT

Marcus & Millichap

MULTIFAMILY

New York City Metro Area

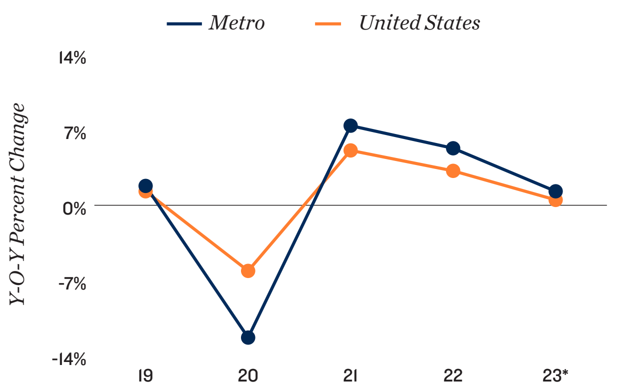
2Q/23

Improving Immigration and Modest Supply Growth Fortify a Strong Multifamily Landscape

Local apartment demand resisting broader headwinds. The New York City multifamily sector entered 2023 on strong footing. Nearly as many apartments were absorbed on a net basis last year as were constructed, which stands in sharp contrast to the national trend of increasing vacancy. Overall, roughly 70,000 more apartments are occupied today in the metro than before the pandemic began, as pent-up demand to form households offset an overall retreat in the local population. Moving forward, the metro is also expected to welcome some new residents, particularly those from overseas. Declining since a 2016 peak, immigration into the U.S. began to increase again in 2021. This trend is likely to benefit Manhattan first, as a well-known cultural landmark and economic hub for high-skilled, well-compensated international professionals. Yet, this could spread to other boroughs, supporting marketwide rental demand.

Mild new supply pressure stands out against national trend. Whereas many other major markets and the overall U.S. are set to welcome record new arrivals in 2023, deliveries in New York are drifting down. Several of the metro's most sizable 2023 projects are also well-situated in areas of strong demand, including the 921-unit Lincoln at Bankside in the Bronx where local Class A vacancy is under 1.5 percent. This will help keep overall availability on par with historical trends, and rent growth on a similar track to last year. At the same time, major arrivals in Prospect Heights, Cypress Hills and Greenpoint in Brooklyn may briefly weigh on local fundamentals.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2023 Outlook

60,000 JOBS *will be created*

EMPLOYMENT:

Winter contractions to staff counts in information and financial services underscore a tempering to overall metro employment growth this year. The pace of job creation moderates to a net gain of 1.3 percent for 2023.

19,000 UNITS *will be completed*

CONSTRUCTION:

Openings fall below the 20,000-unit threshold for the second time in seven years as high building costs extend timelines. More than 50,000 rentals are underway, however, signaling greater supply on the horizon.

40 BASIS POINT *increase in vacancy*

VACANCY:

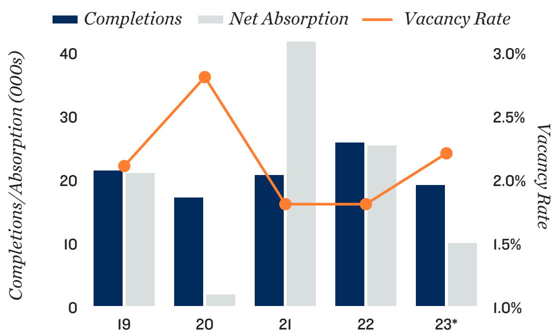
Vacancy will adjust up to 2.2 percent this year, just under the trailing decade average of 2.3 percent. New York stands out nationally as one of the few major metros to report consistent positive net absorption since 2020.

2.4% INCREASE *in effective rent*

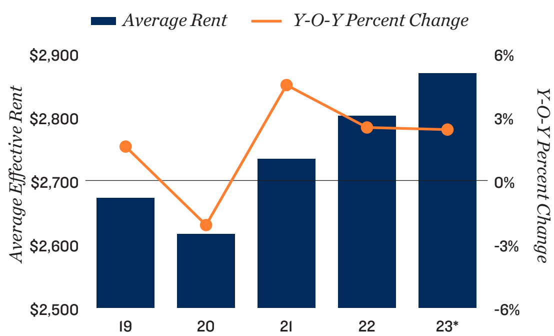
RENT:

Rent growth will tick down from the 2.5 percent rate observed in 2022 as the metro's mean monthly payment advances to $2,869. This would be the largest gain since 2015, excluding movement over the past two years.

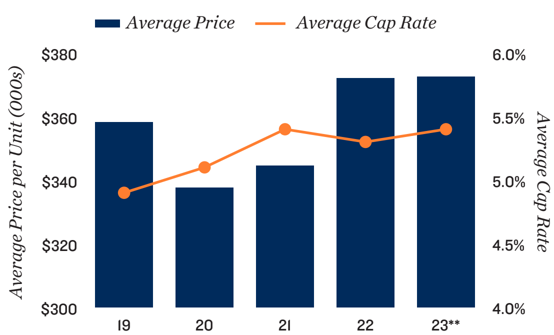
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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1Q 2023 - 12-Month Period

CONSTRUCTION

22,696 units completed

- The opening of 2,500 units in the first three months of this year marks the lowest quarterly total since mid-2016. Deliveries were heaviest in the Bronx and the Crown Heights-Prospect Lefferts Gardens submarket.
- Rentals completed over the past four quarters amount to 1.1 percent of existing inventory, a ratio below most other major markets nationally.

VACANCY

10 basis point increase in vacancy Y-O-Y

- The metro's vacancy rate has held in the 1.7 percent to 1.9 percent band since June 2021, settling at 1.8 percent in March of this year.
- Vacancy is highest in Midtown South at 4.7 percent. A 2.4 percent increase to supply here over the past year contributed to a 160-basis-point vacancy lift, also the highest in the market.

RENT

1.9% increase in the average effective rent Y-O-Y

- While the metro's low and stable vacancy rate is a positive national distinction, rent growth has been modest, with the average effective payment climbing to $2,812 per month in March, up 5.2 percent from year-end 2019.
- New arrivals led to a 2.2 percent year-over-year rent gain in Downtown Brooklyn, while a lack of supply aided a similar increase in Staten Island.

Investment Highlights

- As one of the largest lenders involved with New York City multifamily investment sales, Signature Bank's seizure by regulators in March has hindered liquidity in the region. Beyond the depository's own closure, any organization that acquires some of Signature's portfolio may be less inclined to originate new business. These logistics add to general concern propagated by the bank's collapse, despite the unique circumstances involved. Nevertheless, New York is a market well-known internationally and can draw a deeper pool of capital than most other locations in the U.S.
- Transactions completed so far this year are well-dispersed across four of the five boroughs, with assets in Brooklyn and Manhattan changing hands most often. Investment has been most pronounced in the $1 million to $10 million tranche, with private investors acquiring Class C and B assets in neighborhoods like Bushwick, Prospect Park, Williamsburg and Washington Heights. Downtown Astoria in Queens also drew attention.
- While the average sale price for trades completed in 2022 surpassed the previous 2018 high, pricing may face downward pressures this year, largely stemming from higher capital costs. Recent sales point to upward cap rate momentum, implying some sellers are now coming to terms with buyers.