

## MULTIFAMILY

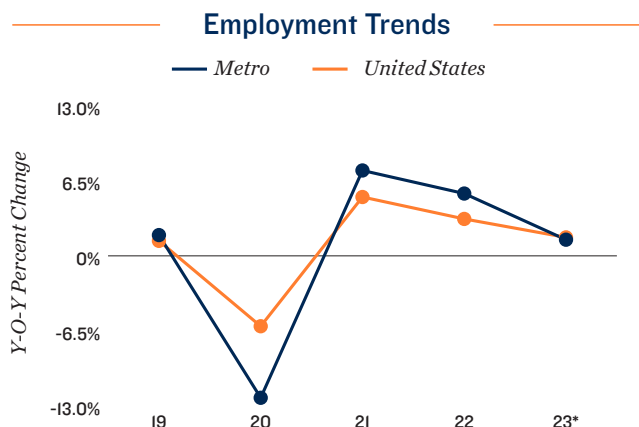
New York City Metro Area

# 3Q/23

### Renters Returning to Central Manhattan Zones, Headwinds Arise for Property Upkeep Efforts

**Steady return of urban activity keeps conditions tight.** Vacancy held unchanged at 1.8 percent across the city during the second quarter of 2023, marking a 21-month span during which the rate has remained at this two-decade low. Conditions are still tightening in Midtown and Midtown South, as increasing office usage has brought some professionals back to central Manhattan neighborhoods. Placer.ai data indicates that midweek visits to offices in the borough reached 68 percent of the 2019 equivalent in the first five months of the year, boding well for apartment demand in neighborhoods near major office corridors.

**Regulatory environment creates additional operating costs.** In early September, the city announced new guidelines on Local Law 97, a 2019 initiative intended to reduce emissions from the city's larger properties. These new rules are intended to provide owners with a process to mitigate fines by displaying good faith efforts to bring buildings to standard. Still, fines could reach a cumulative \$213 million in 2024 for the 3,700 buildings above emission caps. Though buildings with rent-regulated units will be treated more leniently than market assets, inflation will complicate efforts to modernize these properties. In June, the Rent Guidelines Board approved a 3 percent hike on one-year leases. This is the third consecutive year in which rent increases have trailed core inflation, complicating efforts to maintain these assets.



\* Forecast  
Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

### Multifamily 2023 Outlook



65,000

JOB  
will be created

#### EMPLOYMENT:

Job creation was solid in the first half of 2023, with employers across the five boroughs adding 42,400 positions on a net basis. Still, hiring is expected to decline throughout the latter months of the year.



19,000

UNITS  
will be completed

#### CONSTRUCTION:

New York's annual completion schedule falls below 20,000 units for the second year since 2016. The majority of units scheduled for completion in 2023 are located in Brooklyn and the Bronx.



20

BASIS POINT  
increase in vacancy

#### VACANCY:

Net absorption has marginally trailed completions for the last several quarters, which will prompt a small vacancy increase in the latter half of 2023. The metric will end the year at 2.0 percent.



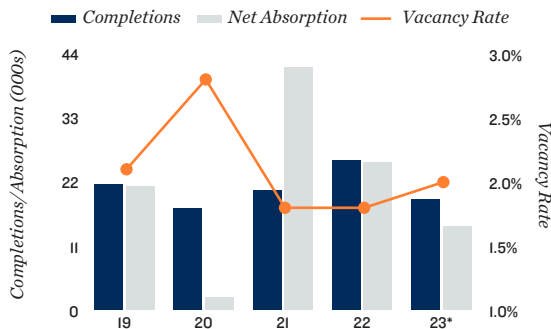
2.4%

INCREASE  
in effective rent

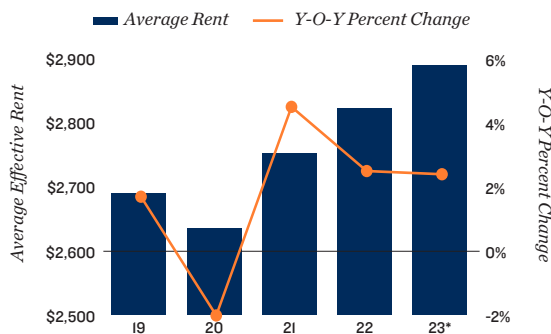
#### RENT:

Tight operations and mandates from the Rent Guidelines Board will prompt another annual increase comparable to last year's 2.5 percent gain, bringing the average effective rent to \$2,889 per month in 2023.

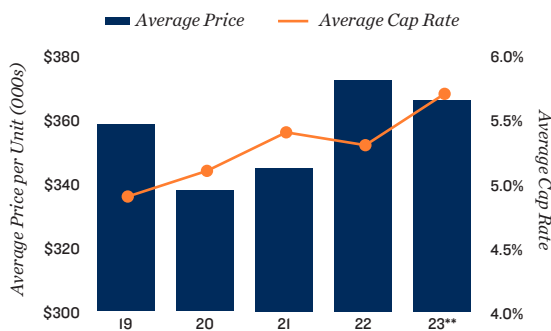
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

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

Manhattan Office:

**John Horowitz** Senior Vice President, Division Manager

260 Madison Avenue, 5th Floor

New York, NY 10016

Tel: (212) 430-5100 | john.horowitz@marcusmillichap.com

Prepared and edited by:

**Luke Murphy**

Research Analyst | Research Services

For information on national multifamily trends, contact:

**John Chang**

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Price: \$250

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

## 2Q 2023 - 12-Month Period

### CONSTRUCTION

19,368 units completed

- A tepid first quarter of 2023 contributed to a tapered, 0.9 percent rate of supply growth during the 12-month period ended in June.
- As of July, more than 42,000 doors were underway across New York. Brooklyn was the most active borough by construction, with over 21,000 units in progress here.

### VACANCY

0 basis point change in vacancy Y-O-Y

- New York marked seven consecutive quarters of 1.8 percent vacancy at the end of June, the lowest rate among major metros nationwide.
- The Bronx and Staten Island entered July with the lowest vacancy across the five boroughs, with rates of 0.7 and 0.8 percent, respectively. A narrow pipeline in Staten Island should keep conditions tight here.

### RENT

1.6% increase in the average effective rent Y-O-Y

- Annual momentum remained positive during the 12-month span ended in June, with the average effective rent reaching \$2,854 per month.
- Rent gains were modest across the board, with both Class A and Class C rents recording a 1.2 percent uptick. The monthly effective rents in these segments entered July at \$4,640 and \$2,101, respectively.

### Investment Highlights

- Though deal flow remains below the frenetic pace observed in the preceding two years, multifamily investment appears to be adjusting to an environment of heightened financial scrutiny as transaction velocity began to pick up in the second quarter. The lift in investor activity primarily came from trades in the \$15 million-plus price tranche, suggesting easing concerns from institutional investors.
- Trades in Manhattan and Brooklyn steadily increased throughout the first half of 2023, with investors drawn to core urban locales where pedestrian activity is still recuperating. Buyers are mostly focusing on Class C options in the sub-\$10 million price zone. At just 1.3 percent, this segment noted the lowest vacancy entering July.
- Buyers seeking out high-occupancy assets could increasingly look to what options are available in Staten Island, where the vacancy rate has remained below 1 percent since early 2022. Availability here is unlikely to see excess upward pressure from the supply side in the near future, as just 115 units are underway in this borough as of July 2022.