MARKET REPORT

Multifamily

New York Metro Area

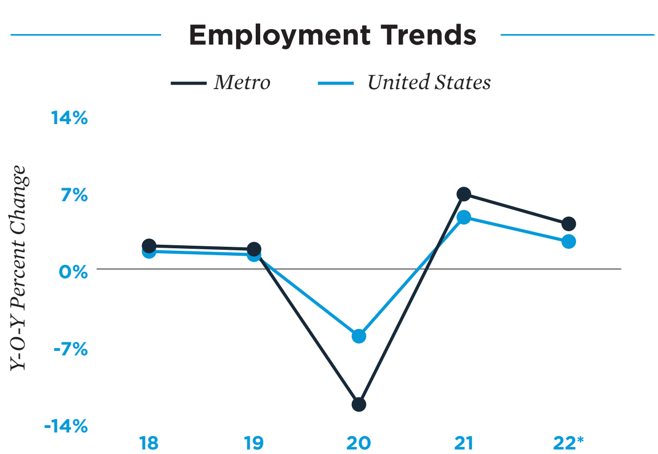
IPA INSTITUTIONAL PROPERTY ADVISORS

2Q/22

Low Availability Solidifies Recovery; Stage Set For More Employment Growth

Multifamily sector leads New York's real estate recovery. Though remote schedules prompted initial fears of a mass exodus from the five boroughs, renters demonstrated their affinity for the city during the past year, lowering vacancy below 2 percent for the first time since 2002. Tight conditions translated to an upward rent trajectory, with multifamily properties being the city's first asset class to mark a full recovery from COVID-19 losses. Development activity accelerated of late, with New York being home to one of the nation's largest pipelines. Ongoing job recovery efforts will support a positive rate of household formation, keeping vacancy tight and rents growing in the near term.

Job market tailwinds support hiring and leasing momentum. The citywide unemployment rate entered this year elevated 370 basis points above the year-end 2019 equivalent, indicating extant labor market slack that should support hiring velocity through this year. As firms call employees back to Brooklyn and Manhattan offices, returning foot traffic in core districts should stimulate recruitment efforts in the local retail sector. Combined with accelerating recovery in the hospitality industry, an expanding service sector should maintain downward pressure on Class C unit availability. Vacancy in this segment ended 2021 at the lowest level observed in multiple decades, enhancing revenue growth in this property tier.



** Forecast*

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

Multifamily 2022 Outlook

180,000 JOBS *will be created*

EMPLOYMENT:

New York's employment base grows by 4.1 percent as the return of activity in the city's more densely populated neighborhoods drives recovery. The job market ends the year roughly 144,000 positions below its pre-COVID-19 zenith.

21,000 UNITS *will be completed*

CONSTRUCTION:

Inventory growth rises to a 1 percent clip for the first time since 2019 as developers increase the pace from the 18,300 doors finalized in 2021. Brooklyn remains the epicenter of development, with over 6,000 new rentals delivering here.

10 BASIS POINT *increase in vacancy*

VACANCY:

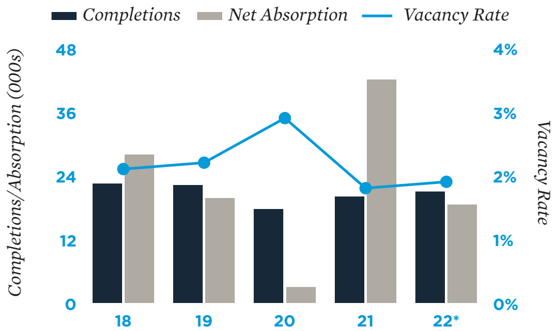
Availability ticks up to 1.9 percent, after falling to lows not seen since 2001. Still, additional vacancy compression may be observed in lower-tier assets this year as some labor sectors accelerate hiring velocity.

3.8% INCREASE *in effective rent*

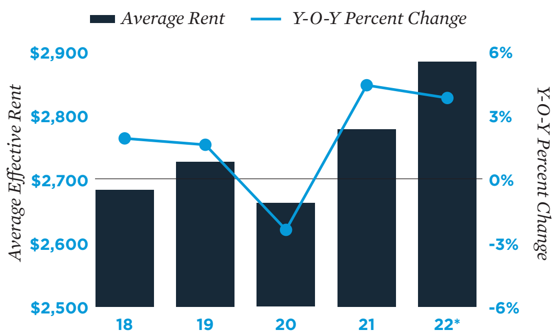
RENT:

Having surpassed all pandemic losses last year, the average effective rent is on track to end 2022 at a new high of $2,890 per month. This year's growth is the second highest observed on an annual basis since 2007, following 2021's 4.6 percent gain.

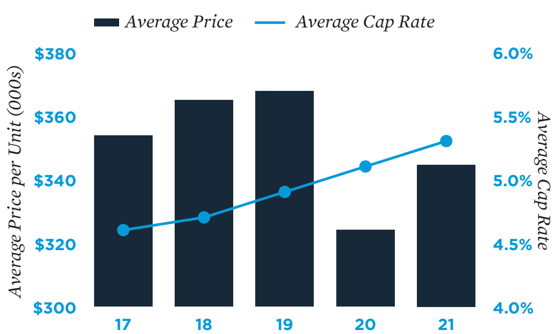
Supply and Demand



Rent Trends



Sales Trends



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

IPA Multifamily

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

21,267 units completed

- Despite labor and supply hurdles, development surpassed the previous 12-month period ending in March by nearly 4,900 units.
- Long Island City took on multiple high-profile completions this period, including the 1,100-unit high-rise complex 5 Pointz. Sven, a 958-door tower with some affordable units, was finalized this March.

VACANCY

80 basis point decrease in vacancy Y-O-Y

- Unit availability exhibited consistent quarterly declines this trailing year ending in March, falling to 1.8 percent at the end of the span.
- Of New York's 17 submarkets, 15 posted declines in vacancy during the past 12 months, with the most acute compression occurring in Manhattan or Brooklyn submarkets proximate to office districts.

RENT

4.2% increase in the average effective rent Y-O-Y

- Effective rents posted a full recovery during the third quarter of 2021, ending March 2022 at an average of $2,802 per month.
- Midtown South and Downtown Brooklyn, the submarkets where rent declined the most sharply in 2020, recorded double-digit rent growth last year and surpassed pre-pandemic highs by the end of 2021.

Investment Highlights

- As the city tentatively reopened in response to improving health conditions, transaction velocity last year pushed 25 percent above its 2020 equivalent, though deal flow remains well under the highs reported during the previous decade.
- Unresolved debate over an additional round of potential statewide rent control measures complicated the underwriting process in many deals, creating headwinds toward a full valuation recovery. Last year's average per-unit price rose, but remained just over 6 percent short of the 2019 equivalent, recouping just half of the value lost in 2020. Legislative uncertainty was one of the factors translating to a 20-basis-point average cap rate rise, leading to a fourth consecutive year of yield decompression.
- While robust development activity in Brooklyn provides investors with the widest array of new capital placement opportunities, well-publicized developments in Queens' densely populated neighborhoods could inspire more investors to shift capital here. The borough's buyer profile consists mostly of local investors in the sub-$10 million tranche, though institutions have also become more active in the area.