MARKET REPORT

Multifamily

New York Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

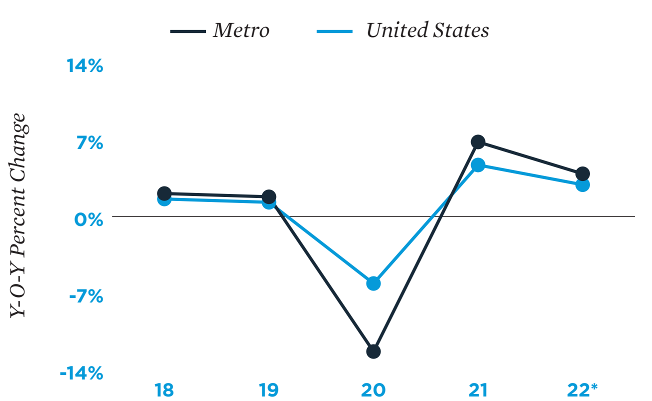
3Q/22

State Removes Hurdles for Conversions; Regulated Units to See Faster Rent Growth

Supply pipeline gives tight rental market some relief. New York City marked its third consecutive quarter of 1.8 percent vacancy at the end of June, maintaining a two-decade low in this metric. While availability in Class B and C units held at multidecade lows, the Class A rate jumped 50 basis points last quarter as renters in this tier consolidated households or moved to less expensive units. Concurrently, supply growth is continuing at an annual pace exceeding 20,000 units, keeping overall availability from tightening further. Additionally, a state housing bill recently signed into law will ease the permitting process for hotel-to-multifamily redevelopment by allowing converted properties to keep current certificates of occupancy. The bill also allocated $200 million in state funding for adaptive reuse undertakings, suggesting these projects could account for a larger share of the metro's active pipeline moving forward.

Notable rate increase for regulated units drives rent growth. Rate gains in excess of historical averages are expected in the city's selection of rent-controlled units. At a June meeting, the city's Rent Guidelines Board approved rent increases of 3.25 percent and 5 percent for one- and two-year leases, respectively, effective October 1. The guidelines cover more than 1 million, or roughly 45 percent, of New York's multifamily stock as of midyear 2022. Segment owners will likely utilize the allotted increase to cover rising operating costs amid an elevated inflationary environment, suggesting annual rent growth in lower-tier units will exceed normal levels of 1 to 2 percent.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

170,000 JOBS
will be created

EMPLOYMENT:

Gaining nearly 120,000 jobs in the first half of 2022, New York's employment base continues a rapid recovery. Economic headwinds should slow hiring before the year's end, but annual job growth will register at 3.9 percent.

21,000 UNITS
will be completed

CONSTRUCTION:

Supply additions in 2022 are on track to surpass the 20,000-unit threshold for the fifth time in six years, growing metro stock by 1.0 percent. Brooklyn is set to receive roughly one-third of this year's deliveries.

10 BASIS POINT
increase in vacancy

VACANCY:

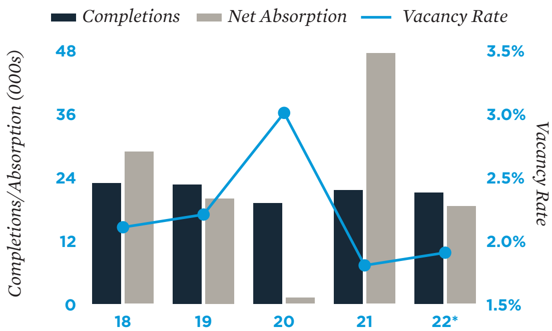
Renter demand will remain heated through 2022, though some household consolidation will bump vacancy up to 1.9 percent. Nevertheless, this rate is the second-lowest year-end recording since 2001.

3.1% INCREASE
in effective rent

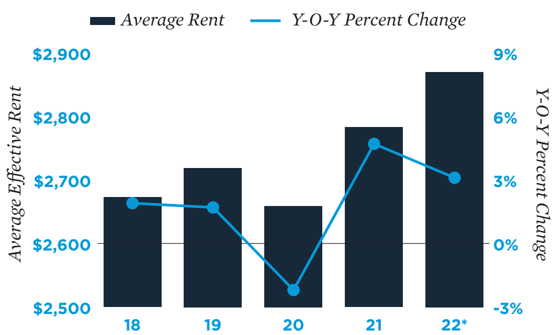
RENT:

Updated guidelines will allow for notable rate increases in New York's rent-stabilized stock, supporting solid growth overall. The mean effective rent reaches $2,870 per month, nearly 6 percent above the 2019 rate.

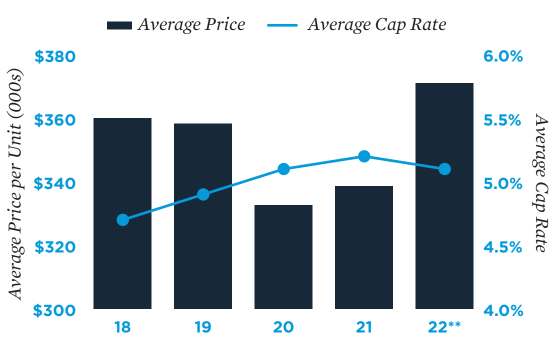
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

2Q 2022 - 12-Month Period

CONSTRUCTION

22,376 units completed

- Developers grew supply by 1.0 percent over the 12-month span ended in June, keeping the pace of construction observed over the last half-decade.
- Brooklyn gained roughly 9,100 doors during this period, the highest volume among the five boroughs. Queens led by rate of stock expansion, with the 6,580 units added expanding local supply by 2.0 percent.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- Citywide availability marked 20-year lows in each quarter during the trailing 12-month span, finishing the period at 1.8 percent.
- Vacancy in the Bronx and Staten Island dipped below 1.0 percent, with both boroughs entering July at 0.8 percent availability. A narrow pipeline in Staten Island should keep local vacancy low for the foreseeable future.

RENT

4.1% increase in the average effective rent Y-O-Y

- Led by the luxury segment, effective rents made a rapid ascent during the trailing year, ending the second quarter at an average of $2,843 per month.
- Williamsburg-Greenpoint-Navy Yard, Midtown and Midtown South continued to lead submarkets in rent growth, with each locale registering an advance no less than 7.3 percent.

Investment Highlights

- Prompted by multidecade vacancy lows, transaction velocity during the yearlong period ended in June was the highest observed during any 12-month span since 2018. The full recovery of effective rents in the Class B and C segments observed in the second quarter of 2021 caused institutions to pursue these assets much more aggressively than in years prior. Returning economic activity to some of Manhattan and Brooklyn's busiest districts motivated investors to seek out mid- and lower-tier properties in these boroughs, translating to a noticeable increase in trades here.
- The return of investor confidence came with a surge in pricing, as the average price per unit rose more than 10 percent during the 12-month period ended in June to a new record of $371,000. The swell of buyer activity resulted in modest cap rate compression, the first observed since 2016, though the average yield remains in the low-5 percent range.
- An easing statewide permitting process and substantial financial incentives for adaptive reuse projects may inspire select multifamily investment groups to target distressed hospitality assets ripe for conversion. Buyers may seek defunct hotels in residential districts close to desirable amenities.

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