

Multifamily Metro Outlook:

New York - Q1 2024

Overview:

- The New York metro area economy is still in recovery. While the number of jobs finally reached the pre-pandemic level in 2023, the metro's economy is still struggling to see significant improvement, especially when compared to other large U.S. metros. Education and Health Services remains the largest segment of the employment base at slightly more than 23%, with Professional and Business Services coming in second at just over 16%. Although higher interest rates continue to depress financial activity, employment in the metro's large banking sector should stabilize this year and healthcare and tourism will continue to support the economy.
- New York City proper is the nation's largest apartment market, with [approximately 2.3 million rental units](#), of which 44% are rent stabilized and 3% rent controlled. This is a renter's market, with more than 69% of all housing units within the city's five boroughs consisting of apartment units. After turning slightly negative during Q4 2023, average rent growth returned to positive territory growing by 0.5% in Q1 2024. However, the average vacancy rate ticked up by 0.2% to 3.0% reflecting the ongoing supply being delivered.

Market Strengths:

- Despite the significant slowing in job growth this year, estimated by Moody's Analytics to be just 1.3% in 2024 compared to 2.4% in 2023 and 6.4% in 2022, per capita income here is high, at more than \$85,000 compared to the national average of \$69,000. In addition, the metro's 24-hour cosmopolitan lifestyle, particularly in Manhattan, remains attractive to many.
- Demographics are favorable for apartment rentals over the longer-term, with the overall metro's key renting cohort of those aged 20-34 comprising 22% of the population, which is slightly above the national average of about 20%. Many residents tend to stay as renters over a longer period of time. According to a 2014 report from the NYU Furman Center, New York City rent-stabilized tenants tend to stay in their apartment on average for 12 years, compared to six years for market rate tenants.

Market Weaknesses:

- Despite these positive factors, there are still fewer people on the streets of New York than in 2019. That's because commuters have only trickled back to the city, although it is getting better. Indeed, although return-to-office rates here lag other major metros based on data from Kastle Systems' Back-to-Work Barometer, in-person attendance improved to an average 60.8% in New York City for [the week of July 16](#), whereas Houston averaged 69.6%, Dallas 66.0%, and Chicago 68.6%, but Washington DC averaged 51.4%.
- And while crime rates in New York City are down, there is still a perception of elevated crime levels that is making many residents feel unsafe and keeping many commuters working from home. That perception has been keeping the vibrancy of New York City subdued over the short-term despite ongoing rental demand.
- Census data shows a net migration outflow from the larger New York metro area of 74,000 in 2023. However, New York City is disputing the results of the 2023 population estimates from the Census Bureau, indicating it undercounted an estimated 50,000 asylum seekers that were bussed to the city according to a recent [Associated Press article](#).

New Development:

- According to the Dodge Construction Network – Real Estate Analyzer data, there are more than 96,000 apartments underway as of Q1 2024 in the New York metro and that is on top of the nearly 42,000 new units delivered in 2023 alone. However, that comprises only about 3.8% of the metro's inventory, which is not that excessive, and the number is down slightly from the 101,000 rental units underway as of Q2 2023. Indeed, it can be argued that the metro needs even more supply, especially as demonstrated in its currently low average vacancy rate.
- Fortunately, a new tax incentive was passed recently which replaced the old 421-a program which expired in 2022. Known as 485-x, it is a 10-year program to incentivize new affordable housing in New York City, including affordable rental housing and homeownership opportunities. The 485-x program has set-asides for units affordable to renters making less than the area median income, which is deeper affordability than set-asides for units affordable up to 1.3 times the area median income under the expired 421-a program.
- Rental affordability requirements vary based on the size and location of the proposed property and there are also wage requirements that need to be met. However, one citywide option is that developments consisting of at least 100 rental units will receive a 35-year tax abatement as long as 25% of units are affordable at an average of 80% AMI. No more than three AMI income bands are allowed, and the highest band is capped at 100% of AMI. There are other options available, nevertheless, the affordable units developed must remain at the designated affordability level and remain rent stabilized in perpetuity no matter the option type utilized.

Housing Outlook:

- The metro is expected to see positive rent growth over the coming short-term forecast. We anticipate rent growth to be between 2.5% and 3.5% in both 2024 and 2025. While job growth is slowing, the amount of new supply expected to complete and deliver over that time frame also appears to be slowing. In fact, the number of multifamily permits issued for new construction declined to 22,600 in 2023 from the annual 37,000 average over the previous five years. As a result, rent growth will likely remain steady and vacancies are expected to rise only slightly.

Economic Outlook:

- Although this is the nation's largest metro and apartment market, job growth is expected to remain subdued through 2026, possibly dampening market rate multifamily demand just as deliveries have peaked. The New York City office market is expected to face a decline in demand over the coming years, as leases renew, and many tenants are expected to opt for smaller footprints. The banking sector, which accounts for more than 9% of employment in the metro, is also expected to see headwinds from elevated interest rates and ongoing tight credit policies, placing further pressure on the local economy. However, this is the nation's premier metro and should the Federal Reserve cut interest rates later in 2024, the metro's outlook will look much rosier.

Boroughs

Manhattan:

Although rent growth is slowing, CoStar estimates that there was positive rent growth year-over-year as of the first quarter of 2024 and that some Manhattan submarkets had particularly strong growth despite having some of the highest rent levels in the metro. These included Chelsea, with year-over-year asking rent growth of 2.4%, taking the asking rent level to \$5,091; the Financial District with 2.0% growth and asking rent levels of \$5,239; and the Upper West Side with 1.9% and asking rent levels at \$5,029.

Concessions tightened a bit but remain at normalized levels with an estimated 0.9 months of free rent with owner-paid (OP) broker fees in Manhattan, just below the 1.3 months of free rent a year ago, according to the [July 2024 Elliman report](#). However, it is getting harder to find units offering concessions. Concessions with OP were available on just 9.1% of new leases, compared to more than 12.9% in April 2023, and a whopping 46.7% back during the height of the pandemic in second quarter 2020.

Even so, Manhattan's vacancy rate increased slightly year-over-year. Elliman is estimating that Manhattan's vacancy rate rose to 2.5% in April 2024, up from 2.3% a year ago. New lease signings grew by a whopping 42% year-over-year as of April 2024, aided by a 23% expansion in listing inventory. Listing inventory most likely expanded due to a surge in new deliveries as developers back in 2021-2022 rushed to take advantage of the 421-a tax abatement program before it expired at the end of 2022.

Brooklyn:

Brooklyn has the largest share of apartments of the five boroughs combined, representing 30% of the rental housing inventory or about 1,090,000 units, according to the [2021](#) tri-annual NYC Housing and Vacancy Survey Report. It also has the most supply underway, at more than 30,400 units as of first quarter 2024, down just slightly from the 31,000 units underway as of the second quarter of 2023, according to Dodge Data & Analytics. New lease signings, which exclude renewals, grew by a whopping [300% year-over-year as of July 2024](#).

Concessions and OP have tightened up a bit at just 0.9 months of free rent here in July of 2024, down from 1.2 months a year ago, according to Elliman. However, more units are offering concessions, with 18.1% of new leases offering concessions compared to 11.8% a year ago.

Brooklyn remains more affordable compared to Manhattan's average rental rate of \$5,080, according to Elliman. Nevertheless, all the new supply is starting to have an impact. Brooklyn's average rental rate fell by 2.4% year over year as of April 2024, to \$3,960. This is down appreciably from the \$4,090 as of second quarter 2023, according to Elliman.

South Shore Brooklyn remains the borough's bargain, with its average asking rent at just \$2,002 as of first quarter 2024 according to CoStar. At the other end of the spectrum, Downtown Brooklyn remains fairly pricey, at \$4,469, after a year-over-year increase of 2.3% according to CoStar. Williamsburg is not far behind at \$4,223 with a 1.9% year-over-year increase.

Boroughs, Continued

Queens:

Although larger in square miles than Brooklyn, Queens represents 25% of the total number of apartments in the five boroughs. And it is cheaper than Manhattan and Brooklyn: The average rental rate in Northwest Queens, which includes Astoria, Sunnyside, and Woodside, is an estimated \$2,640 as of first quarter 2024, according to CoStar.

Southeast Queens, which encompasses Jamaica, Kew Gardens, Ozone Park, and Woodhaven, is also quite affordable at \$2,012 per month according to CoStar. In addition, rent growth appears to be slowing as CoStar reported an increase in the average rent of 0.8% as of first quarter 2024, down from 1.6% growth year-over-year as of second quarter 2023. Vacancy rates are rising with CoStar reporting an average vacancy rate of 2.9% as of first quarter 2024, up from 2.6% as of second quarter 2023.

Long Island City is the most expensive submarket in Queens, with average rents at \$3,814 per month, but they have increased just 0.6% over the past year, according to CoStar. However, its vacancy rate is also quite high at an estimated 3.1% but that is mostly due to a lingering oversupply of luxury units which is expected to keep a lid on future rent increases here over the short-term.

The Bronx:

The Bronx is holding its own, with modest rent growth across the board. For example, the Northwest Bronx submarket is considered more desirable due to higher household incomes. This is reflected in a vacancy rate of just 1.0% as of first quarter 2024. Yet rent growth here was 2.9% year over year, according to CoStar.

The East Bronx submarket, which includes the Co-Op City, Eastchester, and Pelham neighborhoods, also had positive rent growth of 0.8% with rents here being amongst the metro's most affordable at an estimated \$1,560 per month, according to CoStar. The focus from investors on this submarket is thanks to the Penn Station Access Project. The project's expansion of the New Haven rail line will bring four new stations by the end of 2024 to the Bronx, including Parkchester, Hunts Point, Morris Park, and Co-Op City. This should be a significant game changer in terms of multifamily demand over the longer-term outlook yet only 140 units are currently underway while the average vacancy rate is just 0.4% as of first quarter 2024.

The Southeast Bronx also has quite affordable rents, averaging about \$1,560 according to CoStar. And because of that affordability, the vacancy rate here is an incredibly tight 0.4% but rent growth has been fairly stagnant at just an estimated 0.2% year-over-year as of first quarter 2024.

Staten Island:

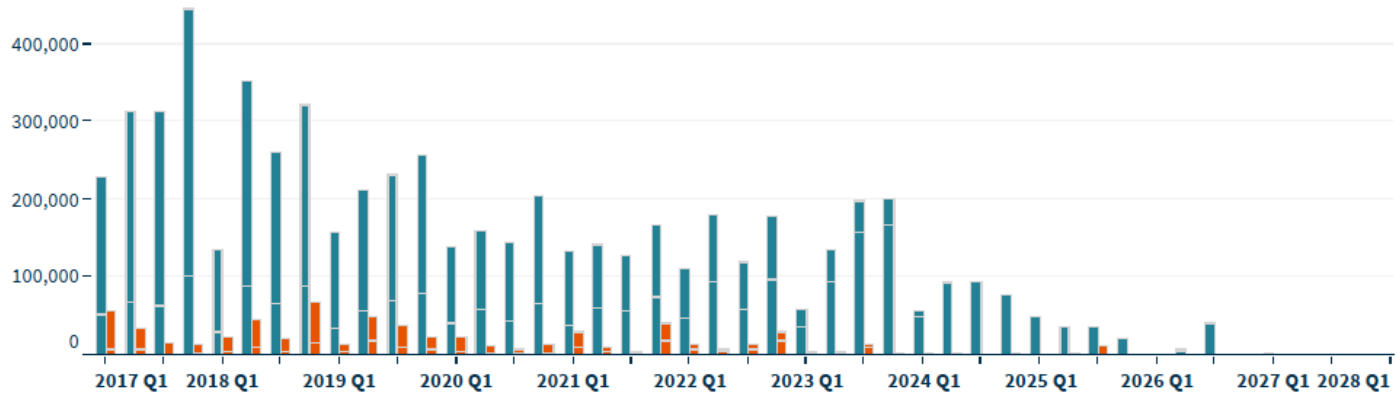
Staten Island is a fairly small multifamily market, with fewer than 10,000 units. There was just one new property delivered here over the past 12 months, according to CoStar. As a result, the vacancy rate remained flat at just 1.0% year-over-year. Rent growth over the past 12 months was positive at 1.0% as of first quarter 2024, taking rents to a very metro-affordable \$1,805 on average, according to CoStar. Currently, there are just three projects with 220 units underway. As a result, a dearth of multifamily development – and demand – keeps Staten Island's fundamentals in equilibrium, further bolstering the predominance of single-family homeownership here.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



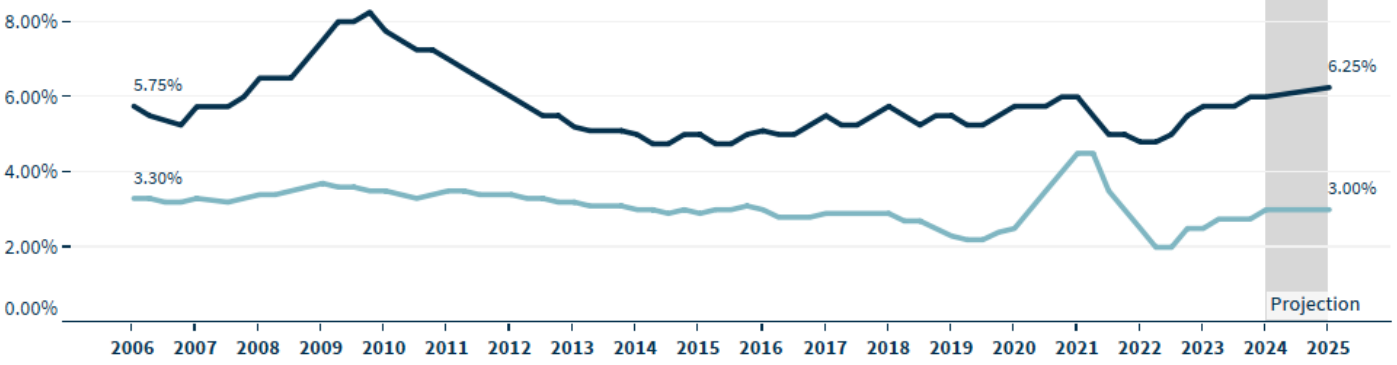
Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily Vacancy & Rent Estimates

Vacancy Rates

NYC | National

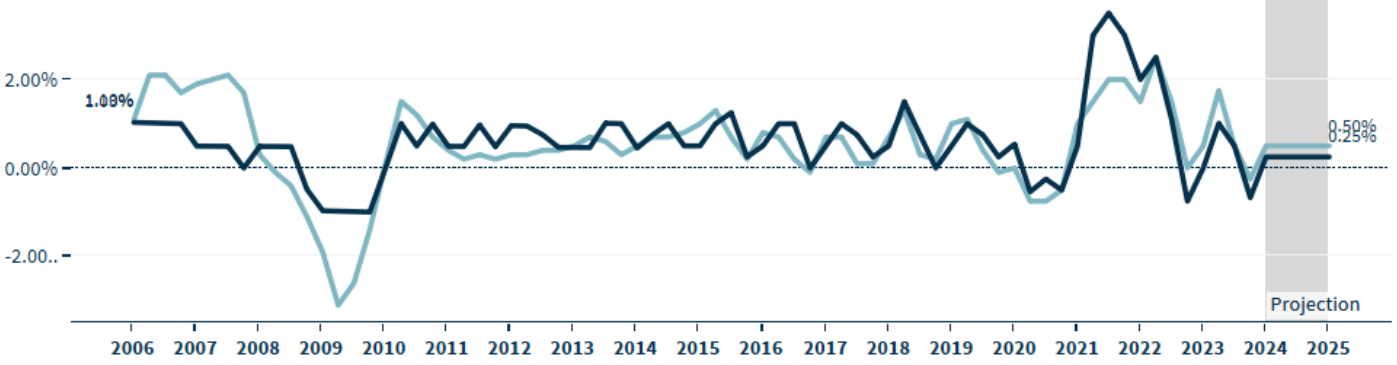
Q1 2024 Vacancy Rate:
3.00%



Asking Rent Growth

NYC | National

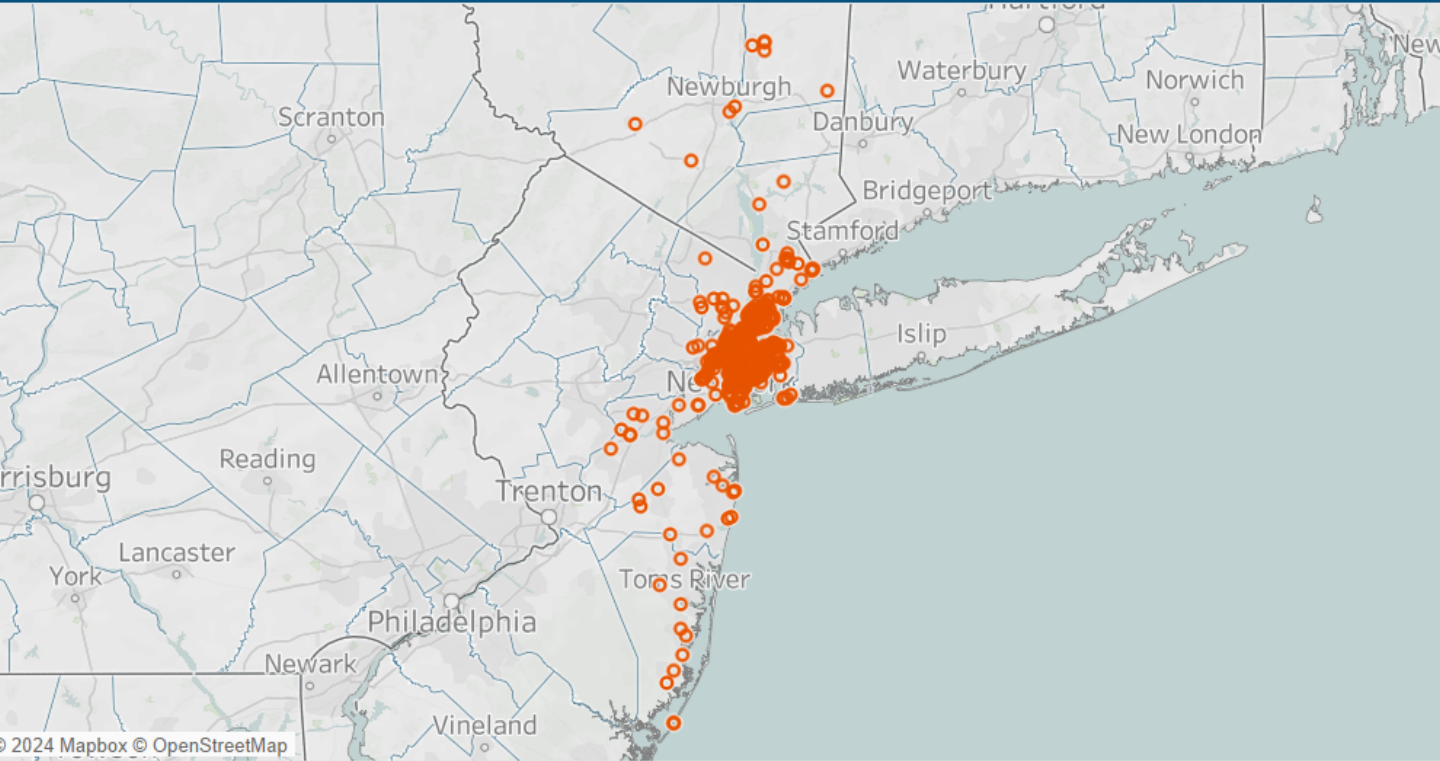
Q1 2024 Asking Rent:
\$3,150



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Bergen County	10	1,730
Bronx	105	8,747
Brooklyn	246	29,503
Central Middlesex County	5	964
Financial District	7	3,415
Harlem	19	3,964
Hoboken/North Hudson County	18	3,230
Jersey City	41	10,719
Lower East Side	12	978
Lower West Side	8	977
Midtown East	6	561
Midtown West	14	2,692
Monmouth County	12	2,097
New York Northern Suburbs	11	1,131
Northeast Middlesex County	4	952
Ocean County	10	1,497
Queens	101	16,076
South Westchester County	23	5,358
Staten Island	4	81
Upper East Side	8	1,259
Upper West Side	4	296
Grand Total	668	96,227

Source: Dodge Data & Analytics SupplyTrack Pipeline



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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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