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Multifamily Metro Outlook: New York Spring 2018

Overview

The New York City metro is the nation's largest apartment market with 2.2 million rental units, of which 47 percent are rent-stabilized and 1.2 percent rent-controlled. As anticipated, a glut of new Class A supply, coupled with a slowdown in overall job growth and a sky-high cost-of-living, have produced elevated concessions and vacancies.

The metro is also one of the world's leading lifestyle cities and the financial capital of the world, and as such it will always attract new investment, businesses, and residents.

The metro's overall economic drivers are multi-faceted but primarily two-pronged: FIRE (Finance, Insurance, and Real Estate) and TAMI (Technology, Advertising, Media, and Information). Education and Health Services is actually the largest segment of the metro's economy at nearly 20 percent, but its average salary is just $58,000 compared to $110,000 for Financial Services and $162,000 for Information Services.

Demographics are favorable for apartment rentals, with the overall metro's key renting age 20-34 cohort at 21.5 percent, above the national average of 20.8 percent. Despite increased supply, rent control and stabilization policies remain in place, resulting in the metro having some of the most expensive housing costs in the nation.

Job growth has remained above the national average over the past few years but is expected to slow down over the forecast horizon. It slowed to 2.0 percent in 2016 and 1.5 percent in 2017. It is expected to be just 1.1 percent this year, 0.7 percent in 2019, and 0.0 percent in 2020, which does not bode well for the more than 62,000 rental units underway.

Business costs are among the highest in the nation at 164 percent above the national average. Add in expensive housing, living costs, and an elevated tax rate, and the metro is poised to see an even greater rift in income inequality.

Development

There are more than 62,000 rental units underway, down from 2017's 81,000 units. Of the 62,000 units, fewer than 7,000 are condos. As a result, concessions are at -1.70 percent for the greater metro, according to Axiometrics, but above -8.3 percent for Manhattan, Brooklyn, and Queens, according to the February 2018 Elliman Report.

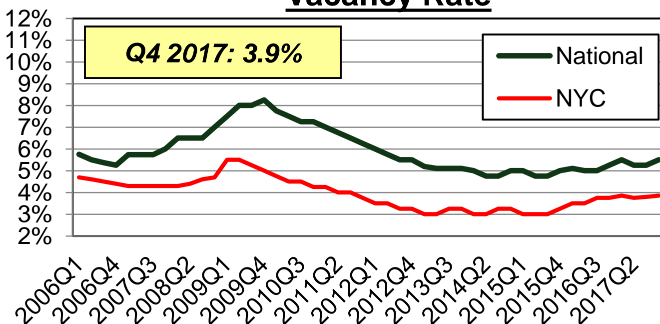
The reinstatement of the 421-a program, now called Affordable New York, is starting to renew temporarily waylaid development plans. It gives developers a 35-year tax break for units affordable to residents earning between 40 percent and 130 percent of area median income, or up to $117,780 for a family of four. As a result, there are more than 135,000 units in the planning and final planning stages as of 4Q2017, compared to about 90,000 units in 4Q2015.

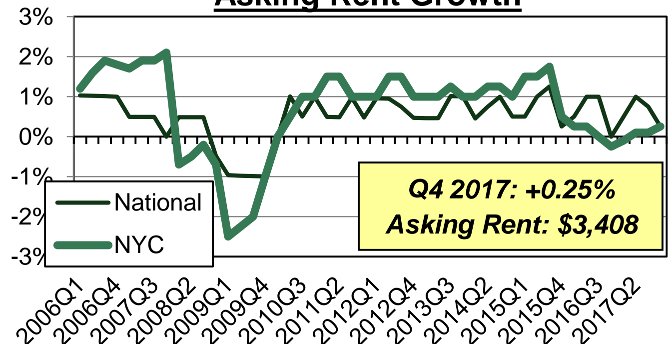
Outlook

Over the short term, vacancy rates are likely to rise but remain low, likely below 4.0 percent – but expect more weakness for the high-cost segment of the market with higher concessions.

As a result of weakening multifamily fundamentals the long-term outlook remains at "steady," the same category as the short-term outlook. Although this is the nation's largest metro and apartment market, job growth is expected to slow further out in the forecast horizon. Offsetting this anticipated slowdown, there is always more demand than supply, and global investment is expected to remain stable.

Vacancy and Rent Composite Estimates





Source: Fannie Mae Multifamily and Economics Research

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Manhattan

- According to the Elliman Report, as of January 2018, rents have continued to slide, down -1.5 percent year-over-year. Interestingly, the city's higher-end units, or "doorman" properties, are seeing better demand, resulting in a year-over-year increase of about 1.2 percent, in stark contrast to last April's -3.1 percent year-over-year decline. In comparison, after experiencing healthy rent growth of 5.8 percent for units in "non-doorman" properties last spring, their rents have done an about-face and plummeted -3.4 percent as of January 2018, down to a median $2,700.
- Concessions are also climbing and are now at 1.4 months free rent with owner-paid (OP) broker fees. They are also far more widespread, representing nearly half of all new leases – compared to just 29 percent last spring.
- The incentives are working but haphazardly: Elliman estimates that the vacancy rate for Manhattan was down to 1.98 percent as of January 2018, compared to 2.44 percent as of February 2017, but have since risen a bit to 2.29 percent in February 2018.
- Many of Manhattan's submarkets are experiencing below average performance, primarily due to the onslaught of new supply. For example, CoStar's year-over-year rent growth for Chelsea/Hudson Yards was negative at -1.1 percent as of 4Q2017, due to more than 1,400 units delivered last year, and the Upper West Side had zero rent growth.

Brooklyn:

- Brooklyn has the largest share of apartments of the five boroughs combined, representing 30 percent of the rental housing inventory, according to the 2014 tri-annual NYC Housing and Vacancy Survey Report. It also has the most supply underway, at about 16,000 units.
- Brooklyn is also feeling the weight of too much supply in certain submarkets. Concessions were slightly higher here at 1.5 months compared to 1.4 months free rent in Manhattan as of January 2018, according to Elliman. But nearly 48 percent of all new Brooklyn leases offer both concessions and OP broker fees, compared to just 15 percent last year.
- Brooklyn is still the better deal: Its median rental rate for a luxury unit was about $5,400 in January 2018, compared to more than $10,000 in Manhattan. But DUMBO and Downtown Brooklyn still have rent levels at about $3,600 -- similar to $3,800 in the East Village or the Upper East Side.
- DUMBO/Downtown Brooklyn's emergence as a business center are helping keep rents aloft, with complexes like DUMBO Heights and Empire Stores attracting TAMI office tenants and jobs, along with 12 subway lines providing access to all of Manhattan with 15 minute rides to Downtown Manhattan and 25 minutes to Midtown.
- On the other hand, the pending 15-month closure of the L subway line commencing in 2019 is already having a chilling effect on the Williamsburg/Greenpoint/Navy Yard submarket, resulting in negative rent growth in 2017.

Queens:

- Although larger in square miles than Brooklyn, Queens represents 25 percent of the total number of apartments in the five boroughs. And it is cheaper than Manhattan and Brooklyn: Its median rental rate for a luxury unit was just $4,200 as of January 2018, down quite a bit from nearly $5,000 a year ago, according to Elliman. And concessions keep growing with more than half of all listings offering 1.8 months of free rent/OP broker fees, as of January 2018.
- Long Island City is taking it on the chin. It was formerly the area's industrial and manufacturing hub but became the fastest-growing residential market in the metro – perhaps too much so. According to CoStar, the vacancy rate here has soared to 2.6 percent and rents have plummeted by -1.4 percent as of 4Q2017, with nearly 8,000 units still underway.

The Bronx:

- The Bronx is seeing demand, but rent growth is slowing. In the Northeast Bronx submarket, which includes the Co-Op City, Eastchester, and Pelham neighborhoods, CoStar's vacancy rate is up slightly to 1.4 percent, though year-over-year rent growth slowed to just 1.0 percent in 2017 compared to a stunning 4.9 percent in 2016.
- With funding recently announced for the Penn Station Access Project, the Bronx is poised for future growth. The project's expansion plan for the New Haven rail line will bring four new stations to the Bronx, including one in Co-Op City. This could "…usher in the addition of more product to the eastern region of the submarket in particular, where residential supply is far less prevalent than it is on the submarket's western periphery," according to CoStar.
- Although still a bargain compared to the metro's other submarkets, the South Bronx submarket saw rent growth turn negative in 2017, down -0.3 percent but with rents still averaging only about $1,250.

Staten Island:

- Vacancy on Staten Island is one of the highest in the metro, at nearly 5.0 percent, but rent growth was better than average at 1.9 percent in 2017, primarily due to no new units being delivered last year and only 113 units underway.
- Staten Island's solid economic fundamentals have drawn interest from developers, who are constructing several retail and multifamily projects here, but with fewer than 9,000 multifamily units it remains a small submarket.

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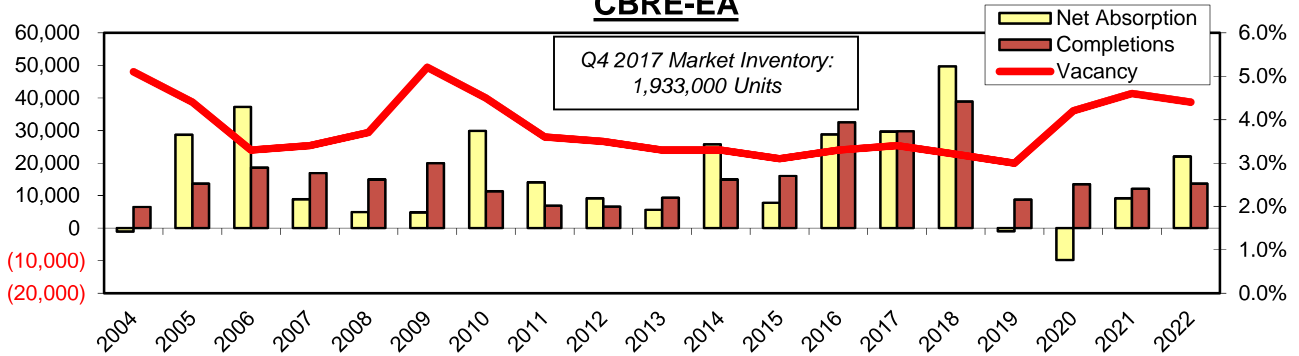

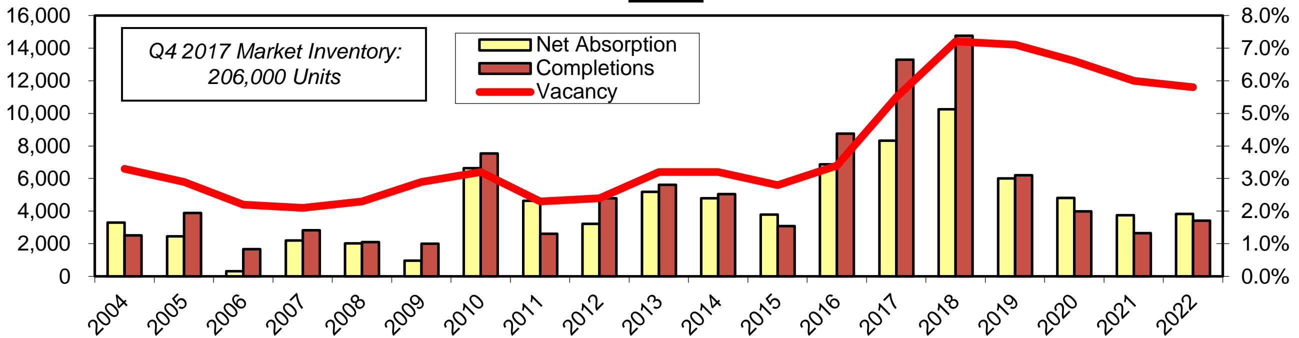

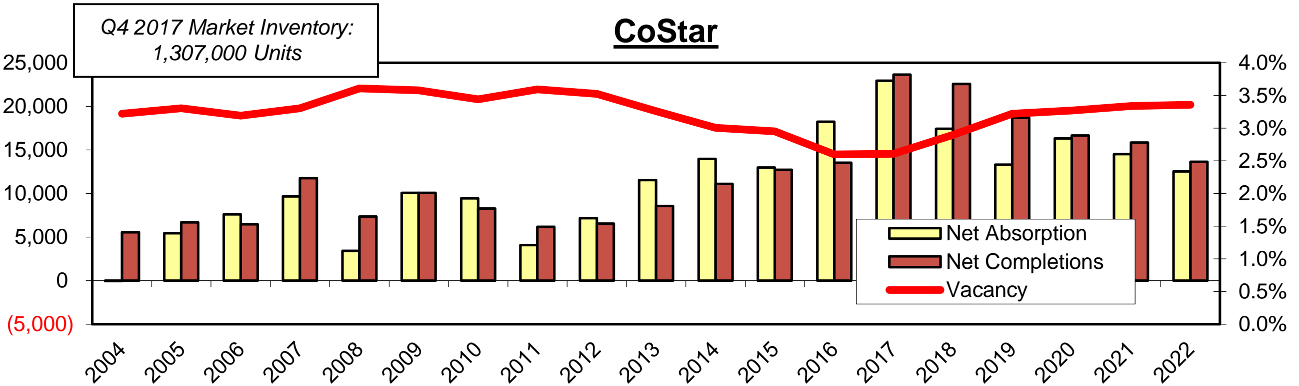

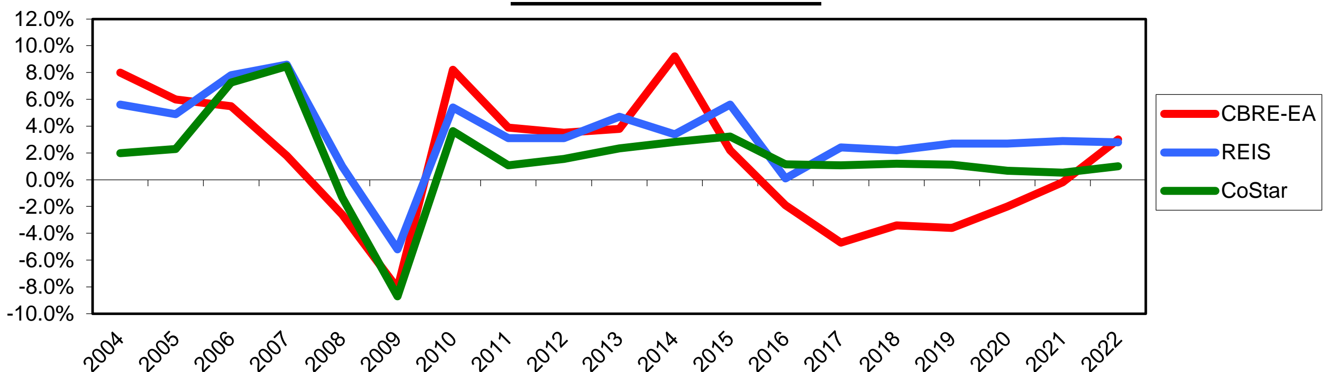

Source: Dodge Data & Analytics

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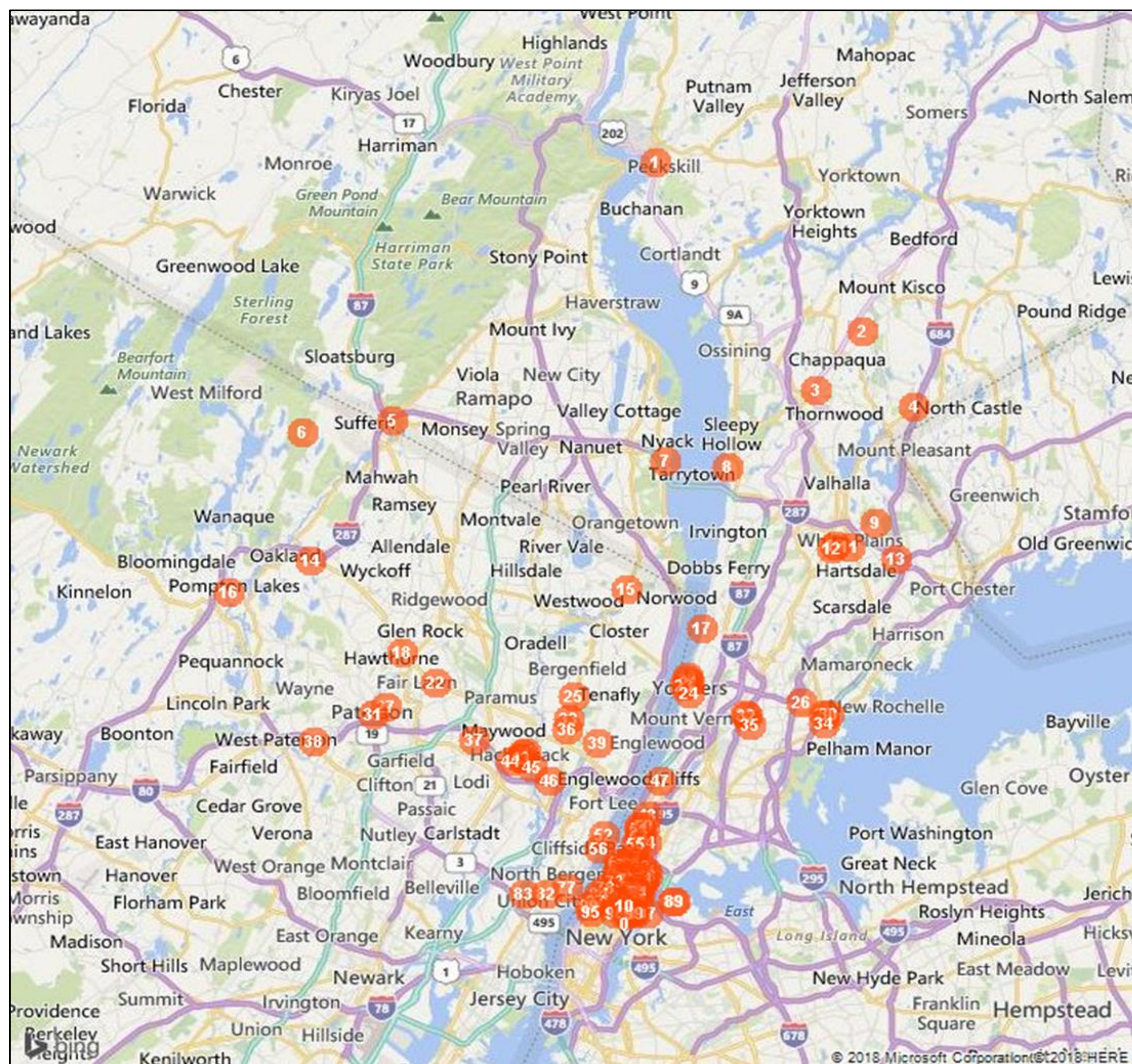
Construction Bidding/Underway

(831 projects/63,000 Units/77.70M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Bergen County	17	2990	2676
Central Westchester	8	1353	1210
East Middlesex	6	1395	1363
Hudson County	72	11604	9517
Kings County	400	17949	16108
Midtow n West	27	10205	5909
Morningside Heights/Washington Heights	32	2610	2342
Northern Westchester	2	295	242
Northw est Middlesex	2	460	471
Passaic County	6	388	329

CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Queens County	143	10151	9716
Rockland County	2	261	225
Shore	15	1810	1583
Southern Westchester	13	2123	2144
Southw est Middlesex	2	295	223
Stuyvesant/Turtle Bay	12	1768	1275
Upper East Side	14	1596	703
Upper West Side	9	3247	1655
West Monmouth	4	753	619
West Village/Dow ntow	45	6430	4417

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Fannie Mae Multifamily Economics and Market Research

Kim Betancourt, Economist

Sources Used

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- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

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