

ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

New York City

Third Quarter 2010

RENTS RISING DESPITE EXCESS SHADOW MARKET SUPPLY

In New York City, job gains will ease during the second half of 2010 as temporary government positions are erased, though a resurgence in hiring by private-sector employers will lay the foundation for a long-term recovery in the local apartment market. In late 2009, investment banks began to rehire previously laid off securities and banking employees, supporting growth in the financial activities sector. The expansion of this important industry is cascading into other areas, particularly professional and business services, healthcare, and retail. As a result, rents at market-rate properties will increase citywide and in most submarkets, while the number of owners offering to cover rental agency fees or other concessions will decline. The Rent Guidelines Board, meanwhile, will allow owners of rent-stabilized units to raise rents 2.25 percent on one-year leases and 4.5 percent on two-year agreements starting in the fourth quarter. Vacancy will tick higher this year, though, due to the supply overhang of market-rate units and shadow rentals, especially in the Midtown West and Williamsburg submarkets, as well as in the Fourth Avenue corridor in Park Slope.

Distressed deals continue to surface, though activity remains limited by banks' preferences to extend loans and the prevalence of note sales, both of which have lengthened the foreclosure process. Funds are most active in Manhattan and northern Brooklyn, and cap rates for most top-quality apartment deals begin in the low- to mid-5 percent range in the former and roughly 20 basis points to 40 basis points higher in the latter. Steady renter demand in rent-stabilized units with below-market rates has underpinned strong investor interest for affordable housing in the Bronx, Queens, and southern and eastern Brooklyn. Buyers are targeting operationally sound assets in Flatbush and Flushing at initial yields starting at 6 percent, while cap rates in top Bronx areas like Fordham and near the Grand Concourse begin at 7 percent.

2010 ANNUAL APARTMENT FORECAST



Employment: In 2010, New York City payrolls will expand by 77,100 positions, or 2.1 percent, following losses totaling 173,400 jobs in the 16-month period ending in December 2009.



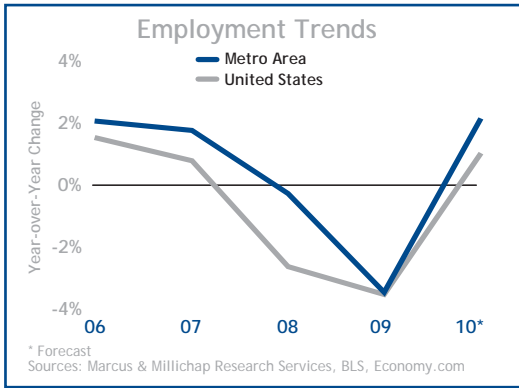
Construction: Lengthy planning and construction timetables have kept the development pipeline full. The delivery of several large projects will boost total output to nearly 7,300 market-rate units in 2010, compared with the completion of 1,600 units last year.



Vacancy: A surge in deliveries will drive up the citywide vacancy rate at large, free-market properties 40 basis points to 3.3 percent this year. In 2009, vacancy increased 60 basis points.



Rents: In 2010, asking rents at large, free-market buildings will rise 3.1 percent to \$2,770 per month, and effective rents will climb 3.8 percent to \$2,668 per month. Asking and effective rents fell 6.6 percent and 8.1 percent, respectively, last year.

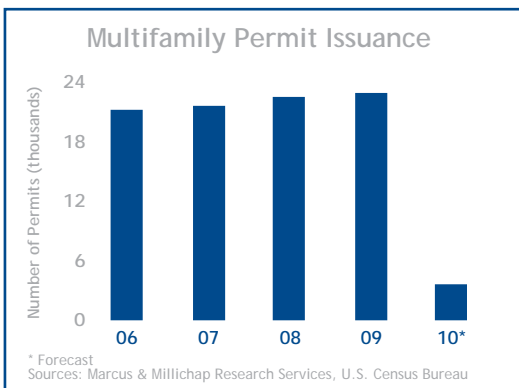


ECONOMY

- ◆ New York City employers continue to expand payrolls vigorously. In the first half of 2010, local businesses added approximately 43,800 jobs, a 1.2 percent gain. In comparison, 45,700 positions were eliminated during the same period in 2009.
- ◆ Hiring efforts were most robust in the education and health services sector, which increased by 16,500 positions, or 2.2 percent, in the past year. Also, a recovery continues to take shape in the leisure and hospitality sector, where 5,800 new hires were made in the last 12 months, including 4,600 accommodation and food positions.
- ◆ The unemployment rate in the metropolitan division peaked at 10 percent at the close of last year but has since improved 60 basis points, ending the second quarter at 9.4 percent. In 2009, the unemployment rate surged 320 basis points.
- ◆ **Outlook:** New York City payrolls will expand by 77,100 positions, or 2.1 percent, in 2010, following losses totaling 173,400 jobs in the 16-month period ending in December 2009.

HOUSING AND CONSTRUCTION TRENDS

- ◆ Citywide multifamily permitting activity plummeted 85 percent to 3,480 units in the past 12 months, compared to a 2 percent increase during the prior year. The slowdown was most acute in Brooklyn, where the number of permits pulled fell 93 percent to approximately 650 units.
- ◆ Manhattan condominium sales velocity surged more than 90 percent in the second quarter, and the median sales price appreciated 10 percent to \$1.1 million. The median condo sales prices increased 2 percent to \$485,000 in Brooklyn, while the median price plummeted 28 percent to \$278,000 in Queens.
- ◆ **Outlook:** Lengthy planning and construction timetables have kept the development pipeline full. The delivery of several large projects will boost total output to nearly 7,300 market-rate units in 2010, compared with the completion of 1,600 units last year.

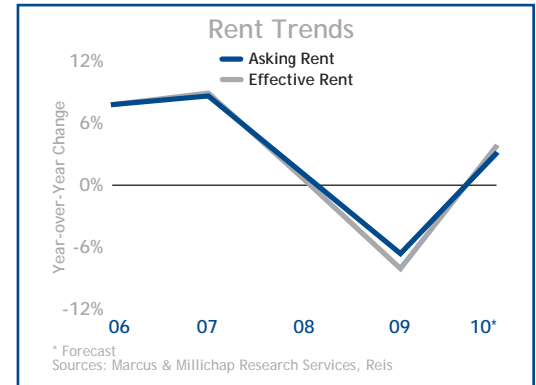


MANHATTAN TRENDS

- ◆ Multifamily permitting activity in Manhattan fell 87 percent in the past year to 970 units, though projects planned during stronger economic times continue to come online. Silver Towers, for example, due in the third quarter, will include 1,087 market-rate units and 272 affordable housing units.
- ◆ Boroughwide vacancy at large, free-market complexes improved 30 basis points year over year to end the second quarter at 3.5 percent. During the same stretch, asking rents decreased 0.4 percent to \$3,491 per month, and effective rents fell 1.3 percent to \$3,349 per month.
- ◆ Strengthening investor confidence supported a 6 percent rise in transaction velocity in the past year, though the median price retreated 30 percent to \$182,710 per unit due to distressed sales and a backlash from previous years' robust appreciation.
- ◆ **Outlook:** Nearly 2,500 rental units will be added to Midtown West supply this year. As a result, operators at nearby upper-tier properties will increase concessions by 40 basis points to approximately 4.7 percent of asking rents.

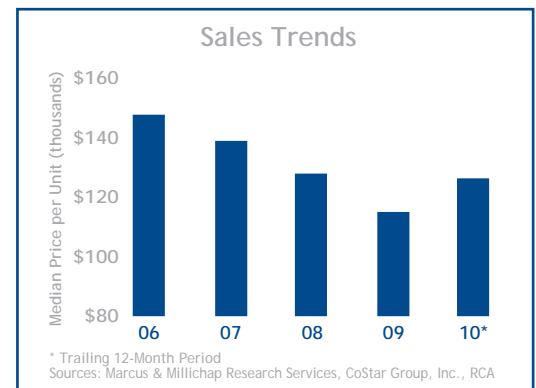
BRONX TRENDS

- ◆ After multifamily permitting activity in the Bronx bottomed at 460 annualized units in July 2009, issuance began to trend higher as developers anticipated increased demand. In the most recent 12 months, 1,230 multifamily permits were pulled in the area, a 31 percent annual rise.
- ◆ Vacancy at large, market-rate properties decreased 30 basis points in the past year to a metro-low 0.9 percent. Rents ticked up during that time, however, with asking rents rising 1 percent to \$1,116 per month and effective rents gaining 1.3 percent to \$1,088 per month.
- ◆ In line with revenue uncertainty, sales velocity slowed by 33 percent in the last year, while the median price receded 8 percent to \$68,970 per unit.
- ◆ **Outlook:** Cap rates will continue to rise until revenues stabilize. Currently, initial yields for top-quality apartment assets in the Bronx range between 7 percent and 8 percent, while lower-quality buildings start at 8.5 percent.



BROOKLYN TRENDS

- ◆ Approximately 2,175 market-rate rental units will be delivered in Kings County this year, while major condo projects will add 1,450 units to for-sale inventory. Future supply gains will be limited, however, as permitting activity has declined sharply in the past year.
- ◆ Asking rents appreciated 1.1 percent year to date to \$1,408 per month, though effective rents fell 0.9 percent to \$1,342 per month. Vacancy at large, free-market buildings increased 60 basis points to 3 percent.
- ◆ The number of apartment sales in Brooklyn declined 30 percent in the past year due to tight capital markets and fears of further revenue losses. After renewal trends cooled and prices fell for three consecutive calendar years, the median price increased 8 percent in the most recent 12-month period to \$121,550 per unit.
- ◆ **Outlook:** Gross rent multipliers continue to slip in line with rents. In the premier Park Slope neighborhood, for instance, rent multipliers have fallen to 10 to 11 times rent rolls, after peaking at 14 times rent rolls during 2007.



QUEENS TRENDS

- ◆ In the most recent 12-month period, 520 multifamily permits were issued in Queens, compared with 5,140 units one year earlier. In the three years preceding the recession, builders pulled an average of 3,275 units per year.
- ◆ More affordable rents than in Manhattan supported demand at Queens market-rate properties in the past year. In that time, vacancy improved 20 basis points to 1.9 percent, while asking and effective rents gained 1 percent and 1.5 percent to \$1,372 per month and \$1,314 per month, respectively. Operators of smaller and older buildings, however, reported rents down as much as 20 percent from peak levels.
- ◆ Velocity held steady over the past 24 months, after falling 34 percent in the prior year. The median price increased 6 percent year over year to \$135,000 per unit, following a 6 percent decline in the previous 12-month period.
- ◆ **Outlook:** After rental concessions peaked at 5.1 percent of asking rents last year, steadying demand at large, market-rate properties will ease incentives to 4.1 percent of asking rents by the end of 2010.

** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Mixed economic indicators, stock market volatility and concerns surrounding the European debt crisis continue to drive investors to safety. As a result, the yield on the 10-year U.S. Treasury has declined since peaking at 4 percent in April; as of late July, the yield had fallen to 3 percent.
- ◆ Capital markets loosened over the past year, with life insurance companies ramping up lending and CMBS showing renewed signs of life. Nonetheless, the agencies remain the dominant sources of multifamily lending. This trend will continue through 2010 as the GSEs' multifamily portfolios outperform their residential mortgage operations, reducing the likelihood of drastic government-mandated changes to their apartment lending arms.
- ◆ Multifamily loan originations increased 37 percent in the second quarter but remained below levels reported during the same period last year. Fannie Mae and Freddie Mac's origination volume followed a similar pattern, rising in the second quarter but falling short of year-earlier levels.
- ◆ Loan-to-values range from 60 percent to 75 percent for portfolio lenders and push up to around 80 percent for best-of-class, agency-financed deals. All-in rates for five-year agency loans fall into the low-4 percent range, while 10-year loans price between 4.75 percent and 5.15 percent. While life companies will compete at these levels for best-of-class deals, most portfolio lenders are 100 basis points to 225 basis points higher.

NEW YORK CITY SALES HIGHLIGHTS

Borough	Property Address	Sales Price	Number of Units	Price per Unit
Manhattan	927 Madison Avenue	\$9,150,000	8	\$1,143,750
Manhattan	311 Second Avenue	\$8,500,000	23	\$369,565
Manhattan	283 W. 11th Street	\$7,500,000	12	\$625,000
Manhattan	32 W. 88th Street	\$6,987,500	3	\$2,329,167
Brooklyn	63 Tiffany Place	\$5,300,000	70	\$75,714
Brooklyn	332 Keap Street	\$4,300,000	48	\$89,583
Bronx	2518 University Avenue	\$3,570,000	52	\$68,654
Manhattan	40-48 Overlook Terrace	\$3,500,000	48	\$72,917
Manhattan	325 E. 10th Street	\$3,250,000	20	\$162,500
Manhattan	475-481 W. 159th Street	\$3,100,000	37	\$83,784
Manhattan	104 E. 30th Street	\$3,000,000	6	\$500,000
Manhattan	535 E. 87th Street	\$2,750,000	11	\$250,000
Brooklyn	9124 Third Avenue	\$2,300,000	10	\$230,000
Queens	28-50 37th Street	\$2,100,000	22	\$95,455
Queens	24-14 41st Street	\$1,585,000	8	\$198,125
Bronx	1818 Clay Avenue	\$1,500,000	24	\$62,500
Queens	41-09 29th Street	\$1,250,000	8	\$156,250
Brooklyn	396 Montgomery Street	\$1,189,507	23	\$51,718
Brooklyn	2574 Bedford Avenue	\$1,150,000	16	\$71,875
Brooklyn	585 Park Place	\$960,000	8	\$120,000
Bronx	1992 Davidson Avenue	\$860,000	16	\$53,750
Bronx	459 E. 135th Street	\$790,000	10	\$79,000
Queens	81-69 Woodhaven Boulevard	\$685,000	6	\$114,167
Brooklyn	657 Washington Avenue	\$620,000	2	\$310,000
Brooklyn	258 Irving Avenue	\$603,138	6	\$100,523
Manhattan	547 W. 187th Street	\$550,000	8	\$68,750