Year End 2014 NPI Rental Report

This report centers on two themes: the growth in the TriBoro residential Pipeline and the affordability of market rate rentals in the Outer boroughs with potential ramifications for Mayor de Blasio's housing policy.

In the post Lehman era, starting in 2010, rents began growing again in the TriBoro area as the result of an economic recovery low on income growth but exceptionally high on job growth, especially in the new TAMI industries.

Also, as the result of a large increase in foreign investment in New York real estate, condominium prices, and consequently land prices, in Manhattan have risen to a point that has constrained the supply of moderately priced rentals and condominiums and precipitated their spread to the Outer boroughs (Brooklyn and Queens).

What has also been very different in the post-Lehman era is the spread of residential development to what we have called the "Outer Outer" boroughs, the areas beyond the earlier gentrified neighborhoods that are closer to Manhattan. Once the East River had been crossed, and Brooklyn and Queens had become chic and not so cheap, the expansion to the "Outer Outer" boroughs began in full force.

The chart below, from our proprietary Pipeline Database, shows the extent of new development since 2005 and also what is planned for the three boroughs.

The Online (already occupied) and known Pipeline (a condominium plan has been filed or journalism has identified the development as a rental) numbers are based on market rate units only.

The Pipeline numbers reflect two categories, Totals and "DOB". "DOB" is defined as a project having either an NB (New Building) or A1 (Major Alteration) job filing with the Department of Buildings (DOB). Totals include developments in the planning stage that we have learned about through journalism. So, "DOB Units" and "DOB Bldgs." are the subset of "Total Units" and "Total Bldgs." for which DOB jobs have been filed.

The "Unknown Pipeline" table shows the number of buildings and units in the Pipeline where the use is not yet known. Whether a development will be rental or condo is not specified in the DOB filings.

Because hotels are considered residential buildings with “dwelling units”, some hotels are included within the unknown Pipeline numbers, except where we were able to identify the hotel from the occupancy classification. It should be noted that affordable units are included in the unknown unit totals.

NPI DATA SERVICES ONLINE AND PIPELINE DATABASE

RENTALS	Online												2007-2014		Pipeline			
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total Units	Total Bldgs	Units/ Year	Bldgs/ Year	Total Units	Total Bldgs	DOB Units	DOB Bldgs
Below 96th St.	3750	5730	2498	1455	4723	2701	2874	2866	2934	1682	**31213**	**223**	**2717**	**21**	14596	83	11597	68
Above 96th St.	304	242	30	147	239	512	846	177	66	675	**3238**	**81**	**337**	**9**	3365	38	2088	28
Brooklyn Core	323	49	123	300	831	1513	1069	901	1569	1399	**8077**	**216**	**963**	**25**	9298	77	5345	47
Brooklyn Outer	142	138	373	364	964	605	1018	1018	1286	1491	**7399**	**310**	**890**	**37**	16145	217	9042	150
Queens Core	135	622	1048	97	442	353	530	1236	2447	1468	**8378**	**165**	**953**	**19**	15107	65	8050	36
Queens Outer	8	12	56	53	158	63	218	1059	641	214	**2482**	**68**	**308**	**8**	1904	27	1438	22
Totals	**4662**	**6793**	**4128**	**2416**	**7357**	**5747**	**6555**	**7257**	**8943**	**6929**	**60787**	**1063**	**6167**	**118**	**60415**	**507**	**37560**	**351**

CONDOS	Online												2007-2014		Pipeline			
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total Units	Total Bldgs	Units/ Year	Bldgs/ Year	Total Units	Total Bldgs	DOB Units	DOB Bldgs
Below 96th St.	4531	8175	6445	3410	859	428	555	989	2228	2586	**30206**	**464**	**2188**	**41**	10760	188	6220	120
Above 96th St.	361	1047	848	511	446	392	47	126	226	415	**4419**	**134**	**376**	**11**	810	16	593	11
Brooklyn Core	790	1445	2049	1856	281	372	357	196	119	499	**7964**	**311**	**716**	**30**	2078	50	1410	34
Brooklyn Outer	915	2339	2120	1569	1657	1427	685	699	707	895	**13013**	**970**	**1220**	**95**	4606	188	2212	103
Queens Core	120	534	887	690	207	315	118	68	100	118	**3157**	**85**	**313**	**9**	1020	21	836	19
Queens Outer	239	670	774	1059	1213	1262	378	303	365	901	**7164**	**289**	**782**	**31**	2647	36	1168	21
Totals	**6956**	**14210**	**13123**	**9095**	**4663**	**4196**	**2140**	**2381**	**3745**	**5414**	**65923**	**2253**	**5595**	**217**	**21921**	**499**	**12439**	**308**

UNKNOWN PIPELINE	Total Units	Total Bldgs	DOB Units	DOB Bldgs
Below 96th St.	12675	142	4358	107
Above 96th St.	1331	68	1270	62
Brooklyn Core	4956	202	3664	186
Brooklyn Outer	16750	946	14115	844
Queens Core	5871	136	5504	125
Queens Outer	5701	330	4877	298
	47284	**1824**	**33788**	**1622**

TOTALS	Total Units	Total Bldgs	DOB Units	DOB Bldgs
Below 96th St.	38031	413	22175	295
Above 96th St.	5506	122	3951	101
Brooklyn Core	16332	329	10419	267
Brooklyn Outer	37501	1351	25369	1097
Queens Core	21998	222	14390	180
Queens Outer	10252	393	7483	341
	129620	**2830**	**83787**	**2281**

The Pipeline reflects a total of approximately 130,000 units planned or under construction in the three boroughs. While some of these developments may falter, most will proceed so long as the cycle keeps rising. Also, some are large and long-term projects like the Hudson Yards, Pacific Park, and Greenpoint Landing. Even discounting 30,000 units in these mega projects, there remain 100,000 units that will come to market, probably over the next five years. The estimate for this time frame is based on an assumption of approximately a two year time frame from acquisition to filing with the Department of Buildings and about three years from that point until the initial TCO when residents can begin to take occupancy.

As the chart above also shows, these are levels of development not seen in the recent past. According to the 2014 Housing Supply Report from the New York City Rent Guidelines Board, the last time the TriBoro area experienced this level of annual supply was in the five year period of 1965-1969 with 102,692 units. Therefore, the projected supply level for the TriBoro area of approximately 20,000 units per year for the next five years has not been this high in 50 years.

The first question that arises is the impact of this volume on rent increases. The Chart on the following page shows the relationship between average rents in Manhattan and private sector employment.

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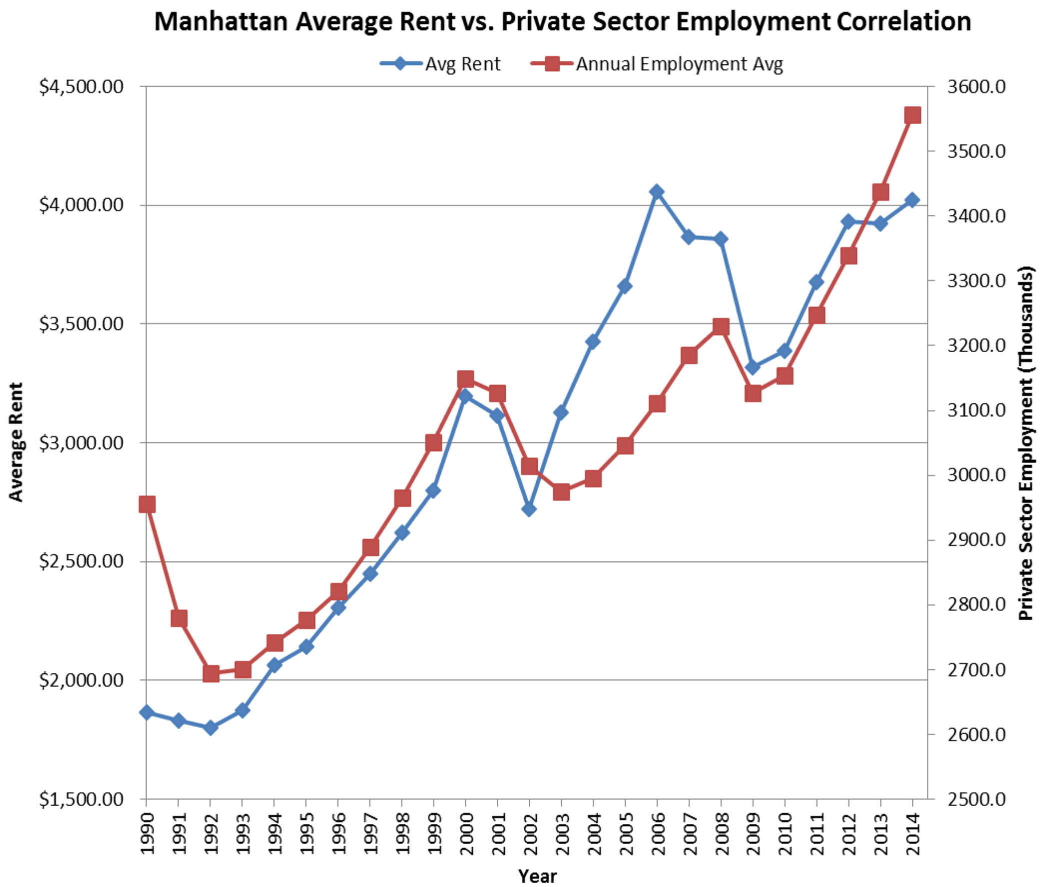

Source: Manhattan Average Rent NPI Data Services
Source: Private Sector Employment NYS Dept. of Labor

When the rental market was confined to the island of Manhattan, annual additions to supply had no apparent effect on rent levels for the reason that the existing rental housing stock was so large in comparison to the average amount of annual additions to supply. Rents rose in proportion to new population, or job growth, and rising wages.

With the expansion into the Outer boroughs, with the lower rents that they offer and the opportunity for rental and condominium development evidenced in the amount of new supply reflected in the Pipeline, understanding the equation that drives rent growth has completely changed. While the area is enjoying exceptional job growth, wage inflation is, at best, stagnant. It remains to be seen how lower wages and robust job growth and the expansion into the Outer Outer boroughs will combine to affect rent levels.

There are fundamentally two kinds of renters, those who decide based primarily on price, where the budget has little flexibility, and those who make life style choices, seeking the best in location, amenities, views, finishes and architecture. We do not believe that increased supply in the Outer Outer boroughs will have any significant effect on the best buildings in Manhattan, or in the core areas of Brooklyn and Queens, that have already become chic. Even prior to the Pipeline report showing us the extent of development in the Outer Outer boroughs, we have said in many prior reports that lesser quality buildings in Manhattan would suffer the ravages of competition from Outer borough development and that the highest and best use for these buildings is conversion to moderately priced condominiums. This conversion trend has picked up momentum recently. Clearly, removing these buildings from rental supply will support prices in more desirable locations.

It is also important to note the shift in the momentum of new development to the much less expensive Outer Outer borough neighborhoods. For example, the number of rental units in the Pipeline in the Outer Outer neighborhoods of Brooklyn is almost twice the number in the core Brooklyn neighborhoods, 16,145 versus 9,298. This is particularly impressive considering that the expansion into the Outer Outer neighborhoods began later than development in the core neighborhoods. Considering that the first market rate rental buildings opened in downtown Brooklyn in 2006, the amount developed in the core neighborhoods of Brooklyn and Queens is astonishing, but the explosion beyond to the Outer Outer areas is even more amazing. Much of the apprehension about the difficulty of developing new rental units may be the result of a lack of a comprehensive understanding of the current status of development in Brooklyn and Queens.

Perhaps the most controversial and important issue in residential real estate today is Mayor de Blasio's plan to create or preserve 200,000 units of affordable housing in the City over the next ten years.

This report, based on our proprietary Pipeline and Online databases, shows that market rate developments are already providing a substantial number of units affordable to median income renters, as defined in the Mayor's plan, in the Outer Outer boroughs.

The Mayor's plan, Housing New York A Five-Borough Ten-Year Plan, defines fives income levels in need of affordable housing: extremely low income, very low income, low income, moderate income and middle income. This report focuses on the moderate and middle income levels. It does not find that market rate developments are addressing the needs of the three lowest income groups. However, its findings do suggest that the City should focus its efforts and expenditures on the three lower income levels as the extent to which market rents in the Outer Outer boroughs are at levels affordable to the two highest income groups appears to be largely addressing those needs.

For purposes of this analysis, we used the moderate income for a family of four of $83,900 that the City uses and its test of reasonable rent expenditure equal to 30% of gross income. This test equates to 1/40 of gross annual income equaling one month's rent that is the test customarily used to qualify for market rate housing throughout the City.

The chart below identifies the affordable rent within the moderate and middle income brackets, as defined in the Mayor's plan. It also shows, by income bracket, the total number of active and/or rented two-bedroom listings in Outer Outer Brooklyn and Queens within the past year in buildings that came online since 2005.

	Percentage of AMI		Prevent Rent-Burden		Annual Income		Listings	Buildings	Average Rent
Income Band	Low	High	Low	High	Low	High			
Moderate Income	81%	120%	$ 1,679	$ 2,517	$ 67,121	$ 100,680	248	97	$ 2,215
Middle Income	121%	165%	$ 2,518	$ 3,461	$ 100,681	$ 138,435	336	99	$ 3,009

The chart on the following page compares the average market rate rents by neighborhood for these two bedroom listings, suitable for a family of four, using the income level and affordability test described above. The percentage column represents how much more affordable the rent is than the maximum rent that the calculation for that income bracket would allow.

Borough	Neighborhood	Listings	Average 2 BR Rent	% Below Moderate	% Below Middle
Brooklyn	Bushwick	113	$ 2,552		36%
Brooklyn	Bedford-Stuyvesant	111	$ 2,876		20%
Brooklyn	Crown Heights	46	$ 3,021		15%
Brooklyn	Stuyvesant Heights	44	$ 2,225	13%	56%
Brooklyn	Clinton Hill	29	$ 3,061		13%
Brooklyn	Windsor Terrace	21	$ 3,110		11%
Brooklyn	Fort Greene	19	$ 2,411	4%	44%
Brooklyn	Madison	17	$ 2,753		26%
Brooklyn	Prospect Park South	17	$ 3,090		12%
Brooklyn	Park Slope	12	$ 2,951		17%
Brooklyn	Flatbush	11	$ 2,532		37%
Brooklyn	Prospect Lefferts Gardens	11	$ 2,373	6%	46%
Brooklyn	Gowanus	7	$ 3,107		11%
Brooklyn	Kensington	6	$ 2,233	13%	55%
Brooklyn	Midwood	6	$ 2,100	20%	65%
Brooklyn	Homecrest	6	$ 1,891	33%	83%
Brooklyn	Prospect Heights	5	$ 2,895		20%
Brooklyn	Sunset Park	4	$ 2,230	13%	55%
Brooklyn	Gravesend	4	$ 2,300	9%	50%
Brooklyn	Greenwood	4	$ 2,600		33%
Brooklyn	Weeksville	2	$ 1,800	40%	92%
Brooklyn	Ditmas Park	2	$ 3,000		15%
Brooklyn	Brighton Beach	2	$ 2,825		23%
Brooklyn	Bensonhurst	2	$ 2,423	4%	43%
Brooklyn	Coney Island	1	$ 1,700	48%	104%
Brooklyn	Ocean Hill	1	$ 2,100	20%	65%
Brooklyn	Greenpoint	1	$ 2,100	20%	65%
Brooklyn	Cobble Hill	1	$ 3,000		15%
Brooklyn	Borough Park	1	$ 2,300	9%	50%
Queens	Rego Park	11	$ 2,459	2%	41%
Queens	Woodside	11	$ 2,557		35%
Queens	Flushing	11	$ 2,818		23%
Queens	Elmhurst	9	$ 2,902		19%
Queens	Briarwood	8	$ 2,001	26%	73%
Queens	Jamaica	8	$ 2,296	10%	51%
Queens	Forest Hills	5	$ 2,203	14%	57%
Queens	Kew Gardens	3	$ 2,533		37%
Queens	Sunnyside	3	$ 2,433	3%	42%
Queens	Bayside	2	$ 2,600		33%
Queens	Jackson Heights	2	$ 2,100	20%	65%
Queens	Richmond Hill	2	$ 2,500	1%	38%
Queens	Rockaway All	1	$ 2,995		16%
Queens	North Corona	1	$ 1,600	57%	116%
Queens	Jamaica Estates	1	$ 2,400	5%	44%

To project these finding to the Mayor’ affordable housing goals, we assumed that all units in these buildings would rent at affordable levels for other unit sizes. These listings are found within 144 buildings in Brooklyn, making up a total of 3,540 units, and another 30 buildings in Queens, making up a total of 1,214 units.

Using the overall online count within these neighborhoods since 2005 (See below) an affordability percentage was calculated and applied to our five year Pipeline projection, identifying the total number of affordable units expected to come online in these neighborhoods within the next five years.

	Online Units	Affordable units	%
Brooklyn	18,552	3,540	19%
Queens	13,007	1,214	9%
	31,559	**4,754**	**15%**

The two charts on the following page show the total number of market rate rental, market rate condo, and unknown units in the Pipeline of these affordable neighborhoods in Brooklyn and Queens. We have removed 15% of the unknown units to account for hotels and subsidized developments. After this reduction, there are a total of 26,859 units in the Pipeline of the affordable Brooklyn neighborhoods and 7,475 units in the affordable Queens neighborhoods, almost all of which will be online within the next five years.

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	Planned and Under Construction Pipeline							
	Rental Units	Rental Bldgs	Condo Units	Condo Bldgs	Unknown Units	Unknown Bldgs	Total Units	Total Bldgs
Bedford-Stuyvesant	1,195	28	91	8	1,633	125	2,919	161
Bensonhurst	0	0	32	2	120	8	152	10
Borough Park	0	0	39	7	480	53	519	60
Brighton Beach	22	1	53	2	207	15	282	18
Bushwick	1,378	31	121	7	2,331	176	3,830	214
Clinton Hill	364	9	223	12	545	34	1,132	55
Cobble Hill	3	1	9	2	83	3	95	6
Coney Island	0	0	24	2	1,342	13	1,366	15
Crown Heights	1,130	15	74	10	673	48	1,877	73
Ditmas Park	79	3	0	0	103	7	182	10
Flatbush	335	10	116	3	896	25	1,347	38
Fort Greene	851	4	150	27	104	9	1,105	40
Gowanus	778	11	154	9	178	9	1,110	29
Gravesend	0	0	170	1	224	17	394	18
Greenwood	215	4	160	2	335	14	710	20
Homecrest	0	0	53	4	178	7	231	11
Kensington	86	2	58	3	163	8	307	13
Madison	26	1	5	1	90	5	121	7
Midwood	0	0	37	1	606	15	643	16
Ocean Hill	40	2	6	1	43	6	89	9
Park Slope	451	5	231	10	172	19	854	34
Prospect Heights	2,468	19	2,101	29	827	9	5,396	57
Prospect Lefferts Gardens	684	10	0	0	185	18	869	28
Prospect Park South	156	2	0	0	39	2	195	4
Stuyvesant Heights	834	12	39	7	1,308	86	2,181	105
Sunset Park	0	0	0	0	648	36	648	36
Weeksville	0	0	15	2	257	14	272	16
Windsor Terrace	73	1	0	0	30	5	103	6
	11,168	**171**	**3,961**	**152**	**13,800**	**786**	**28,929**	**1,109**
					11,730	***668***	***26,859***	***991***

	Planned and Under Construction Pipeline							
	Rental Units	Rental Bldgs	Condo Units	Condo Bldgs	Unknown Units	Unknown Bldgs	Total Units	Total Bldgs
Bayside	0	0	0	0	23	3	23	3
Briarwood	14	1	0	0	104	5	118	6
Elmhurst	315	3	94	2	660	64	1,069	69
Flushing	72	2	1,618	7	1,340	53	3,030	62
Forest Hills	0	0	46	2	122	4	168	6
Jackson Heights	0	0	0	0	274	6	274	6
Jamaica	713	4	118	2	446	17	1,277	23
Jamaica Estates	101	3	0	0	22	3	123	6
Kew Gardens	0	0	113	3	34	3	147	6
North Corona	26	1	295	3	342	17	663	21
Rego Park	515	4	84	3	200	9	799	16
Richmond Hill	0	0	0	0	8	1	8	1
Rockaway All	0	0	0	0	33	2	33	2
Sunnyside	27	2	0	0	91	4	118	6
Woodside	0	0	80	1	118	14	198	15
	1,783	**20**	**2,448**	**23**	**3,817**	**205**	**8,048**	**248**
					3,244	***174***	***7,475***	***217***

We used our Proprietary Pipeline and Online when making these calculations, which is now available to be licensed. Please contact us for further information.

The mayor's plan calls for 80,000 new construction units of which 22% or 17,600 units will be targeted to middle and moderate income households.
Assuming no change in the rate of new rental development, apportioning unknown units based on the distribution of known rental and condominium units (63%/37%) and applying the known affordability percentage (74% market-rate), roughly 20,000 market-rate rental units will be created in these affordable neighborhoods in Brooklyn and Queens over the course of the next five years.

This assumption seems modest given the current shift in momentum and given that this trend has only just begun. It may be argued that the current cycle may not last ten years and no one could argue against that. But then, it would need to be said that the demand for housing also abates when the economy is in recession as few new jobs are created and the City loses population. Ultimately, development in the Outer Outer borough neighborhoods is akin to the doctrine of Manifest Destiny in U.S. history.

It may also be said that many households earn less than the incomes used in the Mayor's program. That point simply substantiates the conclusion of this report, that market forces are already addressing the needs of families at this income level and that the City has aimed its sites too high. It would seem a better policy for the City to promote the construction of schools, parks and other infrastructure to promote the development of moderately affordable, but market rate, housing in these already affordable neighborhoods and in the many other that have not yet begun to gentrify.

It would be incongruous for the City to be providing incentives, whether through increased density or tax abatements, where the market rate units in a building were at the same rent as the moderately affordable and subsidized units.

It will be pointed out that these affordable market rate units will not be permanently affordable and that, over time, rents will grow to become unaffordable. Here, the earlier discussion needs to be referenced regarding the level going forward of average annual rent increases in the here boroughs. Manhattan rents, and rents in the core areas of the Outer boroughs, may grow more than in the more affordable Outer Outer neighborhoods.

Finally, the Outer boroughs are vast in comparison to Manhattan, and the Bronx and Staten Island have not yet seen appreciable amounts of market rate development. Also, New Jersey is seeing the same expansion of areas where market rate housing has become acceptable. Nor is it a stretch to include lower Westchester in the consideration of supply, given developments in the last cycle in White Plains, Yonkers and New Rochelle aimed at City workers. Also, in the last cycle, areas around train stations in the "suburbs" of New York and New

Jersey were the focus of Market rate rental development. In the hunt for reasonably priced land, these areas will emerge again.

The critical insight is that, once the Rubicon was crossed and Manhattan's borders were breached, Manifest Destiny became the vision for market rate housing development. What we have seen in the extremely brief period since the first market rate rental buildings opened in Downtown Brooklyn in 2006, less than a decade ago, is a revolutionary transformation of land use. It has been a long time coming since the Outer boroughs lost their foothold in manufacturing and shipping. But now, it is here. Given this rapidly unfolding and changing picture, it would seem prudent to focus the City's efforts on the lowest income earners as market forces address moderately affordable housing needs.