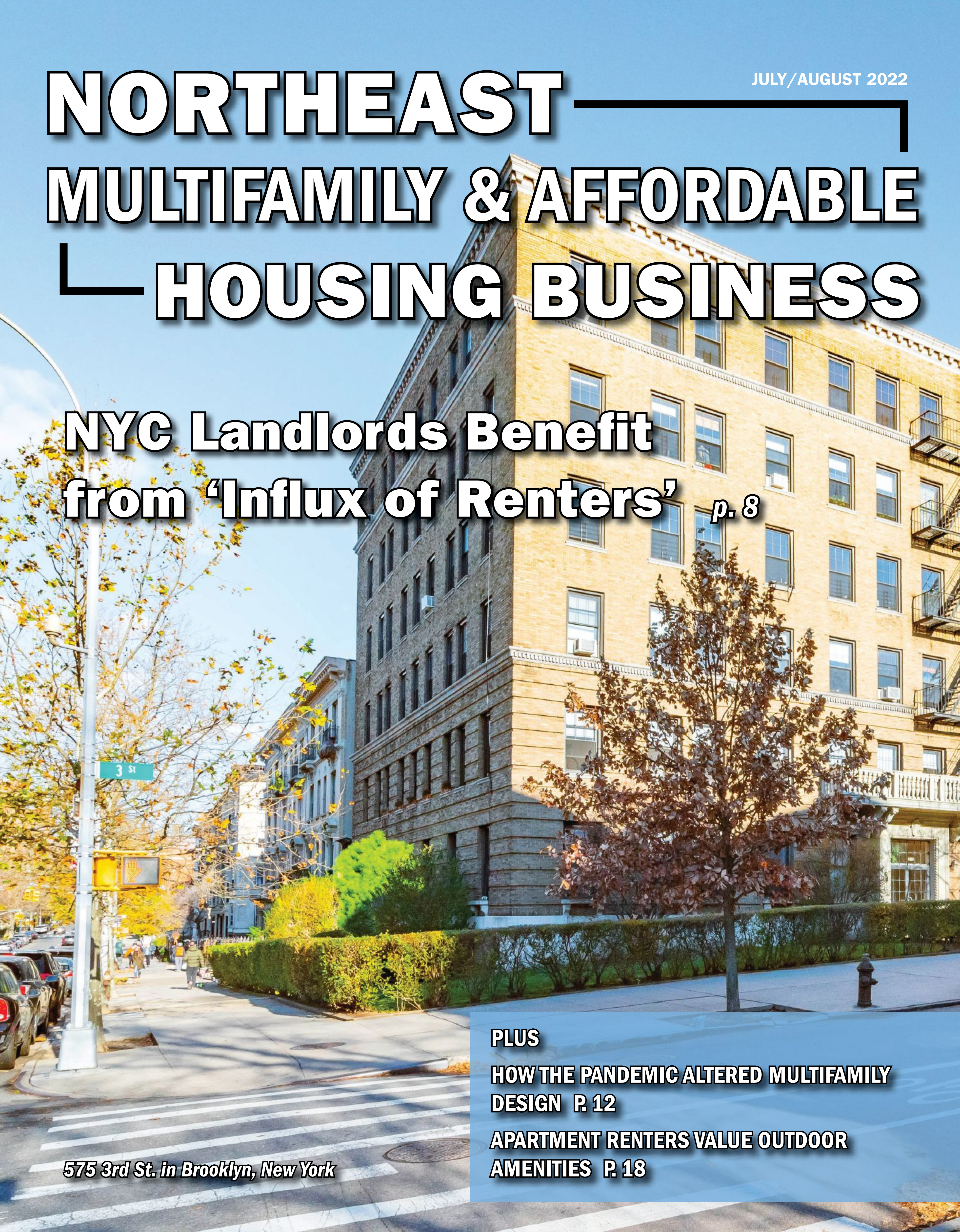
JULY/AUGUST 2022

NORTHEAST MULTIFAMILY & AFFORDABLE HOUSING BUSINESS



NYC Landlords Benefit from ‘Influx of Renters’ *p. 8*

PLUS

HOW THE PANDEMIC ALTERED MULTIFAMILY DESIGN **P. 12**

APARTMENT RENTERS VALUE OUTDOOR AMENITIES **P. 18**

575 3rd St. in Brooklyn, New York

PUBLISHER'S LETTER

NYC Multifamily Market Makes a Comeback

Scott France
President
and Publisher

During the first year of the pandemic, New York City was on the receiving end of what's commonly referred to as the "urban exodus." As the main drivers for city living dried up — such as quick commutes, top-notch restaurants and world-class entertainment options — renters increasingly left the city for the cheaper rents of New Jersey and beyond.

As the city emerged from the pandemic and offices began calling workers back from the remote wonderland, apartment renters returned to a market with limited supply, thus driving sky-high rents, long lines for viewings and even bidding wars throughout Manhattan. NYC's dwindling supply likely won't see relief anytime soon thanks to the disappearance of the Affordable New York program, also known as the 421-a tax abatement. The state legislature allowed the tax incentive program to expire June 15.

For over 50 years, 421-a has been used in nearly every big residential project in NYC. While the program's critics point out that 421-a represents $1.7 billion in lost property tax revenue for the city, the real estate industry has warned that loss of this crucial tax exemption would bring rental housing construction to a halt during one of the city's worst housing crises. With no plans to reinstate 421-a or offer a replacement program, the future of multifamily in NYC is difficult to gauge. You can read more about it starting on page 8.

In addition to analyzing The Big Apple's apartment market, we also hear from NMHC's Sarah Yaussi on page 18, who shares data proving that outdoor amenities are more important to today's renter than ever before. Also, Pamela A. Michaels from Asset Preservation sheds some light on what investors need to know about multiple 1031 replacement properties on page 20.

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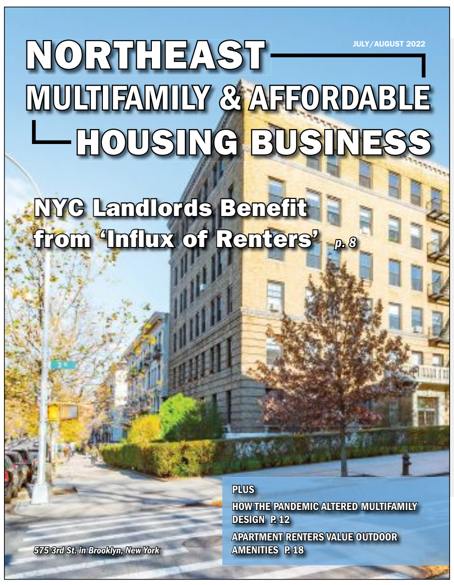

ON THE COVER

New York City Landlords Benefit from 'Influx of Renters'

But a post-pandemic surge in tenant demand, limited new supply and the loss of crucial tax breaks for developers create new challenges.

Kari Lloyd

Pictured: 575 3rd St. in Brooklyn, New York. Photo courtesy of Marcus & Millichap's New York Multifamily Group.

see page 8

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New York City loves a comeback. From navigating the urban exodus of the pandemic to the loss of mission-critical tax abatements, the city's "never-say-die" attitude is legendary — and it's being tested once again.

As workers return to newly reopened offices in Manhattan, they're being met with new challenges due to a dwindling supply of available rentals, significant increases in rental rates and, oftentimes, bidding wars.

"We are seeing an influx of renters back into the city," says Lev Mavashev, principal at NYC-based multifamily investment sales brokerage firm Alpha Realty. "Rents are definitely above their pre-COVID levels all throughout the city. In certain areas of Brooklyn and Manhattan, especially below 14th Street, we are seeing rents about 20 to 25 percent above pre-COVID levels. The city proved to be resilient after all."

"Because of this surging demand, rents in New York are going vertical," says Romain Sinclair, senior investment associate for real estate investment banking firm Greysteel, which has practice areas in both market-rate and affordable multifamily. "For renters, bidding wars and physical lines outside apartments are the norm in Manhattan and the in-demand parts of Brooklyn."

"Rents are at an all-time high as the work-from-home phenomenon has resulted in people valuing their home more than they did before," says Shaun Riney, senior managing director of investments for Marcus & Millichap.

"Renters are willing to spend more of their disposable income on upgrading their units and maybe taking a larger apartment to accommodate their new lifestyles and work environments, which has caused rent to increase, despite similar numbers of renters in the city," adds Riney.

Meanwhile, developers are increasingly running into roadblocks when it comes to building new stock. The state legislature allowed the Affordable New York program, more commonly known as the 421-a tax abatement program, to expire on June 15. With no clear road to reform or replacement, many developers are concerned about the financial feasibility of building new units in NYC.

68 Richardson St. is a six-story, 25-unit apartment community located in the Williamsburg neighborhood of Brooklyn, New York. Built in 1910, the property features a community roof deck and elevator.

The Supply-Demand Dilemma

Like most areas of the United States, tenant demand in NYC is hugely outpacing supply. In 2021, absorption in NYC totaled 38,414 units compared with 3,852 units delivered, according to RealPage, a provider of data analytics and property management software based in Richardson, Texas.

The trend has accelerated this year. Absorption for the 12-month period ending in June totaled 59,359 units compared with 7,255 units delivered, according to RealPage. The vacancy rate at the end of the second quarter stood at 1.5 percent, which is extremely low and a reflection of the overwhelming demand.

This renewed interest from renters combined with the spike in asking rents is reinforcing the city's position as a solid performer in the multifamily marketplace. The NYC year-over-year rent growth was 10.4 percent, according to July's multifamily report by Yardi Matrix, with new asking rents at $4,100 on average.

Though it comes as no surprise to seasoned renters locally, NYC is one of the most expensive metros in the world, which is reflected in its rental growth, according to the Savills Prime Residential Index August report. The index, which tracks rents in 30 large world cities, found that NYC was tied with Singapore with the largest rent growth of the major urban areas at 8.5 percent during the first half of the year.

Given the strong real estate fundamentals of the NYC multifamily market, investment in the sector is expected to be robust in the near term.

Year-to-date through July 6, investors in the NYC metro closed over $9.2 billion in multifamily transactions, an increase of 98.9 percent on a year-over-year basis, according to MSCI Real Assets. For all of 2021, the metro area saw $17.65 billion in multifamily transactions, up from

$10.42 billion in 2020. The data is based on property and portfolio sales $2.5 million and above.

Vital Tax Exemption Disappears

For over 50 years, NYC's 421-a tax abatement has been fueling multifamily development in the city. Named for Section 421-a in the New York Real Property Tax Law, the 421-a program began in 1971 to help encourage the building of new multifamily properties in the city.

Shortly after launching the program, the state government added provisions to mandate the creation of affordable housing units.

The original program eventually lapsed in early 2016 due to ongoing disagreements between the state and city governments, but a deal was struck later that year between the unions, developers and the mayor's office to bring it back, pending the approval of the New York state legislature. The program was officially renewed in April 2017 under a new name: Affordable New York.

Since its inception, 421-a has been used in nearly every big residential project in NYC, subsidizing the construction of hundreds of thousands of market-rate apartments across the city.

Located in the Park Slope neighborhood of Brooklyn, New York, 575 3rd St. is a six-story, 36-unit property. Built in 1920, units feature pre-war design and hardwood floors throughout.

BlackRock has sold a 125-unit building on the Upper West Side of Manhattan at 98 Riverside Drive near West 82nd St. for $90 million.

Though it typically required developers to build some below-market, affordable multifamily rentals, critics of the program have pointed out that most of the income-restricted units are unaffordable to a vast majority of city dwellers, particularly the residents of the neighborhoods where they are built.

The New York City Comptroller's Office estimates that more than 60 percent of the affordable or income-restricted units created by the 2017 version of the 421-a program were built for families earning over $100,000 per year, making those units unaffordable for approximately 75 percent of New Yorkers.

As an example, a family moving into these properties would need to earn about $139,620 per year and pay approximately $3,400 a month for a two-bedroom apartment.

Additionally, the New York City Department of Finance estimates that the annual cost of 421-a represented $1.77 billion in lost property tax revenue for roughly 64,000 exemptions in fiscal year 2022.

Despite the real estate industry warning that loss of this crucial tax exemption would bring rental housing construction to a screeching halt during one of the city's worst housing crises, the legislature allowed 421-a to lapse in June. At present, there are no concrete plans to bring it back or to offer a new program to take its place.

"It will result in less building and less supply, and therefore higher rents on the existing, dwindling available product," says Riney. "Every developer I know embraces a diversity of tenants and will build whatever can be profitable across the spectrum. Yet every politician we have focuses more on bumper-sticker statements to rally a crowd and create an enemy — real estate owners — than they are interested in actual solutions."

CAN GOVERNMENT INITIATIVES SPUR MORE AFFORDABLE DEVELOPMENT?

In May, U.S. President Joe Biden announced a new initiative to ease the burden of housing costs and address the lack of available affordable housing across the country. The Housing Supply Action Plan addresses four main areas: land use and zoning reforms, financing reforms, preserving access for owner-occupants, as well as material and labor costs.

Although the plan has its fair share of critics and supporters, many in New York City's multifamily industry are hopeful that it might fuel a solution to the city's ongoing housing crisis, particularly in the affordable space.

ROMAIN SINCLAIR
Greysteel

"The issues outlined in the plan mirror the problems New York faces with its own housing stock: lack of affordable housing and outdated zoning policies," says Romain Sinclair, senior investment associate at Greysteel, a New York City-based real estate investment banking firm.

"Mayor (Eric) Adams put it well, though. Everyone wants a homeless shelter to be built, but no one volunteers to have it built in their neighborhood. NIMBY-ism (Not in My Backyard) continues to be a challenge that policymakers need to work with," adds Sinclair.

"I hear it's a great initiative, but ultimately developers need support from the local New York City government. I think the quickest relief right now would be to amend the rent stabilization laws to allow for renters to access the 43,000 apartments sitting vacant now," says Lev Mavashev, principal of New York City-based multifamily investment sales brokerage firm Alpha Realty. "That would be a huge relief to the renters."

It's a sentiment that's reverberated across the boroughs. Apartment developers are willing to build affordable housing, but there needs to be a workable relationship between the public and private sector. Without government support, many developers don't see how building multifamily projects in New York City can pencil out.

"Despite what you may have heard, there is plenty of land and opportunity to build affordable multifamily housing in NYC, especially in the outer boroughs," says Mavashev. "There are plenty of developers willing and capable of building that housing stock."

Beyond the Housing Supply Action Plan, many multifamily experts in New York City point to the need to address the expiration of the Affordable New York Program, also known as the 421-a tax abatement, as the most crucial element to solving the city's housing crisis. Though 421-a expired in June, legislators have yet to indicate if it will return or if a similar program will be created.

"Anything helping to subsidize projects to put out additional supply is ultimately good for the tenants," says Rob Hinckley, senior managing director at JLL. "More supply means more reasonable rent levels."

ROB HINCKLEY
JLL

The president's Housing Supply Action Plan coupled with the Affordable New York/421-a program possibly coming back next year should help spark more development activity, adds Hinckley

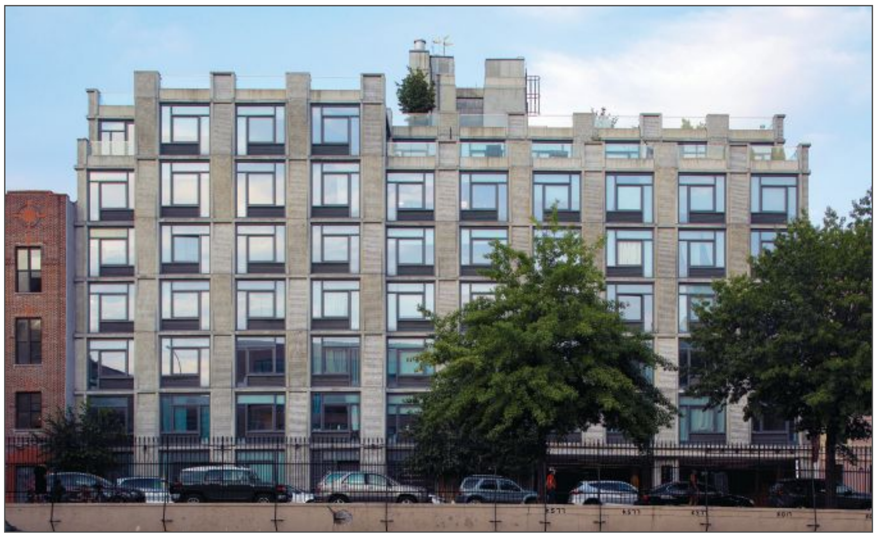
"Developers need support and incentives from the government. They need the government to be their partner with these projects," emphasizes Mavashev, both from a financial and regulatory standpoint. "Right now, the developers have no incentive to build affordable housing."

— Kari Lloyd

Future of NYC's Tax Abatements

According to industry experts, the sunsetting of 421-a tax exemption on June 15 has only exacerbated the already strained relationship between the real estate industry and state and local governments. While some developers started construction on their projects before the June 15 expiration date so that they could be grandfathered into the program, others found themselves locked out and unable to move forward with planned projects.

SHAUN RINEY
Marcus & Millichap



248 North 8th St. is located in the Williamsburg neighborhood of Brooklyn, New York. The property was built in 2014 and has seven stories and 104 units.

"Even though the 421-a tax abatement has expired, projects that already began construction will still benefit from the tax abatement once completed. In fact, those are the only development sites that are selling now," says Mavashev. "Some developers were smart enough to get started on their projects, such as laying the foundations, in order to qualify."

Though many real estate professionals would like to see a return of 421-a, NYC politicians, for the most part, are firmly against it. Each time 421-a has expired over the years, there have always been calls for greater reforms to NYC's property tax structure.

Reformers are quick to point out that the abatement does not address the growing need to create more affordable housing, and that upon every renewal of 421-a, the additional changes have served as a mere band-aid to address this issue.

Given the strong opinions voiced on both sides of the argument, it's difficult to envision reforms that would satisfy everyone involved. Regardless, it's an issue that both the business and government leaders agree needs to be addressed sooner rather than later.

In a report released in December 2021, the New York City Advisory Commission on Property Tax Reform called for immediate action, asking for a resolution by Dec. 31, 2022. The report proposed that the legislature appoint a working group of state senators and assembly members to consult with city leaders and real estate stakeholders to reform or replace 421-a.

Despite the ongoing tension, both business and government officials can agree that the sunsetting of 421-a needs to be addressed to prevent the ongoing housing crisis in NYC from getting worse.

"I was surprised that the government actually let this program expire," says Mavashev. "I thought it was the best incentive to build, and they developed many affordable housing units over the past three years. Eventually the politicians will realize how their current anti-real estate policies are hurting the average citizen and will eventually bring back some sort of tax abatement program." ●

LEV MAVASHEV
Alpha Realty

NEW YORK CITY ECONOMIC METRICS

2022 Population (Year-End Estimate):
8.85 million

2020 Population:
8.8 million

2010 Population:
8.19 million

Unemployment Rate (July 2022):
6.1%

Area Median Income (2022):
$120,100

Area Median Income (2021):
$107,400

Average Asking Rent (June 2022):
$4,100

Year-over-Year Change (June 2021 – June 2022):
+12.6%

Vacancy Rate (2Q 2022):
1.9%

Sources: U.S. Census Bureau, New York Department of Labor, U.S. Department of Housing and Urban Development, Yardi Matrix, Marcus & Millichap