Fannie Mae

Multifamily Market Commentary – June 2018

New York City Metro Outlook: The Big Apple Looking Better

The New York City metro is the nation's largest apartment market with about 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.

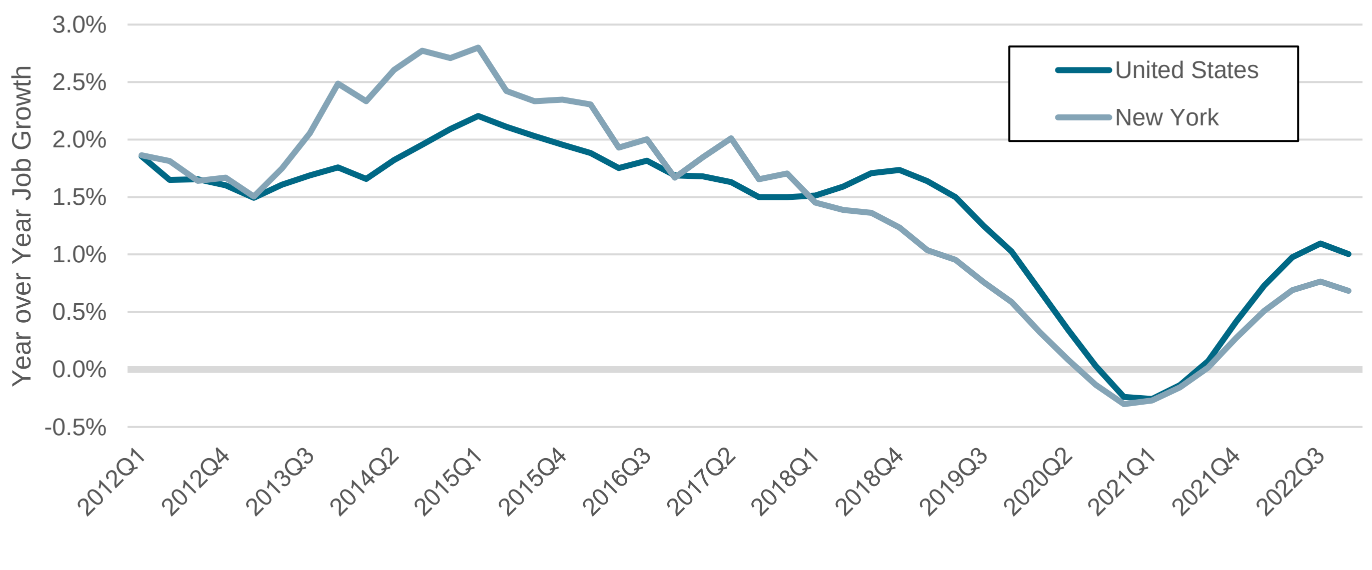
The metro is also one of the world's leading lifestyle cities and the financial capital of the world, and as such it attracts new investment, businesses, and residents.

The metro's economy is well diversified, but two industry sectors are the primary drivers: FIRE (Finance, Insurance, and Real Estate) and TAMI (Technology, Advertising, Media, and Information). Other leading employment sectors include Education and Health Services, Government, Hospitality, and Retail. As a result, there are a wide range of incomes in the metro, but the majority of workers occupy sectors outside of the high-salaried FIRE and TAMI.

Demographics are favorable for apartment rentals, with the metro's key renting age cohort of 20-34 year-olds at 21.5 percent, above the national average of 20.8 percent. With an increased supply of Class A units, coupled with rent control and stabilization policies that provide only a portion of residents with below-market rents, New York City continues to have some of the most expensive housing in the nation.

The cost of doing business in the area is one of the highest in the nation, at 62 percent above the national average. Nevertheless, the metro enjoys a highly educated workforce, and many employers want to be able to attract those workers. Job growth in the metro has remained above the national average over the past few years but is expected to slow down over the next three years. It slowed to 2.0 percent in 2016 and 1.8 percent in 2017. As seen in the chart below, job growth is expected to be just 1.4 percent this year, 0.8 percent in 2019, and 0.0 percent in 2020, which does not bode well for the more than 63,000 rental units underway.

New York Metro Job Growth – Historical and Forecast



Source: Moody's Analytics

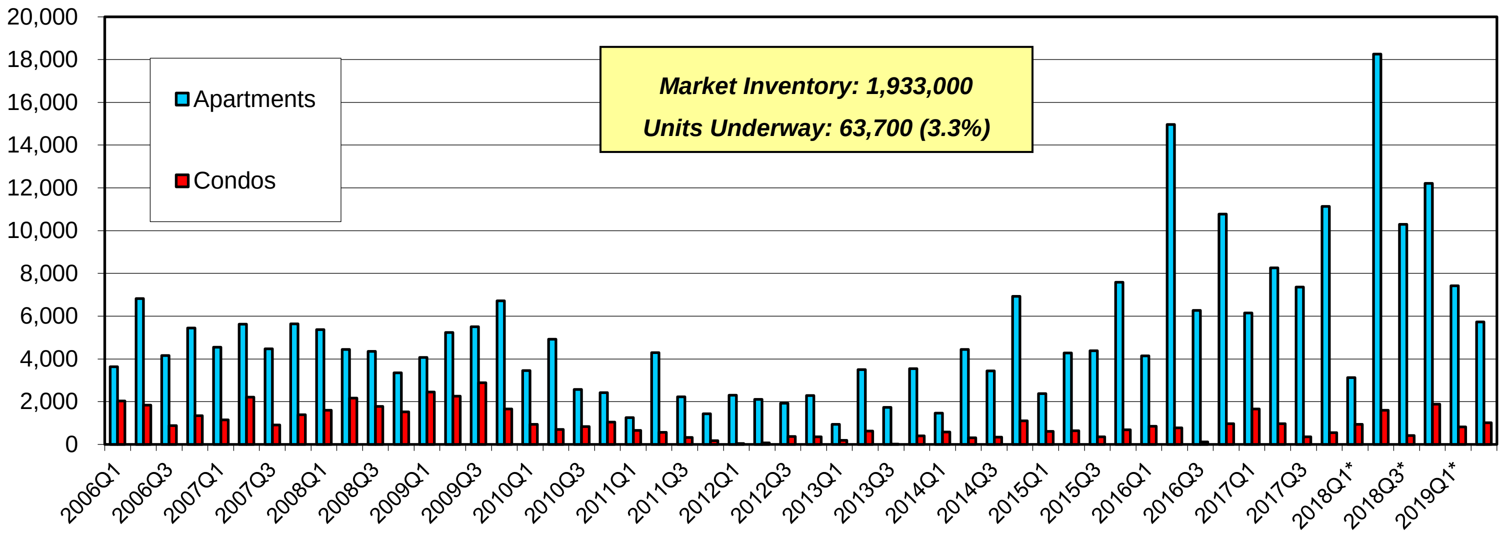
Development Remains Elevated

There are more than 63,000 rental units, including more than 6,700 condo units, currently underway, down from 2017's 81,000 units. Additionally, there are over 137,000 units in the planning and final planning stages, compared to about 96,000 units in May 2016.

Within the New York City metro, Hudson Yards is the development behemoth. It is reportedly the largest private development project ever in the U.S., with more than 18 million square feet of mixed use space and costing more than $20 billion.

As a result of all this new supply, concessions are at -1.3 percent for the greater metro, according to Axiometrics. But concessions are much higher for Manhattan, Brooklyn, and Queens, at more than one month of free rent, according to the April 2018 *Elliman Report*.

New York City Apartments & Condos/Townhomes: Units Completed and Units Underway



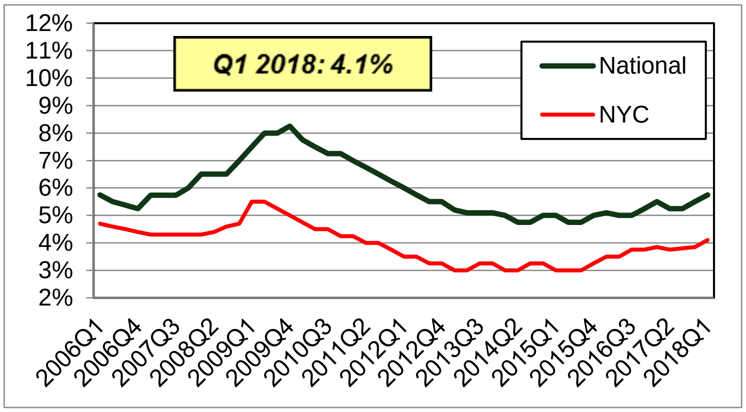
Source: Dodge Data & Analytics Construction Supply Track, April 2018

Note: Pipeline data is not an actual forecast of activity; it is a monitor of activity reported to date. As more projects are planned and tracked, figures in future periods might go up.

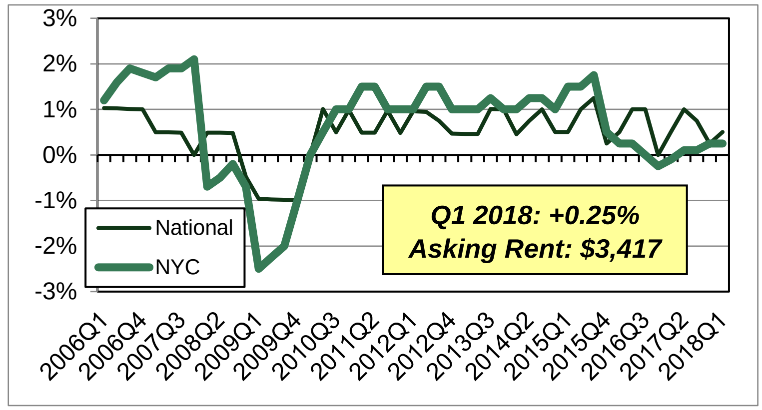
Affordable Housing Should Benefit from Affordable New York

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. The goal is to provide more affordable units throughout the city for next few decades. But it appears to be slow going. According to a recent article in *Commercial Observer*, the program has only had four new developments since its implementation. According to the article, there are 142 buildings under review for the new program and another 72,390 properties that are part of the previous program. Both programs cost the city $1.43 billion over the past year alone.

Vacancy Rate



Asking Rent Growth



Source: Fannie Mae Multifamily and Economics Research

Vacancy Up but So Is Rent Growth

At an estimated 4.1 percent as of first quarter 2018, the New York City metro's estimated overall multifamily vacancy rate continues to hover around historic norms of about 4.0 percent. Nevertheless, vacancies will likely continue to rise in higher cost submarkets where Class A supply is more prevalent.

Rent growth remains subdued but positive, having increased by just an estimated 0.25 percent in the first quarter of 2018. This seems to suggest that the metro's overall multifamily sector has turned the tide regarding rent growth, and we expect it to continue to remain positive over the rest of the year.

Kim Betancourt
Director of Economics

Multifamily Economics and Market Research
June 2018

Opinions, analyses, estimates, forecasts and other views of Fannie Mae's Multifamily Economics and Market Research Group (MRG) included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the MRG bases its opinions, analyses, estimates, forecasts and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts and other views published by the MRG represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.