

# New York, New York

Multifamily Housing Update

March 2011

## EXECUTIVE SUMMARY

Perhaps the most insightful way to evaluate the economic health of the world's financial capital is to examine the trend of its municipal bond credit rating. If true, New York is as sound as a silver dollar: S&P affirmed its "AA" long-term rating on the City's general obligations in March, citing its substantial, diverse economy and constructive recovery to date: impressive stuff for a city that is only now coming out of the tail end of an upheaval in its foundation financial services industry that yielded an 8% loss in sector payroll jobs over 30 months.

Indeed, New York exited the recession earlier and with greater strength than the country overall. NYC produced year-over-year payroll job gains beginning in April 2010, five months ahead of the nation, and added positions at a 48,200-job, 1.3% y-o-y rate in 4Q (up from 22,900 jobs in 3Q), comparing favorably to the nation's 0.5% job add performance.

Fourth quarter strength was primarily attributable to faster hiring in the core skilled service sectors. Financial, business, education and health care service firms expanded at a collective 51,200-job rate, up from 38,500 positions in the prior quarter. Gains in the financial service sector were encouragingly widespread, as securities brokerages, commercial banks and investment banks added to staffs, areas for which the BLS previously had reported continual rapid job attrition through the fall. Government sector trends also contributed as stabilizing local government headcounts reduced 3Q's 31,800-job, -5.4% y-o-y sector loss to just 9,600 (-1.7%) jobs in 4Q.

Payroll trends in the retail trade and hospitality industries were softer, suggesting that the boom in tourism experienced earlier last year faded moderately in the fall. Headcounts in

those sectors advanced at a 16,800-job, 1.7% y-o-y 4Q rate, down from 3Q's sterling 31,000-job, 2.6% pace.

The near-term outlook for job creation is constructive. RCR's econometric forecasting model now projects 79,200-job and 93,000-job gains in 2011 and 2012, respectively, up 5% and 22% from our February forecast.

Apartment demand was commensurate. Leasing agents filled a net of 1,054 units during 4Q, representing the third strongest fourth quarter net absorption recorded since 1999. Vacancy declined 40 basis points sequentially to 3.2%, but remained 30 bps above the year earlier level, the result of exceptionally heavy supply levels observed in 2Q10 and 3Q10.

Rents continued to advance at a brisk clip. Sequential asking and effective rents increased \$22 (0.8%) and \$24 (0.9%), respectively, pushing y-o-y gains to 4.5% and 5.3%; in each case the strongest performances recorded among the **RED 50** markets.

Reis expect favorable market conditions to persist through 2013 or longer. The service forecasts steady occupancy growth throughout the period, reaching 98% by 2013, and rent gains averaging 6.1% and 5.5% in 2011 and 2012, respectively.

Although cap rates for institutional quality assets dropped below 4% last year the optimistic Reis outlook forms the basis for attractive investment returns even at low initial yields. Employing a 3.8% generic cap rate assumption, RCR estimate a 9.3% expected 5-year un-levered total return for NYC assets, 30 bps above the **R50** mean and among the highest estimates derived for a barrier-protected "gateway" metro. Although we are wary of exit cap rate risks, it is difficult to gainsay recent investor enthusiasm for Big Apple properties.

## SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (3.2% - 4Q10)	0.3%	0.4%
Effective Rents (\$2,782 -4Q10)	5.3%	6.1%
Cap Rate (3.5% - 4Q10)	1.7%	0.5%
Employment (3,758.1m - 4Q10)	48.2m	79.2m

## KEY POINTS

- The NYC economy exhibited considerable resiliency in 4Q10, adding workers to payrolls at a 48,200-job, 1.3% year-on-year pace, up from 3Q's 22,900-job advance. The economy appeared to lose momentum in December, however, and data for January and February were sluggish as well. Nonetheless, the RCR econometric payroll model projects solid 2011 and 2012 gains.
- Effective rents increased at a brisk clip in the seasonally soft fall quarter, rising 0.9% sequentially and 5.3% year-over-year. Reis expect the trend to continue through 2012, as the service projects a 6.1% average increase this year followed by a 5.5% 2012 advance.
- Higher rents did not deter prospective tenants. Renters absorbed 1,054 units in 4Q, representing the third strongest 4Q haul in the past 12 years. Occupancy increased 30 basis points sequentially, reaching 96.8%.
- Investors remained active in the property markets over the winter. Of note, a 50-year old 95-unit class-B Midtown high-rise and an 8-year-old, two-tower, 648-unit class-A complex on the Jersey City waterfront exchanged hands at going-in yields in the mid-3% area.



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