The TriBoro Rental Report

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1. The Collaboration

To our knowledge, this is the first report covering the Manhattan, Brooklyn, and Queens rental markets and their relationship to and impact on each other. The growth of the outer borough rental markets has made it imperative to consider them, not only for their own importance as rapidly developing areas, but also to fully comprehend the Manhattan rental market.

This report is the result of the collaboration of Nancy Packes Inc., StreetEasy.com, and On-Site.com.

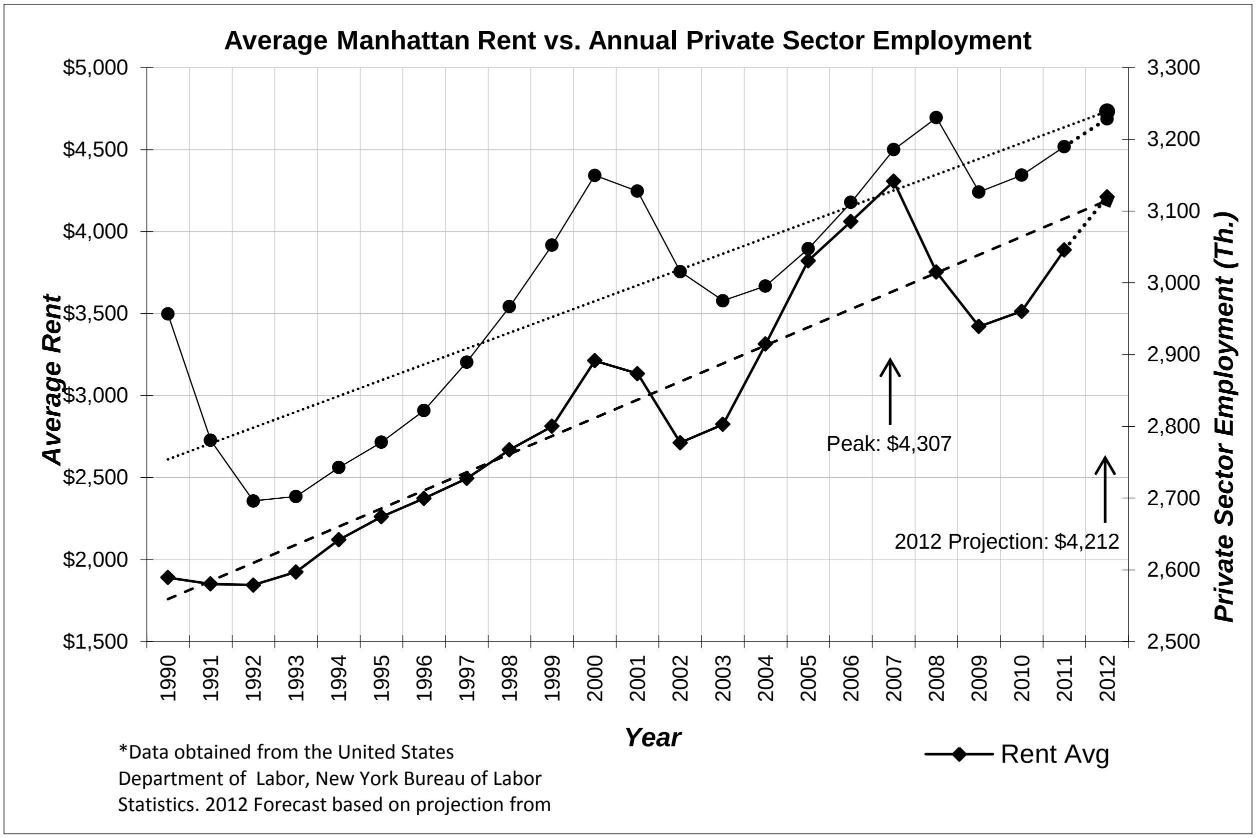
For the rental data, we have collaborated with StreetEasy.com, the most comprehensive source of rental information in New York City. StreetEasy.com is a real estate website providing in-depth sales and rental information across all brokerages and offering consumers and professionals the power to search, sort and manage that information effectively, as well as the tools needed to stay on top of the market.

For the insightful qualitative data concerning employment and income, we have collaborated with On-Site.com. Founded in 1999, On-Site.com has grown to become the gold standard for innovation in the apartment business. On-Site's marketing, leasing and mobile tools deliver lead generation, resident qualification, document storage, e-signatures and cloud computing services. On-Site allows apartment operators to maximize occupancy, enhance quality control, maintain compliance and ensure consistent success at all levels of property operations. Since it was established, New York City has been one of On-Site's most successful markets.

Analysis for this report from Nancy Packes, Inc. was contributed by Seth Rosner, Scott Taylor, Alex Suarez, Zach Suarez, and Anthony Cekay.

2. The Status of The Recovery – Where We Stand

Rent vs. Private Sector Employment Correlation



Observations

1. When Private Sector Employment is growing towards its trendline, Average Rent always grows during the same period.
2. When Private Sector Employment is above its trendline and begins to decline, Average Rent generally declines during the same period.
3. When Private Sector Employment crosses its trendline, Average Rent also crosses its trendline.
4. In all years where Private Sector Employment increased by at least 1%, except 2008, Average Rent increased by at least 5% with an average of 8.3%.

Conclusions

1. The projected addition of 38,800 private sector jobs in 2012, as forecast by the Independent Budget Office, will bring Private Sector Employment to its trend average.
2. The additional jobs in 2012 will increase the workforce approximately 1.22%. Assuming the prior relationship holds, where there is greater than 1% increase in employment, then we project the Average Rent to increase from 2011 to 2012 at 8.3%, or from $3888 to $4212, closely approaching the peak rent of $4307 in 2007.

Price Volatility

Concerning the period from 2008 to date, we explored four questions:

Do more valuable areas begin or end the downturn at different times than less valuable areas?

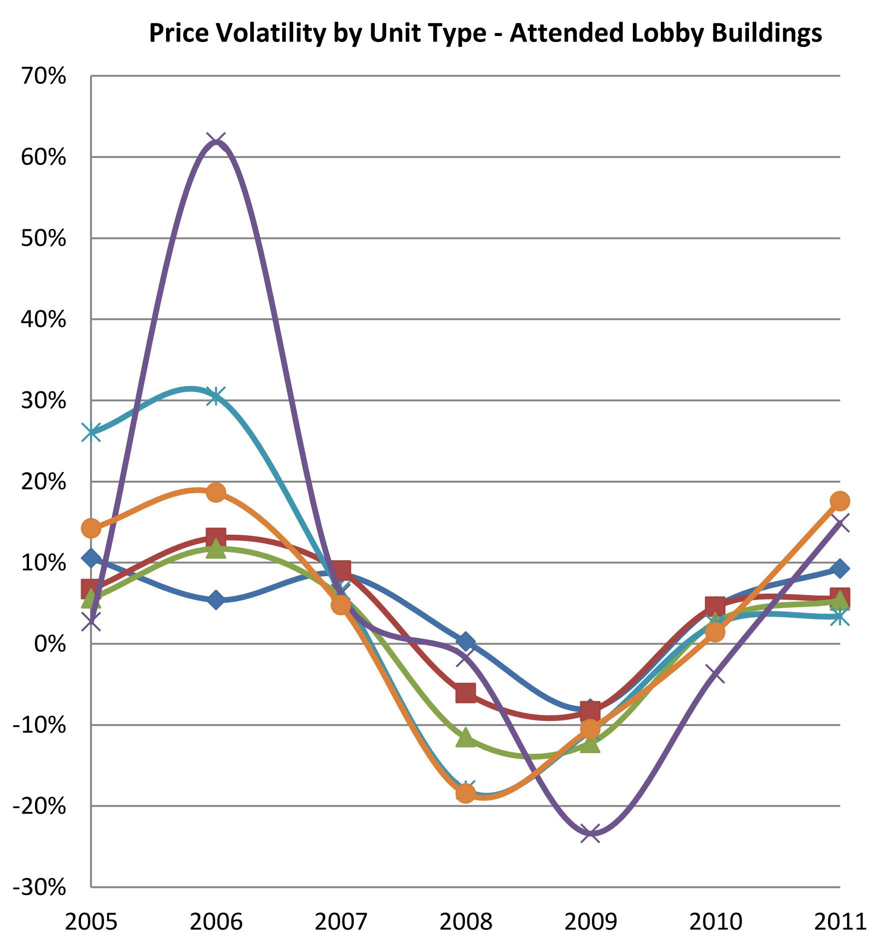
We analyzed all areas, but as an example of a more valuable area, we looked at Canal Street to West 29th Street and for less valuable, Midtown West. There was no discernible trend for an area to begin or end the downturn earlier or later than any other area.

Do more valuable areas suffer less depreciation than other areas? Are they less volatile?

Again, the very counterintuitive answer was no, these areas don't hold up better. We believe the reason is that both the rental and sale markets are affected by these financial downturns and, when units cannot be sold, they are rented. This increase in condo rental supply helps to lower prices. As the economy improves, these units are sold, supply tightens and prices rise more steeply. In fact, for these reasons, price volatility is greater, not less, in more valuable areas. In essence, unlike less valuable areas, there are two factors at work: the change in demand from the financial crisis and the change in supply from the slowdown in the sale market which is more pronounced in more valuable areas where there is more condo supply.

Are there any trends in the shape of the recovery?

Yes, what emerges clearly is that smaller units, studios and one bedrooms, are the least volatile. Please see the chart to the right where the percentage represents year over year average rent change by unit type in attended lobby buildings.



Y Axis percentages represent year over year changes in average rent for each unit type.

3. Comparative Performance of the Three Boroughs

Three Borough Snapshot

Average Rent - Full Service Buildings		**As % of Manhattan**
Manhattan	$3,888	--
Brooklyn	$2,776	71%
Queens	$2,478	64%
Average Rent - Unattended Buildings		**As % of Manhattan**
Manhattan	$2,868	--
Brooklyn	$2,144	75%
Queens	$1,527	53%

Manhattan vs. Brooklyn Value Comparison

Similar Rent In Attended Lobby Buildings - Different Size Results		
	Studio	**1BR**
Manhattan	2640	3531
	1BR	**2BR**
Brooklyn	2596	3410

For 2% less than the rent for an attended lobby studio in Manhattan, a renter can lease a 1BR in Brooklyn in an attended lobby building.

For 4% less than the rent for an attended lobby 1BR in Manhattan, a renter can lease a 2BR in Brooklyn in an attended lobby building.

Similar Rent - Different Service Level			
	Studio	**1BR**	**2BR**
Manhattan Unattended	$2142	$2657	$4000
Brooklyn Attended	$1954	$2596	$3410

For 10% less than the rent for an unattended studio in Manhattan, a renter can lease a studio unit in Brooklyn in an attended lobby building.

For 2% less than the rent for an unattended 1BR in Manhattan, a renter can lease a 1BR unit in Brooklyn in an attended lobby building.

The larger divergence in rent, 17%, between Manhattan unattended 2BR homes and Brooklyn attended lobby 2BR homes suggests that the 2BR renter has a strong preference for Manhattan. The higher average income of Finance and Medical employees in Manhattan may be one of the sources of demand creating this larger divergence.

Manhattan vs. Brooklyn Value Comparison (continued)

What can I get for a Manhattan price...?

Attended Lobby		**"Bigger Size"**	**Rent**	**Save**	**"Bigger Size, Same Service"**	**Rent**	**Save**
Stu	$2,640	Unattended 1BR in WB	$2,639	0.0%	Attended 1BR in DTBK	$2,540	3.8%
1BR	$3,531	Unattended 2BR in WB	$3,099	12.2%	Attended 2BR in DTBK	$3,401	3.7%
2BR	$5,730	Unattended 4BR+ in WB	$5,113	10.8%	Attended 3BR in DTBK	$3,978	30.6%

Unattended Lobby		**"Better Service Level"**	**Rent**	**Save**	**"Bigger Size, Same Service"**		
Stu	$2,142	Attended Stu in DTBK	$1,967	8.2%	Unattended 1BR in DTBK	$2,037	4.9%
1BR	$2,657	Attended 1BR in DTBK	$2,540	4.4%	Unattended 2BR in DTBK	$2,443	8.1%
2BR	$4,000	Attended 2BR in WB	$4,199	-5.0%	Unattended 3BR in WB	$3,565	10.9%

*For purposes of the comparison between Manhattan and Brooklyn, we have limited the view to Williamsburg (WB) and Downtown Brooklyn (DTBK) as this is where most of the new rental product is being built that would be attractive to the Manhattan renter.

Manhattan vs. Queens Value Comparison

What can I get for a Manhattan price...?

Attended Lobby		**"Bigger Size"**	**Rent**	**Save**	**"Bigger Size, Same Service"**	**Rent**	**Save**
Stu	$2,640	Unattended 1BR in HP	$2,465	6.6%	Attended 1BR in LIC	$2,564	2.9%
1BR	$3,531	Unattended 2BR in HP	$3,465	1.9%	Attended 2BR in LIC	$3,174	10.1%
2BR	$5,730				Attended 3BR in HP	$5,833	-1.8%

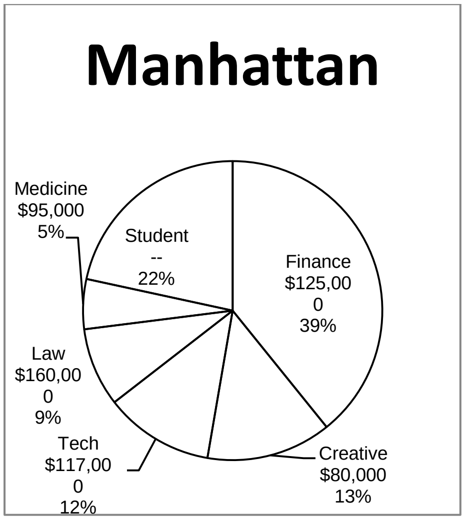
Unattended Lobby		**"Better Service"**	**Rent**	**Save**	**"Bigger Size, Same Service"**		
Stu	$2,142	Attended Stu in HP	$2,344	- 9.4%			
1BR	$2,657	Attended 1BR in LIC	$2,564	3.5%			
2BR	$4,000	Attended 2BR in HP	$4,028	0.7%	Unattended 3BR in HP	$3,815	4.6%

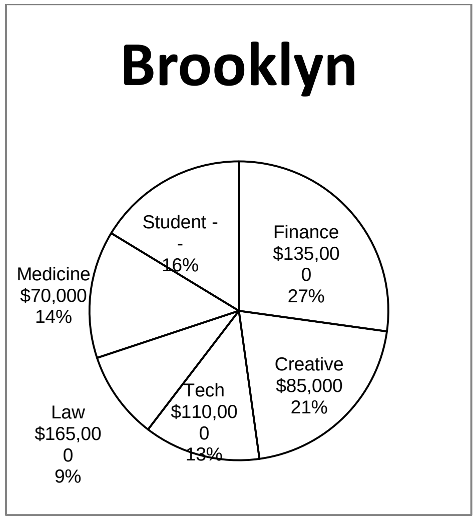
*For purposes of the comparison between Manhattan and Queens, we have limited the view to Hunters Point (HP) and Long Island City (LIC) as this is where most of the new rental product is being built that would be attractive to the Manhattan renter.

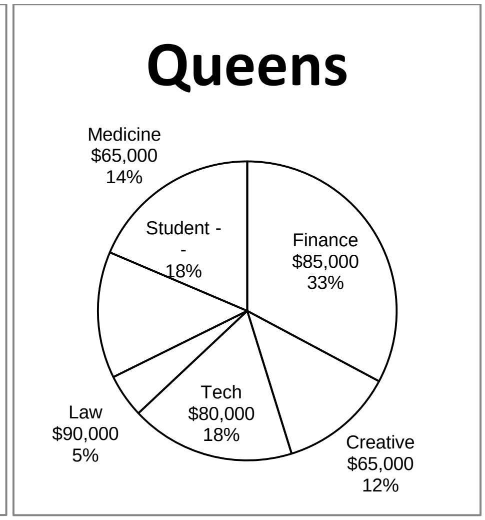
Who, How Much, and Where

Renter Composition by Employment Sector and Median Income

Data and commentary by Jake Harrington, CEO, On-Site.com







	Manhattan			Brooklyn			Queens		
	South of 96th	North of 96th	All Manhattan	DUMBO	Williamsburg	All Brooklyn	Astoria	Hunters Point	All Queens
Finance	40%	18%	**39%**	26%	48%	**27%**	24%	33%	**33%**
Creative	14%	12%	**14%**	21%	29%	**21%**	12%	12%	**12%**
Tech	12%	10%	**12%**	14%	3%	**13%**	21%	15%	**18%**
Law	9%	4%	**9%**	11%	10%	**10%**	3%	6%	**5%**
Medicine	5%	10%	**5%**	13%	7%	**14%**	9%	18%	**14%**
Student	20%	45%	**22%**	16%	3%	**16%**	30%	17%	**19%**

Predictably, the Law and Finance sectors show the strongest incomes, and these renters pay the highest rents. It is interesting to note that in all neighborhoods, lawyers spend the highest percentage of income for rent.

While Brooklyn renters as a whole have a lower median income than Manhattan renters, Brooklyn renters working in Law, Creative and Finance actually earn more than their Manhattan counterparts, and pay a greater portion of their income for rent.

Across the board, Creative professionals have the lowest rent-to-income ratio, suggesting that, as a class, this sector represents a growing, underexploited market for unattended rental housing.

Finance employees disproportionately live in Manhattan, south of 96th Street, and Williamsburg. Brooklyn is home to the highest proportion of workers in Creative jobs. Students flock to Manhattan north of 96th Street and Astoria.

DUMBO – "The Outlier"

As this report attempts to highlight and has been discussed in the press, Brooklyn has made the transition from for sale new development to rental new development. This development has been rapid and has been focused primarily in Downtown Brooklyn along the Flatbush Avenue corridor and in Williamsburg. While acceptance of these neighborhoods as viable alternatives to Manhattan has occurred, as one would expect, neither of these neighborhoods has yet reached a level of value competitive with Manhattan. This though is not the case throughout Brooklyn. One neighborhood distinguishes itself as competitive with neighborhoods in Manhattan. Dumbo's average rent for attended studio through two bedroom homes is higher than ten of the nineteen Manhattan neighborhoods tracked in this report and its average unattended rent for these same home sizes is higher than thirteen of those neighborhoods[1].

We attribute this to a number of factors. The number of 2011 rental transactions in Dumbo is less than a tenth of Williamsburg. This is indicative of both market size and higher pricing in the area. The inherent characteristics of the DUMBO market are larger and more loft-like spaces, similar to Manhattan's Tribeca. This product type may tend to surpass in value new ground-up development in areas such as Williamsburg and Downtown Brooklyn.

As a neighborhood, Dumbo has many other qualities in common with Tribeca. The feeling of its narrow cobblestone streets, position on the waterfront, history of warehouses and factories converted to residential use and the attraction for artists mirror early Tribeca. This similarity extends itself further into the demographic employment data. As tracked by On-Site.com, Dumbo has the most evenly distributed diversity of employment of any neighborhood in the three boroughs. Most telling is the fact that its second largest employment sector is Creative, representing 20.5% of the renter population, with the largest sector, Finance, only 5% greater at 25.6%. This widespread appeal, particularly among the creative and technology employment growth sectors, distinguish DUMBO from all other neighborhoods and underpin its value.

[1] DUMBO achieved higher pricing on Studio to 2BR units in attended buildings than the following Manhattan neighborhoods: Financial District, Union Square/Gramercy/STPCV, Midtown East, Upper East Side (East of Lex), Manhattan Valley, Morningside Heights, Far Upper East Side, East Harlem, Central Harlem. DUMBO achieved higher pricing on Studio to 2BR units in unattended buildings than the following Manhattan neighborhoods: Greenwich/West Village, Chelsea, East Village/Lower East Side, Union Square/Gramercy/STPCV, Chinatown/Little Italy, Midtown West, Midtown East, Upper East Side (East of Lex), Manhattan Valley, Morningside Heights, Far Upper East Side, East Harlem, Central Harlem.

4. Where We Are Headed

Manhattan may be at a point of historic significance. Between 1997-2011 the average number of rental homes introduced to the market annually was 3,182. The number was as high as 3,612 in 2009 and approximately 2,800 in both 2010 and 2011. Currently the known number of homes slated to come to market in Manhattan in 2012 is 1,044. In 2013 it is 1,771. And in 2014 it is 1000. For the foreseeable future, Manhattan residential rental development looks to be defined by two key factors; a significant decrease in new stock coming to market and the vast concentration of that stock in larger and fewer buildings. Historically, as demonstrated by the correlation of rent to private sector employment, new supply has not been a factor affecting rent. The reason for this is the very large amount of existing rental housing stock, unlike most cities, Manhattan is a city where approximately two-thirds of the residents rent. As against this large supply, the addition of new annual supply, even in above-average years, has not affected pricing.

The known supply of new rental stock coming to the Brooklyn market in 2012 is 522 homes. In 2013 it is 772. And in 2014 it is 500. In Queens the numbers are similar; 345 in 2012 and 2,148 in 2013.

Just as important as the known supply, in all three boroughs, there are potential developments where status as rental or condo has not been determined, and where the potential supplies are very large. Manhattan currently has 5,028 homes in this stage of development. Brooklyn has 14,243 and Queens has 6,247. What is significant here is that the potential Brooklyn supply is three times as large as that of Manhattan. While time of delivery to market of these homes is not yet known, what can be understood from this is that as development moves out of Manhattan, so will the end user. With less new supply in Manhattan, its pricing should be somewhat insulated from the growth of supply in the outer boroughs. Still, as growth in the outer boroughs continues, these areas will need to be considered together to understand what to develop, where and for whom. If the metro area continues to be a magnet for the growth of new industries, new supply even across the boroughs should still not be a factor.