*The 2012 Mid-year Triboro Rental Report*

*Overview:*

This report continues the collaboration between StreetEasy.com, On-Site, and Nancy Packes, Inc, to produce the Triboro Rental Report. We continue to document the most important story in the rental market: the evolving relationship between Manhattan, Brooklyn and Queens, in terms of who the renters are, and how rents reflect these trends.

The chart below shows growth by unit type in all three boroughs. Overall, Brooklyn and Queens have seen the strongest increase in rents during the past year for studios through two bedroom units. This is not surprising, given that several rapidly gentrifying neighborhoods in Brooklyn, such as DUMBO and Williamsburg, are contributing to an explosion in rent appreciation. While Queens may currently lack the draw of “chic” neighborhoods, the ascent of Long Island City and Hunter’s Point, coupled with a significant amount of new development currently being planned in Astoria, puts the borough in good position to continue these robust increases in the coming years.

**Studio**

| | Manhattan 2011 | Manhattan 2012 | Manhattan % Change | Brooklyn 2011 | Brooklyn 2012 | Brooklyn % Change | Queens 2011 | Queens 2012 | Queens % Change |
|---|---|---|---|---|---|---|---|---|---|
| **DM** | $2,457 | $2,652 | 7.93% | $1,954 | $2,265 | 15.94% | $1,697 | $2,075 | 22.24% |
| **NDM** | $1,807 | $1,937 | 7.20% | $1,584 | $1,744 | 10.14% | $1,132 | $1,549 | 36.84% |

**One Bedroom**

| | Manhattan 2011 | Manhattan 2012 | Manhattan % Change | Brooklyn 2011 | Brooklyn 2012 | Brooklyn % Change | Queens 2011 | Queens 2012 | Queens % Change |
|---|---|---|---|---|---|---|---|---|---|
| **DM** | $3,429 | $3,557 | 3.74% | $2,596 | $2,862 | 10.24% | $2,446 | $2,583 | 5.61% |
| **NDM** | $2,448 | $2,544 | 3.95% | $1,935 | $2,060 | 6.49% | $1,427 | $1,815 | 27.19% |

**Two Bedrooms**

| | Manhattan 2011 | Manhattan 2012 | Manhattan % Change | Brooklyn 2011 | Brooklyn 2012 | Brooklyn % Change | Queens 2011 | Queens 2012 | Queens % Change |
|---|---|---|---|---|---|---|---|---|---|
| **DM** | $5,574 | $5,778 | 3.65% | $3,410 | $4,160 | 21.99% | $2,984 | $3,314 | 11.08% |
| **NDM** | $3,388 | $3,514 | 3.71% | $2,757 | $2,589 | -6.07% | $1,810 | $2,245 | 24.04% |

*Changes in Preference:*

The strong rent growth, particularly in Brooklyn, is in part attributable to new hires in entry level positions, but comes at the expense of Manhattan rental buildings. The most vulnerable sector of the Manhattan market to outer borough competition is shown in the charts below. These three charts show growth in rents since 2011, when the market began to emerge from the post-Lehman doldrums. More importantly, they also show the changes in the

****Note: All 2011 figures, save for the On-Site and pipeline statistics, are derived from data from the first two quarters of 2011***

proportions of unit types available in each year; this factor serves as the entry point for the story of the relationship among the boroughs.

***Manhattan***

| | ***Rent*** | | ***Change*** | ***Volume*** | | ***Distribution*** | | ***Change (in Distribution)*** |
|---|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2011-2012** | **2011** | **2012** | **2011** | **2012** | **2011-2012** |
| **STU-DM** | $2,457 | $2,652 | 7.93% | 857 | 2,087 | 17.2% | 28.1% | 10.9% |
| **STU-NDM** | $1,807 | $1,937 | 7.20% | 844 | 1,134 | 25.4% | 27.0% | 1.6% |
| | | | | | | | | |
| **1BR-DM** | $3,429 | $3,557 | 3.74% | 2,801 | 3,781 | 56.1% | 50.8% | -5.3% |
| **1BR-NDM** | $2,448 | $2,544 | 3.95% | 1,621 | 1,962 | 48.8% | 46.7% | -2.1% |
| | | | | | | | | |
| **2BR-DM** | $5,574 | $5,778 | 3.65% | 1,332 | 1,572 | 26.7% | 21.1% | -5.6% |
| **2BR-NDM** | $3,388 | $3,514 | 3.71% | 857 | 1,108 | 25.8% | 26.4% | 0.6% |
| | | | | | | | | |

***Brooklyn***

| | ***Rent*** | | ***Change*** | ***Volume*** | | ***Distribution*** | | ***Change (in Distribution)*** |
|---|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2011-2012** | **2011** | **2012** | **2011** | **2012** | **2011-2012** |
| **STU-DM** | $1,954 | $2,265 | 15.9% | 169 | 109 | 16.9% | 16.6% | -0.2% |
| **STU-NDM** | $1,584 | $1,744 | 10.1% | 512 | 374 | 13.3% | 11.6% | -1.7% |
| | | | | | | | | |
| **1BR-DM** | $2,596 | $2,862 | 10.2% | 478 | 318 | 47.7% | 48.5% | 0.8% |
| **1BR-NDM** | $1,935 | $2,060 | 6.5% | 2,128 | 1,435 | 55.5% | 44.6% | -10.9% |
| | | | | | | | | |
| **2BR-DM** | $3,410 | $4,160 | 22.0% | 355 | 228 | 35.4% | 34.8% | -0.6% |
| **2BR-NDM** | $2,757 | $2,589 | -6.1% | 1,196 | 1,412 | 31.2% | 43.8% | 12.7% |

*Queens*

| | *Rent* | | *Change* | *Volume* | | *Distribution* | | *Change (in Distribution)* |
|---|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2011-2012** | **2011** | **2012** | **2011** | **2012** | **2011-2012** |
| **STU-DM** | $1,697 | $2,075 | 22.2% | 100 | 127 | 14.6% | 21.3% | 6.7% |
| **STU-NDM** | $1,132 | $1,549 | 36.8% | 172 | 109 | 14.1% | 13.2% | -0.9% |
| | | | | | | | | |
| **1BR-DM** | $2,446 | $2,583 | 5.6% | 405 | 292 | 59.1% | 49.1% | -10.0% |
| **1BR-NDM** | $1,427 | $1,815 | 27.2% | 598 | 416 | 49.1% | 50.4% | 1.4% |
| | | | | | | | | |
| **2BR-DM** | $2,984 | $3,314 | 11.1% | 180 | 176 | 26.3% | 29.6% | 3.3% |
| **2BR-NDM** | $1,810 | $2,245 | 24.0% | 449 | 300 | 36.8% | 36.4% | -0.5% |
| | | | | | | | | |

After two years of strong rent growth in Manhattan, about 5% annually, rents in the first half of 2012 in attended buildings in Manhattan grew 7.93% for studios, 3.74% for one bedroom units and 3.65% for two bedroom units. It is not surprising that rent growth was stronger for the smaller sizes for two reasons. First, as the economy continues to regain jobs lost in the last downturn, most new hires are at the entry level for financial analysts and attorneys. Second, with rising rents and little income inflation, renters often seek smaller homes to bridge the gap with rising rents.

What is revealing is the proportion of unit types available in the first half of this year and how this has changed from past years. The above charts show this change in distribution, that is the proportion of available units during the first half of 2012 compared to the recent past. Studios increased by almost 11%, while one and two bedroom units decreased in availability by more than 5%.

With very little new housing construction, it is not the composition of units built that is changing these proportions and, even in the most robust year for new construction, the existing housing stock is too voluminous to produce this shift. Further, if this change were caused by new construction, one bedroom availability would have increased, instead of decreasing, as this unit type generally comprises double the percentage of studios in a new building. No, the increase in the percentage of studios available in Manhattan in the first half of 2012 was the result of renters not renewing their leases, causing these units to be placed back on the market.

Typically, studio renters earn the least and pay the most towards rent. After two years of substantial increases, many of these renters could not afford any more hikes, and with the alternatives offered in Brooklyn and Queens, they chose not to renew. This move is highlighted in the outer borough studio and two bedroom categories, where significant increases in rent (15.9% and 22% for Brooklyn doorman studios and twos; 22.2% and 11.1% for Queens doorman studios and twos) and dwindling vacancies in both, indicate that those leaving Manhattan are either snapping up cheaper studio apartments, or pairing up with a roommate to take advantage of the less expensive two bedrooms. This is further substantiated by the fact that one bedrooms had growth that was more modest in both boroughs (10.2% for Brooklyn, 5.6% for Queens).

The studio renter is typically younger and, for them, the outer boroughs are chic and cheap. Even though the rent gap has diminished greatly over the last few years between Manhattan, Brooklyn and Queens, homes are still substantially more affordable in the outer boroughs.

The basic fact is that all three boroughs tap the same pool of renters. Why renters choose one location or the other is a large part of this story. For studio renters, the inclination is clearly turning away from Manhattan attended lobby or luxury rentals. Where it benefits Manhattan is in the unattended housing stock. This can be seen in the strongly rising rents for this part of the Manhattan market, as well as the moderate changes in unit type availability in the first half of the year.

It also shows how timely and insightful the mayor's recent proposal is to promote smaller and more affordable studios:

http://observer.com/2012/07/would-you-ditch-your-squalid-share-for-a-300-square-foot-micro-apartment/

For one and two bedroom Manhattan renters, the decrease of 5.3% and 5.6%, respectively, in available units during the first half of 2012 means more renters renewed, decreasing the supply of units that came to market. Renewals typically track the increases in market rent seen in re-rentals, so the decision to renew in Manhattan for these larger and more expensive homes indicates the renter found no desirable alternatives in Manhattan and rejected the choice of the outer boroughs. Of course, Manhattan has many neighborhoods and different rent levels. This older and more affluent demographic is demonstrating the preference for more established and expensive areas.

Where Brooklyn and Queens are competing most strongly for Manhattan renters is in the less pricey neighborhoods where value is a key reason for renting rather than the environment of an established residential area. Brooklyn and Queens are also competing strongly in the new growth industries of creative and technology.

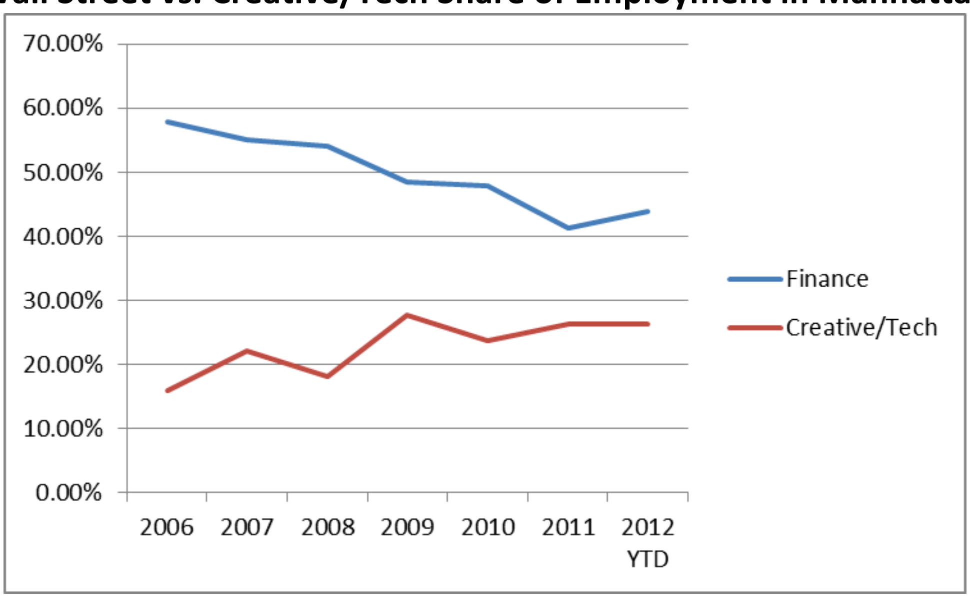
*On-Site.com Statistics:*

On-Site is the leading provider of leasing management software for the apartment business in New York. Jake Harrington, CEO of On-Site, has provided the following analysis of emerging demographic trends in the three boroughs:

## Manhattan Employment Distribution – 2006 to 2012

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 (YTD) |
|---|---|---|---|---|---|---|---|
| **Finance** | 57.90% | 55.10% | 54.00% | 48.50% | 47.80% | 41.20% | 43.92% |
| **Creative** | 9.10% | 10.70% | 10.40% | 12.30% | 9.10% | 13.50% | 11.44% |
| **Tech** | 6.90% | 11.50% | 7.70% | 15.50% | 14.60% | 12.80% | 14.93% |
| **Law** | 11.90% | 11.00% | 9.10% | 10.20% | 7.60% | 8.50% | 6.81% |
| **Medicine** | 4.10% | 4.40% | 4.70% | 5.90% | 6.00% | 5.40% | 7.83% |
| **Student** | 10.00% | 7.40% | 14.10% | 7.70% | 14.90% | 18.60% | 15.07% |

## Wall Street vs. Creative/Tech Share of Employment in Manhattan



## Analysis

New York City continues to attract a more diverse profile of businesses than in previous years. We have been tracking the industries in which renters work for the last decade. Over the last six years, the gap between financial sector jobs and those in creative and technology has narrowed: Wall Street jobs have fallen 25% while creative/tech has risen 65%.

In terms of technology companies, giants like Google, Apple and Salesforce.com have established beachheads in New York. But start-ups, too, have flocked to the area, due in part to its proximity to financing: in the last five years over 1000 web-based tech startups emerged in NYC, 486 of which received venture capital funding. In fact, according to a report issued this spring, of the seven main tech regions in the country, New York was the only one to see any growth in VC deals since 2007. NYC deals increased 32% while Silicon Valley decreased 10%.

Another contributing factor is the changing definition of a tech firm. It's no longer just about building new technologies, but applying technology to existing industries — many of which reside in New York City. In the past, technology was largely about hardware, but many of today's tech companies aim to transform existing businesses, targeting advertising firms, financial firms and media firms with headquarters here, so it's logical that these tech firms need to be in New York to succeed.

Last month's Crain's New York noted that the atmosphere in certain boro neighborhoods is reminiscent of Silicon Valley in that talented tech workers are flocking there to live and work. Cornell University's president refers to the "F-train corridor," after the subway line's 27-mile three-borough range. Cornell NYC is opening a 2-million square foot campus on Roosevelt Island in 2017 to foster engineering talent. Crain's writes on the draw of such an emerging center of innovation: "Call it the Silicon Subway or whatever you want, but the fact is that the F train has become more than a line of convenience for the city's tech companies, funders and staffers alike. Today, it also ranks as a powerful drawing card."

Some fledgling tech companies are finding that the high price of a New York presence is paying off. Crain's noted in May: "For decades, New York has been known as the town companies left when they couldn't afford the higher salaries and rent. But a reversal is taking place among tech firms: Companies are moving here. They're drawn by a thriving ecosystem fed by money from private investors, and supported with incubator labs and other shared work spaces, some of them sponsored by the city. There's also proximity to hometown industries like media, advertising, fashion and finance — all going through digital disruptions — and a growing pool of engineers, as well as seasoned entrepreneurs."

**Triboro Employment Industry Breakdown**

(Submarkets with sufficient transactions)

Manhattan (all)

| | |
|---|---|
| Finance | 43.9% |
| Creative | 11.4% |
| Tech | 14.9% |
| Law | 6.8% |
| Medical | 7.8% |
| Student | 15.1% |

Brooklyn (all)

| | |
|---|---|
| Finance | 22.0% |
| Creative | 19.2% |
| Tech | 22.7% |
| Law | 12.2% |
| Medical | 12.2% |
| Student | 11.5% |

Queens (all)

| | |
|---|---|
| Finance | 31.5% |
| Creative | 13.0% |
| Tech | 14.7% |
| Law | 8.4% |
| Medical | 16.8% |
| Student | 15.5% |

**Triboro Employment Industry Breakdown**
(Submarkets with sufficient transactions)

Manhattan prime

| | |
|---|---|
| Finance | 44.7% |
| Creative | 11.3% |
| Tech | 14.6% |
| Law | 6.8% |
| Medical | 7.0% |
| Student | 15.6% |

Brooklyn DUMBO

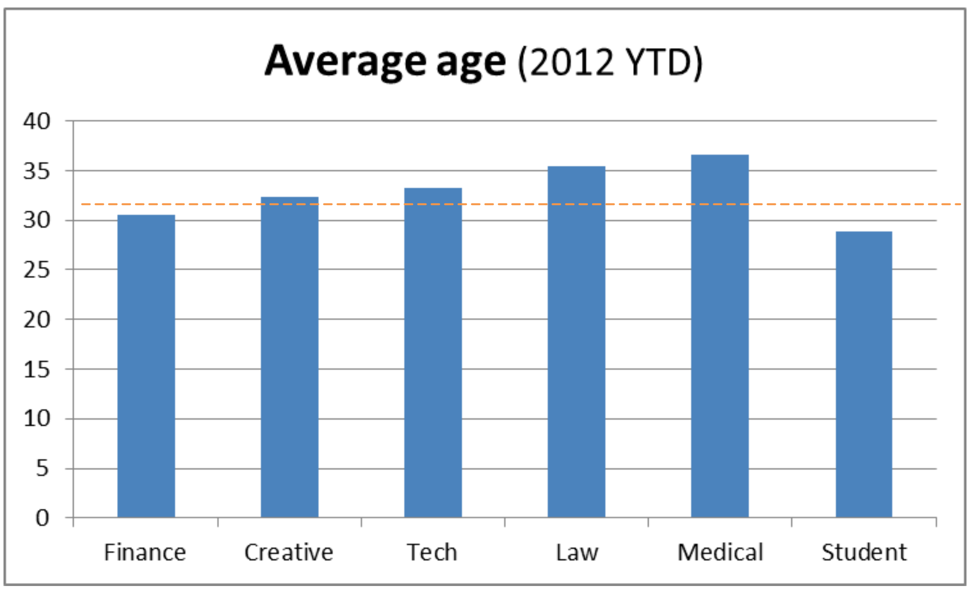
| | |
|---|---|
| Finance | 25.3% |
| Creative | 16.2% |
| Tech | 20.7% |
| Law | 12.9% |
| Medical | 12.9% |
| Student | 12.0% |

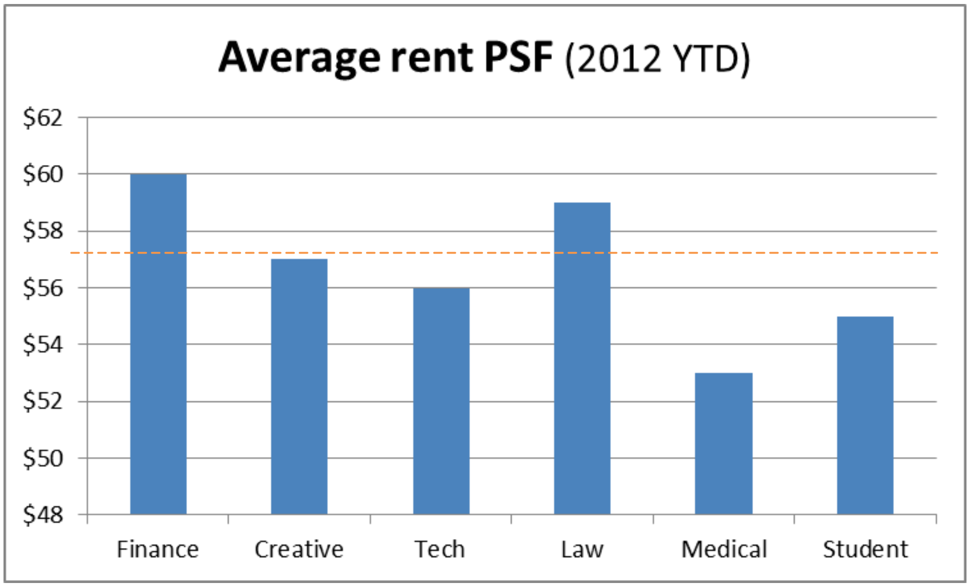
Queens LIC

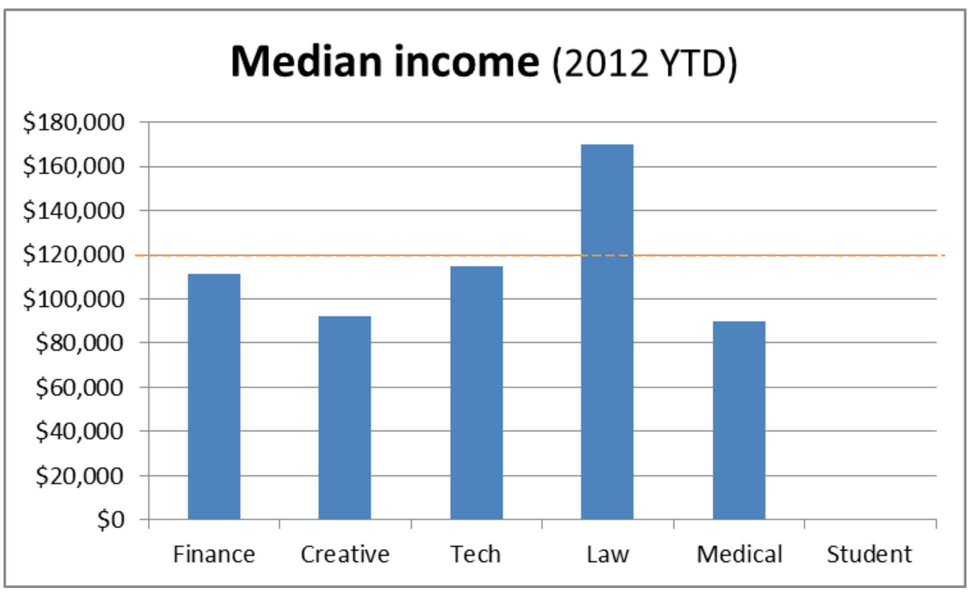
| | |
|---|---|
| Finance | 37.3% |
| Creative | 21.6% |
| Tech | 9.8% |
| Law | 2.0% |
| Medical | 11.8% |
| Student | 17.6% |

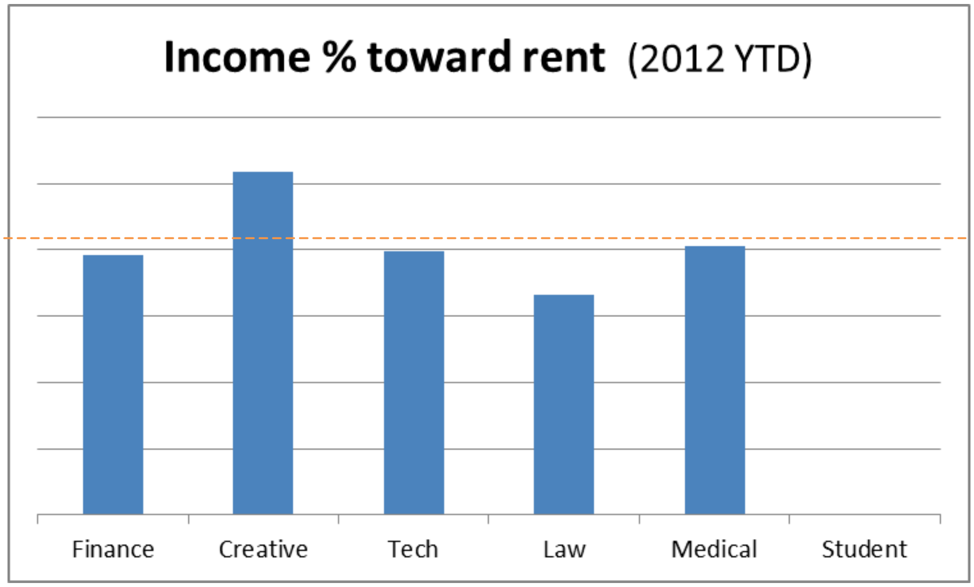
## Triboro Demographic Summary

| | Average Age | Average Effective Rent PSF | Median Income | Income spent toward rent |
|---|---|---|---|---|
| **Finance** | 30.5 | $60 | $111,200 | 39.3% |
| **Creative** | 32.3 | $57 | $92,000 | 51.8% |
| **Tech** | 33.3 | $56 | $115,000 | 39.8% |
| **Law** | 35.4 | $59 | $170,000 | 33.3% |
| **Medical** | 36.6 | $53 | $90,000 | 40.6% |
| **Student** | 28.9 | $55 | | |

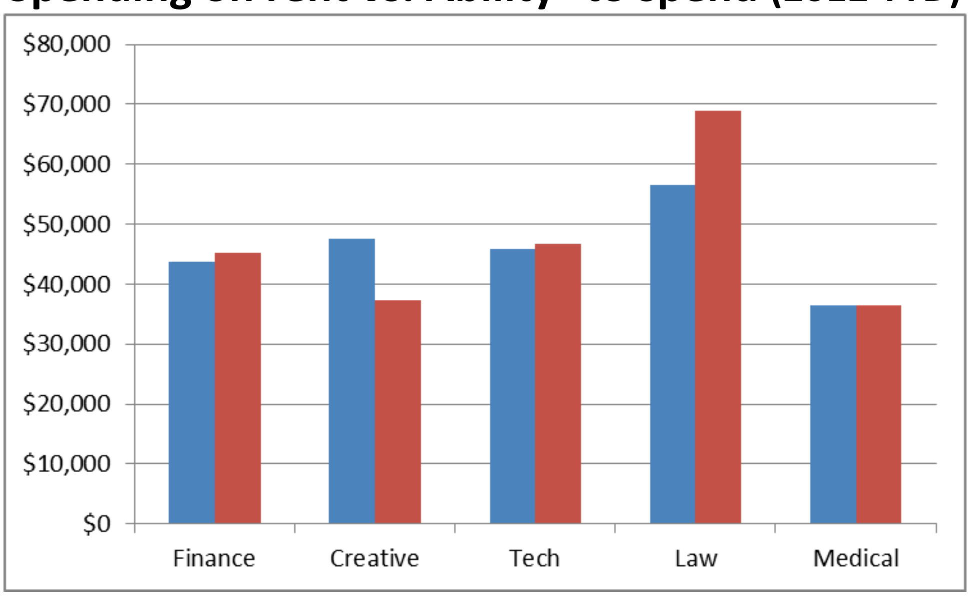



Average rent PSF (2012 YTD)
$62
$60
$58
$56
$54
$52
$50
$48
Finance
Creative
Tech
Law
Medical
Student


Median income (2012 YTD)
$180,000
$160,000
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0
Finance
Creative
Tech
Law
Medical
Student




**Spending on rent vs. Ability* to spend (2012 YTD)**




* assumes average percentage of income were spent

## Analysis

With a great diversity in employers in New York City, which industries attract the optimal renters?

Owners are achieving the highest effective rent per square foot from financial sector employees, despite the fact that lawyers and techies earn more. Lawyers also pay above average rent PSF. Medical industry renters pay the least, even less than students (although students often have a guarantor and subsidy).

Looking at a renter's ability to spend, there appears to be further capacity to push rents. Why? Over the last five years, salaries have not decreased, yet today's income spent toward rent rests at its five-year average, having dropped 20% from its 2007 peak.

This trend means that renters' willingness to pay higher rents has not yet met their capacity to do so – at least not across the board. Renters in creative industries spend the largest percentage of income toward rent, whereas finance, tech and medical are about average. This untapped capacity to push rents is particularly pronounced among lawyers, who earn the highest median income but spend the smallest percentage of it on rent.

## About On-Site

Founded in 1999, On-Site.com has grown to become the gold standard in the apartment business. On-Site has a proven record of delivering best-in-class technology in a solution that can be implemented today. 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.

*Future Pipeline:*

The pipeline of new rental construction also tells a large part of this story. Over the past several years, Brooklyn and Queens have picked up momentum in new construction, and that momentum is expected to continue, as shown in the table below:

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Unknown Completion Date |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Manhattan** | 1,882 | 1,895 | 3,423 | 3,789 | 2,599 | 2,388 | 3,096 | 1,339 | 1,544 | 2,417 | 7,260 |
| **Brooklyn** | 206 | 341 | 1,015 | 1,815 | 1,075 | 408 | 518 | 1,970 | 3,494 | 125 | 9,125 |
| **Queens** | 564 | 394 | 271 | 0 | 0 | 186 | 941 | 2,386 | 705 | 1,000 | 2,690 |