NYC Rent Guidelines Board

2019 Mortgage Survey Report

April 18, 2019
What is the **Mortgage Survey Report**?

- Section 26-510(b)(iii) of the Rent Stabilization Law requires the RGB to consider “costs and availability of financing” in its deliberations.
- Surveys financial institutions that underwrite mortgages for multifamily properties in N.Y.C.
- Four main areas:
  - new and refinanced loans
  - underwriting criteria
  - non-performing loans
  - the characteristics of buildings in lenders’ portfolios
What is the **Mortgage Survey Report**?

- Highlights changes in N.Y.C. multifamily lending market over the prior year
- Report consists of three parts:
  - Mortgage survey analysis;
  - Longitudinal analysis; and
  - Rent stabilized building sales volume and prices
How is the Survey Conducted?

• Lenders surveyed each winter
• Update list of mortgage lenders
• Received 11 responses in 2019
  • 27 lenders were surveyed
  • 41% participation rate
Summary Findings

- Interest rates decreased
- Points on new loans declined to record low
- Vacancy & collection losses decreased to record low
- New & refinanced loan volume increased
- Loan-to-value ratios declined
- Sales of rent stabilized buildings increased
Interest Rates Decrease

- Mortgage survey data shows decrease in interest rates for new mortgages, to 4.65%
  - Decline of 18 basis points (4%)
Average Interest Rates for New Loans to Rent Stabilized Buildings, 1981-2019

Multifamily Mortgage Interest Rates Decrease This Year

Source: NYC Rent Guidelines Board, Annual Mortgage Surveys
Service Fees Decrease

• Upfront service fees, called points, for loans fell to record low of 0.38
  • Six basis point (14%) decline from prior year
• Fees ranged between 0 and 1 point
  • Five lenders charge no service fee
Service Fees for New Loans to Rent Stabilized Buildings, 1981-2019

Service Fees Decrease to Record Low in 2019

Source: NYC Rent Guidelines Board, Annual Mortgage Surveys
Mortgage Loan Activity Grew

• New loan volume rose from prior year
  • Average of 94 loans per institution
  • 116% increase over prior year
  • 1,031 new loans reported by surveyed lenders

• Refinanced loan volume increased
  • Number of refinanced loans grew to 57
  • Increase of 7% from prior year
  • 622 refinanced loans reported by lenders
Minimal Change in Underwriting Criteria

- Maximum LTV ratios ranged from 60% to 82.5%
- Average LTV ratio declined from 73.5% to 72.0% this year
- Average debt service ratio rose slightly, from 1.21 last year to 1.23 this year
1996-2019 Mortgage Survey Average Loan-to-Value Standards

Maximum Loan-to-Value Ratios Decline

Source: NYC Rent Guidelines Board, Annual Mortgage Surveys
Similar Lending Standards for Rent Stabilized Buildings

- Survey found lending standards similar for both stabilized and unregulated buildings
- Majority of lenders reported standards no more stringent among stabilized buildings for:
  - interest rates;
  - LTV ratio;
  - debt service coverage
Non-Performing Loans & Foreclosures

- **Two** lenders reported non-performing loans vs. **one** the prior year
  - Represents less than 1% of lenders’ portfolio
- **One** lender reported having foreclosures, same as last year
  - Also less than 1% of lender’s portfolio
Characteristics of stabilized buildings in lenders’ portfolios

- Typical building in lenders’ portfolios has:
  - 20-49 units: 36% of lenders
  - 1-10 units: 27% of lenders
  - 50-99 units: 27% of lenders
  - 100+ units: one lender
Characteristics of stabilized buildings in lenders’ portfolios

- Average rent per apartment rose 16%, to $1,482
- Average expense per apartment rose 22%, to $727
- Average O&M cost-to-rent ratio rose from 46.7% to 49.0% this year
Characteristics of stabilized buildings in lenders’ portfolios

- Vacancy and collection losses fell to record low of 2.59% this year
  - Decline from 2.83% the prior year
- All but two lenders offered financing to buildings containing commercial space
  - 25% of buildings in loan portfolios contain commercial space, down from 35% in the prior year
Average Vacancy and Collection Losses, 1996-2019

Vacancy and Collection Losses Decline To Record Low For Six Consecutive Years

Source: NYC Rent Guidelines Board, Annual Mortgage Surveys
Portfolios of Mortgage Lenders

• **82%** of lenders’ NOI; debt service; and O&M expenses expectations equaled or exceeded
  • Similar to prior year

• **75%** of lenders keep their mortgages, rather than selling to secondary markets
Longitudinal Analysis Summary

- **Ten** of this year’s lenders responded to our survey both this and last year
- Average rate for new originations: **4.72%**, up from **4.68%** in prior year
- Average points rose from last year: **0.42** this year from **0.33** last year
Longitudinal Analysis Summary

- Maximum LTV ratio declined from 73.3% last year to 71.8% this year
- Debt service ratio declined from 1.23 last year to 1.21 this year
- V&C losses declined from 2.60% last year, to 2.55% this year
- **Two** lenders reported non-performing loans, the same as last year
- **One** lender reported foreclosures, down from two last year
Rent Stabilized Sales Data Analysis

- **885** buildings sold in 2018, up **12%** from the prior year
- Growth in sale volume varied by building size:
  - Sales among 6-10 unit buildings up **2%**
  - Sales of 11-19 unit buildings grew **12%**
  - Sales of 20-99 unit buildings increased **22%**
  - Sales of 100+ unit buildings rose **38%**
# Sales Volume Change Varies by Borough

<table>
<thead>
<tr>
<th>Borough</th>
<th>2017</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bronx</td>
<td>156</td>
<td>195</td>
<td>25.0%</td>
</tr>
<tr>
<td>Brooklyn</td>
<td>292</td>
<td>281</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Manhattan</td>
<td>233</td>
<td>289</td>
<td>24.0%</td>
</tr>
<tr>
<td>Queens</td>
<td>112</td>
<td>120</td>
<td>7.1%</td>
</tr>
<tr>
<td><strong>Citywide</strong></td>
<td><strong>793</strong></td>
<td><strong>885</strong></td>
<td><strong>11.6%</strong></td>
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</tbody>
</table>
Rent Stabilized Building Sales, 2003-2018

Citywide Building Sales Declined from Prior Year

Source: NYC Department of Finance
Rent Stabilized Sales Data Analysis

- In 2018, median rent stabilized building sale price Citywide was $4.4 million
  - Manhattan: $7.2 million
  - Bronx: $4.6 million
  - Brooklyn: $3.0 million
  - Queens: $2.1 million
Rent Stabilized Sales Data Analysis

- In 2018, median Citywide sales prices by building size:
  - 6-10 unit buildings: $2.1 million
  - 11-19 unit buildings: $5.1 million
  - 20-99 unit buildings: $8.3 million
  - 100+ unit buildings: $78.9 million
2019 Mortgage Survey Report Summary

- Average interest rates declined
- Service fees declined to record low
- Vacancy & collection losses decreased to record low
- Among longitudinal group, interest rates and service fees rose
- Building sales volume increased Citywide
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