Q1 2020

# U.S. MULTIFAMILY FIGURES

CBRE

# Q1 2020 U.S. MULTIFAMILY FIGURES – EXECUTIVE SUMMARY

## Q1 FUNDAMENTALS WERE STRONG PRIOR TO COVID-19

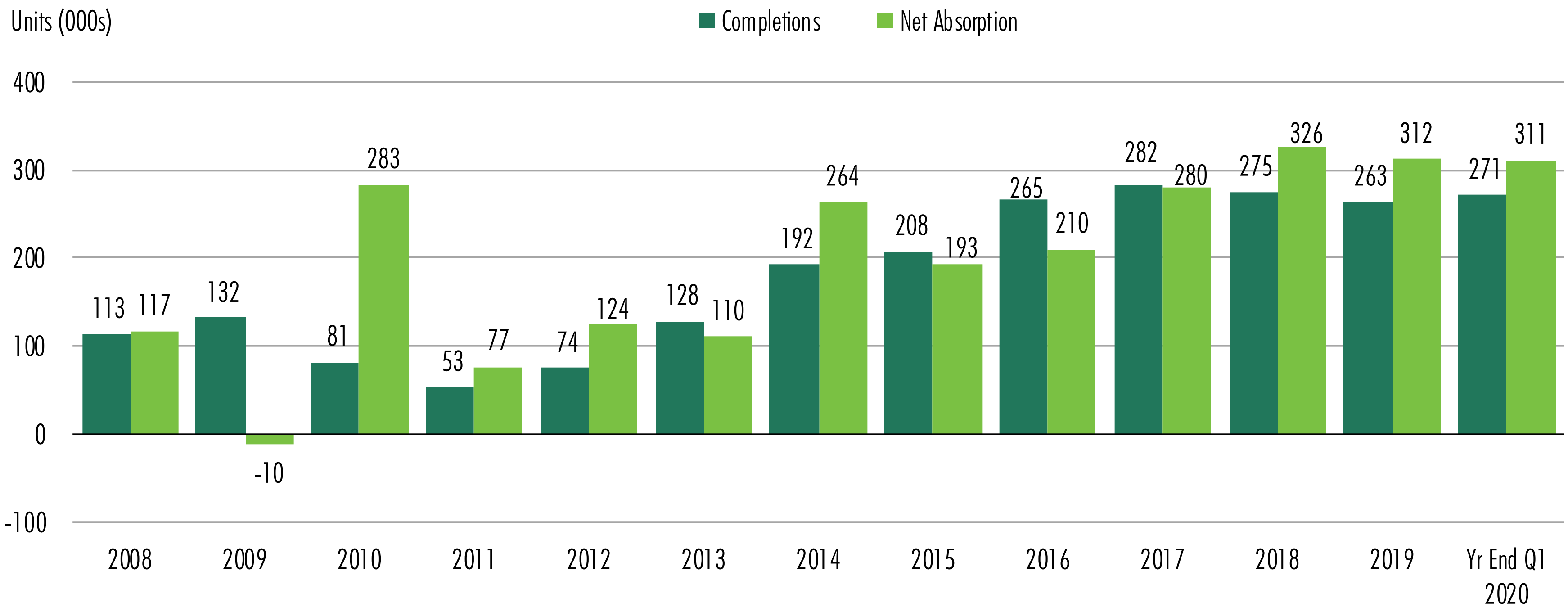
| Vacancy Rate | Completions* | Net Absorption* | Y-o-Y Rent Change | Investment Volume* |
|---|---|---|---|---|
| ▼ **4.2%** | ► **271,400 Units** | ▲ **311,200 Units** | ▼ **2.7%** | ▲ **$187 Billion** |

Arrows indicate change in growth rate from the same quarter in the previous year.
*Total past four quarters.

- The COVID-19 pandemic has forced some states to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the U.S. economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage and transportation sectors.
- The economic downturn is having a serious negative impact on the multifamily sector that is not fully reflected in Q1 2020 data given the late-quarter onset of COVID-19. Q2 will be much worse.
- Overall, Q1 was characterized by relatively low vacancy, solid rent growth and dynamic investment and financing activity.
- Q1's vacancy rate was a healthy 4.2%, down 30 basis points (bps) year-over-year. Average rent rose by 2.7% year-over-year, down from the 3.1% rate of a year ago but slightly ahead of the long-term average of 2.6%.
- Development remained robust with 49,600 units delivered in Q1. The 271,400-unit total for the year ending Q1 was on par with the year-ago total, but the construction pipeline rose to a new peak level for this cycle.
- Q1 net absorption was low due to typical seasonal patterns, but the total for the year ending in Q1 rose to a very healthy 311,200 units and outpaced total completions for the same period.
- Through most of Q1, investment and financing activity remained active. Acquisitions totaled $38 billion, down only 1% year-over-year. Financing activity was robust as well. However, COVID-19 began to disrupt capital markets activity in the second half of March, and Q2 will have much lower debt and equity transaction volumes.

# FIGURE 1

## NEW SUPPLY & DEMAND STAY AT HIGH LEVELS

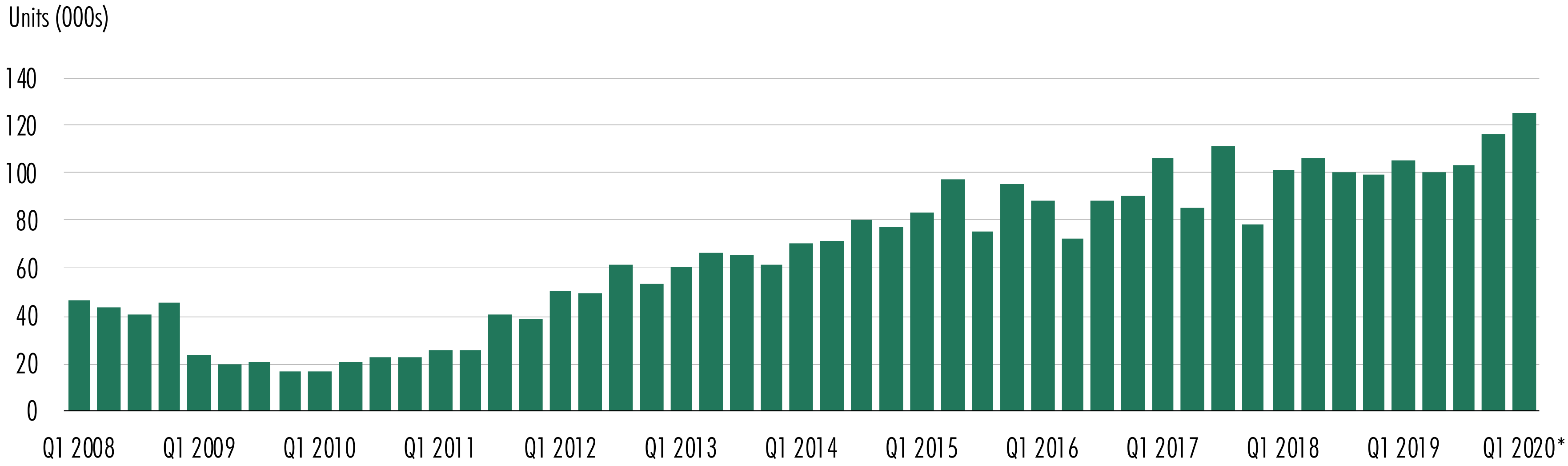



Source: CBRE Research, CBRE Econometric Advisors, Q1 2020. Based on the 66 markets tracked by CBRE EA. (For the ranking tables, contiguous metros are combined, such as Dallas and Ft. Worth. Counting these combined metros, the CBRE EA coverage is 56 metros.) Completions and net absorption of newly-built communities are counted in the quarter in which the property reaches occupancy stabilization.

- COVID-19 began to influence market demand in mid-March. Past recessions resulted in two to three quarters of negative demand, and the same is likely in the coming months.
- Net absorption was only 17,400 units in Q1; however, low first-quarter totals are typical given seasonal leasing patterns. For the year ending Q1, net absorption totaled a healthy 311,200 units, exceeding the 271,400 units delivered.
- One challenge for the multifamily market beginning in Q2 is that construction levels are very high—both recent deliveries and the pipeline for future deliveries. Completions in Q1 totaled 49,600 units, up by 19.1% from a year ago.

## FIGURE 2

## CONSTRUCTION PIPELINE RISES IN Q1




Source: CBRE Research, CBRE Econometric Advisors, Dodge Data & Analytics, Q1 2020. *Q1 2020 = December through February.

- The multifamily construction pipeline is still rising. Units under construction as of February totaled 680,500, by far the highest level of this cycle. The 125,700 multifamily units that were started in the three months ending February are the second-highest three-month total of this cycle.
- U.S. Census Bureau statistics for March indicate a tentative slowdown in starts due to COVID-19. The seasonally adjusted annual total of 347,000 units was down by 32.1% from February and by 3.9% year-over-year.
- Nearly all development projects that began before the COVID-19 outbreak will progress to completion, but most of them have been delayed. Construction moratoriums in some markets, social-distancing mandates and inspection delays will all slow development progress.
- Some starts will occur in the coming months—particularly for development projects that had secured construction financing and government permits prior to COVID-19—but most others will be deferred.

## FIGURE 3

## DEMAND OUTPACES NEW SUPPLY IN MOST MARKETS

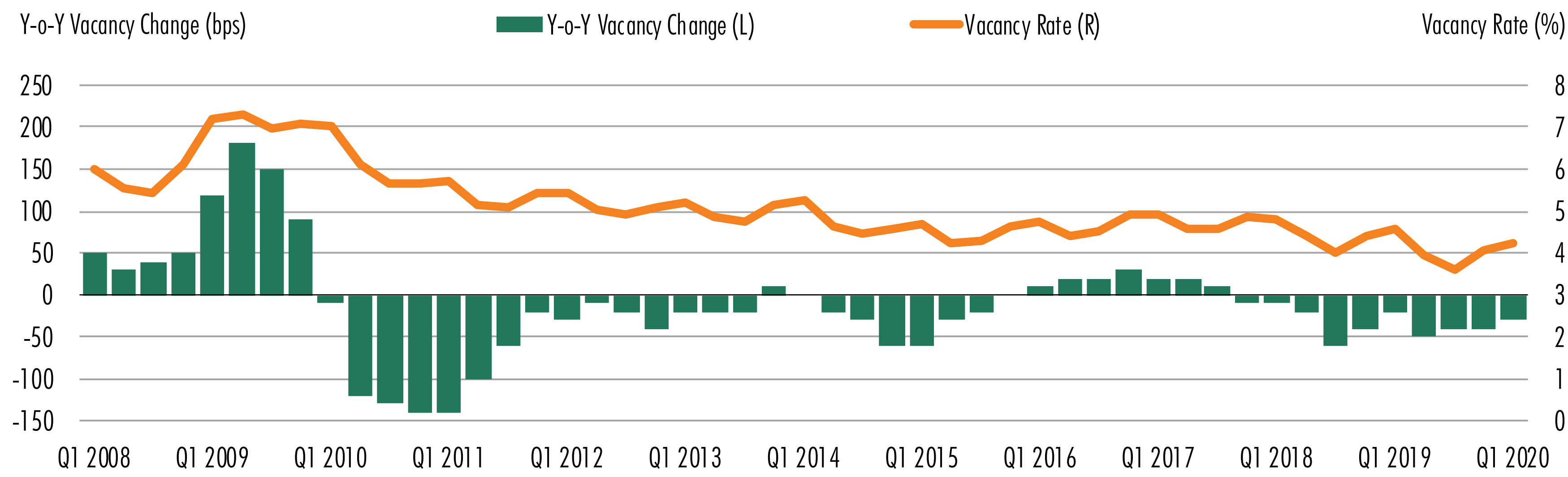
| Rank by New Supply | Metro Market | Completions 4 Quarters Ending Q1 | Completions As % of Inventory | Net Absorption 4 Quarters Ending Q1 | Net Absorption As % of Inventory | Net Absorption As % of Completions |
|---|---|---|---|---|---|---|
| | **Sum of Markets** | **271,400** | **1.7** | **311,200** | **1.9** | **114.7** |
| 1 | New York Metro | 34,800 | 1.3 | 45,100 | 1.7 | 129.8 |
| 2 | Los Angeles/So. California | 17,700 | 1.1 | 17,400 | 1.1 | 98.4 |
| 3 | Dallas/Ft. Worth | 17,100 | 2.4 | 18,600 | 2.6 | 108.8 |
| 4 | Miami/So. Florida | 13,100 | 2.2 | 14,500 | 2.4 | 110.6 |
| 5 | Washington, D.C. | 12,200 | 2.0 | 13,800 | 2.3 | 113.3 |
| 6 | Houston | 10,500 | 1.7 | 13,000 | 2.1 | 124.2 |
| 7 | San Francisco Bay Area | 10,200 | 1.6 | 11,500 | 1.9 | 112.6 |
| 8 | Seattle | 9,800 | 2.5 | 12,000 | 3.0 | 121.7 |
| 9 | Atlanta | 9,800 | 2.2 | 8,700 | 2.0 | 89.1 |
| 10 | Austin | 9,400 | 4.2 | 10,100 | 4.5 | 107.5 |
| 11 | Chicago | 8,900 | 1.2 | 12,300 | 1.6 | 138.3 |
| 12 | Boston | 8,800 | 1.8 | 9,000 | 1.8 | 102.1 |
| 13 | Orlando | 8,000 | 3.7 | 7,600 | 3.5 | 93.9 |
| 14 | Denver | 7,500 | 2.3 | 7,500 | 2.3 | 101.3 |
| 15 | Minneapolis | 7,400 | 2.5 | 6,000 | 2.1 | 81.0 |
| 16 | Charlotte | 5,900 | 3.5 | 6,600 | 4.0 | 113.0 |
| 17 | Philadelphia | 5,800 | 1.9 | 7,200 | 2.3 | 122.9 |
| 18 | Phoenix | 5,700 | 1.6 | 7,200 | 2.0 | 126.6 |
| 19 | Portland | 5,500 | 2.6 | 5,800 | 2.8 | 106.0 |
| 20 | San Antonio | 5,200 | 2.7 | 5,000 | 2.6 | 97.4 |
| 21 | Tampa | 4,300 | 1.7 | 4,900 | 1.9 | 112.6 |
| 22 | Columbus | 4,300 | 2.6 | 4,400 | 2.7 | 102.5 |

Source: CBRE Research, CBRE Econometric Advisors, Q1 2020. All ratios based on unrounded figures.

- The top three metros for completions in the year ending Q1 were New York, Los Angeles (including Orange County, Inland Empire and Ventura) and Dallas/Ft. Worth. Half of all completions over the past year were in the top nine markets.
- Among the leading 22 markets for construction, Austin had the highest completions-to-inventory ratio at 4.2%, followed by Orlando and Charlotte. While this ratio is a measure of overbuilding risk, multifamily demand has remained very high in these three metros.
- Seventeen of the 22 markets with the highest delivery totals had greater net absorption than completions, indicating tightening market conditions.
- With much weaker demand expected in Q2, metros with higher levels of construction (especially relative to their size) may have greater declines in market performance than markets with limited construction.

## FIGURE 4

### Q1 VACANCY FALLS 30 BASIS POINTS YEAR-OVER-YEAR

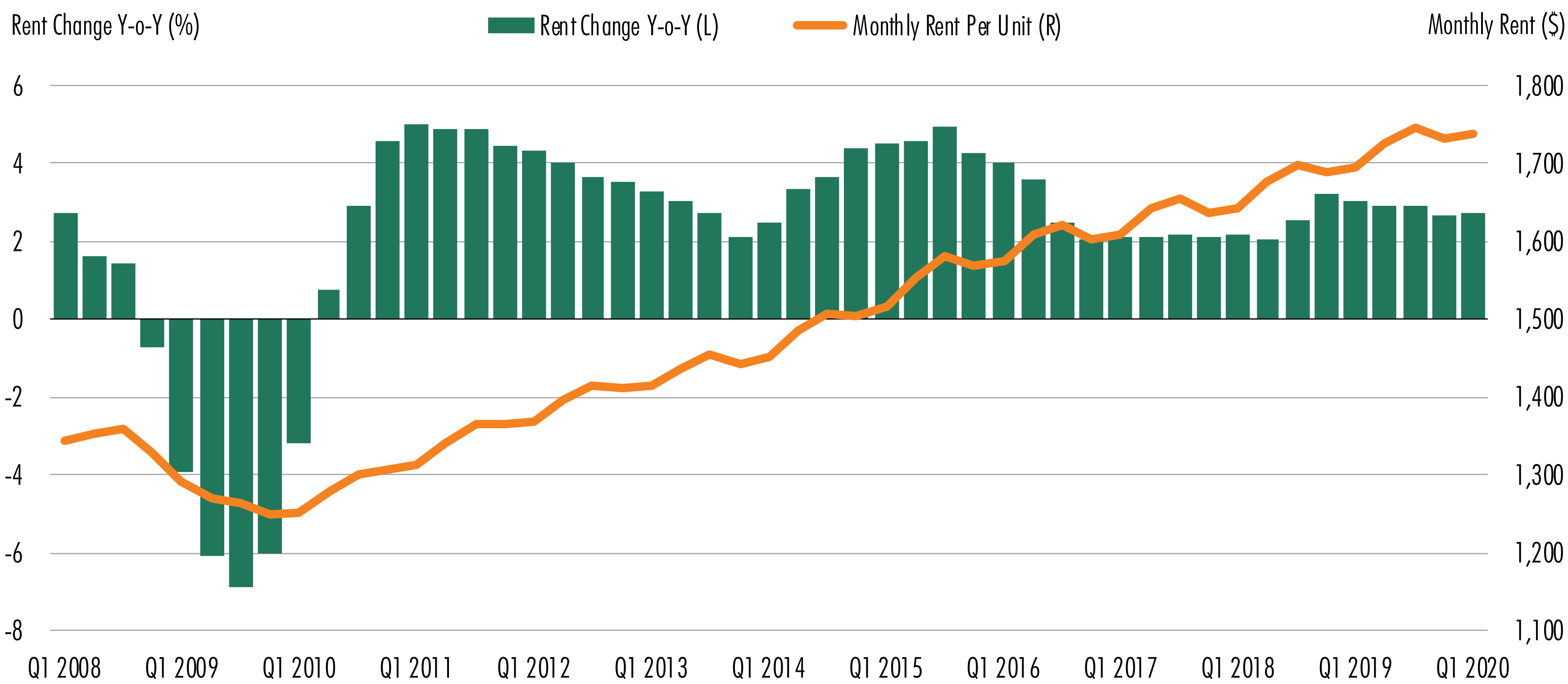



Source: CBRE Research, CBRE Econometric Advisors, Axiometrics Inc., Q1 2020. Based on the 66 metro markets tracked by CBRE EA.

- The multifamily vacancy rate fell by 30 bps year-over-year to 4.2% in Q1. Vacancy has fallen on a year-over-year basis for more than two years and has remained under 5% for more than five years.
- COVID-19's early impact on multifamily vacancy has been mixed. Owners are reporting higher lease renewal rates but fewer new leases than are normally signed in the spring season.
- Of the largest markets, New York Metro, Sacramento, Minneapolis, Detroit and Boston had the lowest vacancy rates in Q1—all at 3.6% or less. St. Louis had the largest year-over-year drop in vacancy (-1 percentage point) followed by Kansas City (-80 bps).
- Vacancy rates by class and other subcategories are not yet available for Q1. In Q4, Class C had the lowest vacancy at 3.6%, followed by Class B at 4.1% and Class A at 4.5%. Vacancy for garden assets averaged 4.3% in Q4, while high-rise properties averaged 4.7%.

# FIGURE 5

## ANNUAL RENT GROWTH REMAINS HEALTHY AT 2.7%




Source: CBRE Research, CBRE Econometric Advisors, Axiometrics Inc., Q1 2020. Effective same-store rents based on the 66 metro markets tracked by CBRE EA.

- Average monthly effective rent increased by 2.7% in Q1, slightly below the year-ago average of 3.1% but above the 15-year average of 2.6%.
- While multifamily rents typically rise through the first quarter due to seasonal levels of leasing activity, COVID-19 and its impact on the economy reversed this trend beginning in mid-March 2020. Between March 11 and 31, average national rent reportedly edged down 0.5% (annualized 8.1%). The downward trend continued through April.

## FIGURE 6

# NASHVILLE LEADS SOUTHEAST FOR RENT GROWTH

| Rank | Metro Market | Rent Change Y-o-Y (%) |
|---|---|---|
| | **PACIFIC** | |
| 1 | Seattle | 4.9 |
| 2 | Sacramento | 3.9 |
| 3 | San Diego | 3.7 |
| 4 | Portland | 3.0 |
| 5 | Los Angeles/So. California | 1.9 |
| 6 | San Francisco Bay Area | 1.7 |
| 7 | Honolulu | 0.4 |
| | **MOUNTAIN WEST** | |
| 1 | Phoenix | 7.8 |
| 2 | Tucson | 5.8 |
| 3 | Colorado Springs | 5.0 |
| 4 | Albuquerque | 4.9 |
| 5 | Las Vegas | 4.6 |
| 6 | Salt Lake City | 3.0 |
| 7 | Denver | 1.8 |
| | **SOUTH CENTRAL** | |
| 1 | Austin | 4.0 |
| 2 | Tulsa | 3.7 |
| 3 | El Paso | 3.3 |
| 4 | Dallas/Ft. Worth | 3.0 |
| 5 | Oklahoma City | 2.8 |
| 6 | San Antonio | 1.5 |
| 7 | Houston | 0.7 |

| Rank | Metro Market | Rent Change Y-o-Y (%) |
|---|---|---|
| | **SOUTHEAST** | |
| 1 | Nashville | 5.0 |
| 2 | Raleigh | 4.4 |
| 3 | Charlotte | 4.0 |
| 4 | Memphis | 3.9 |
| 5 | Birmingham | 3.8 |
| 6 | Greensboro | 3.5 |
| 7 | Tampa | 3.3 |
| 8 | Norfolk | 3.1 |
| 9 | Atlanta | 2.4 |
| 10 | Greenville | 2.4 |
| 11 | Jacksonville | 2.4 |
| 12 | Miami/So. Florida | 2.1 |
| 13 | Richmond | 2.0 |
| 14 | Orlando | 1.9 |
| 15 | Lexington | 1.8 |
| 16 | Louisville | 1.5 |

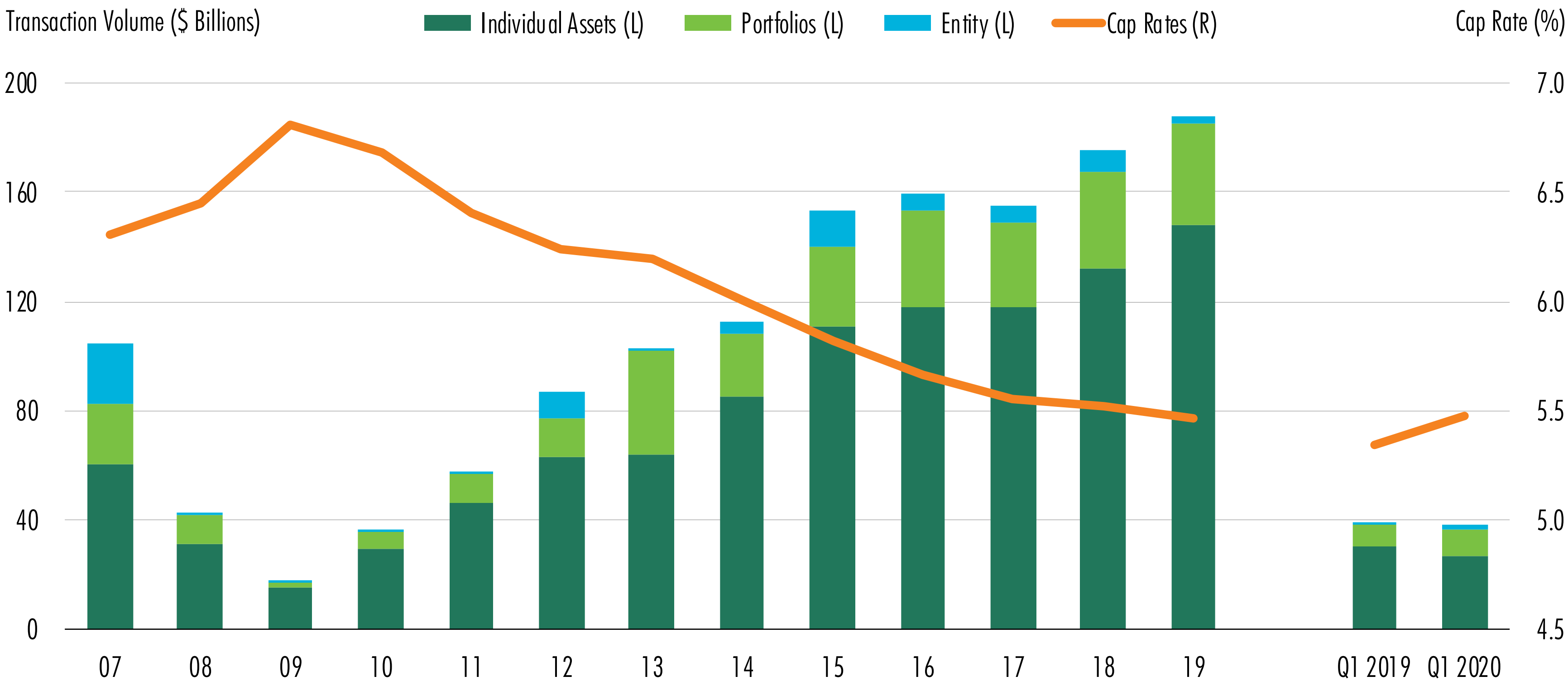
| Rank | Metro Market | Rent Change Y-o-Y (%) |
|---|---|---|
| | **NORTHEAST/MID-ATLANTIC** | |
| 1 | Philadelphia | 3.8 |
| 2 | Boston | 3.6 |
| 3 | New York Metro | 3.0 |
| 4 | Pittsburgh | 2.9 |
| 5 | Washington, D.C. | 2.7 |
| 6 | Baltimore | 2.0 |
| 7 | Hartford | 2.0 |
| 8 | Providence | 1.8 |
| | **MIDWEST** | |
| 1 | Dayton | 4.7 |
| 2 | St. Louis | 4.2 |
| 3 | Cincinnati | 3.8 |
| 4 | Kansas City | 3.5 |
| 5 | Indianapolis | 3.4 |
| 6 | Minneapolis | 3.0 |
| 7 | Detroit | 2.8 |
| 8 | Omaha | 2.7 |
| 9 | Cleveland | 2.4 |
| 10 | Columbus | 2.2 |
| 11 | Chicago | 2.0 |

- Nashville was the Southeast's rent growth leader with a 5.0% annual gain in Q1. It also ranked third highest in the country for annual rent growth after Phoenix and Tucson.
- Seattle had the highest rent growth in the West at 4.9%.
- The strong performance of both Nashville and Seattle are particularly noteworthy since building activity in both markets had been getting ahead of demand two to three years ago.
- Rent growth patterns are changing due to COVID-19. Early evidence indicates that the Midwest is holding up better than other regions, possibly because it has been less impacted by the virus. Metros with larger tourism-related economic bases, including Orlando, Las Vegas and Orange County, are among the metros with the biggest declines in rent.

Source: CBRE Research, CBRE Econometric Advisors, Q1 2020. Based on effective "same-store" rents.

# FIGURE 7

## Q1 INVESTMENT DROPS 1% Y-O-Y DUE TO WEAKER MARCH

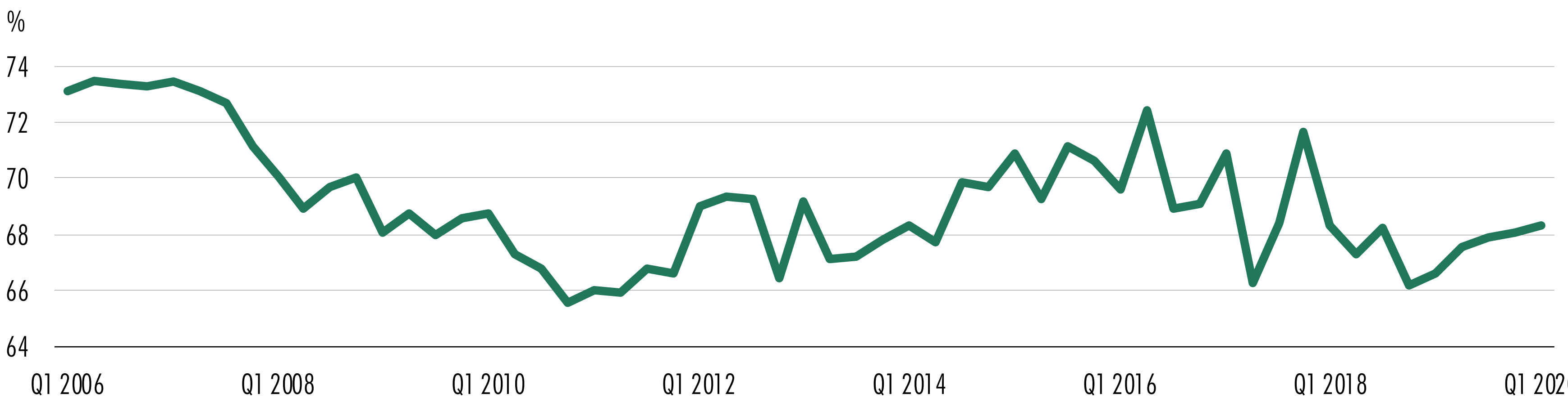



Source: CBRE Research, Real Capital Analytics, Q1 2020.

- Multifamily investment totaled $38 billion in Q1, down 1% from a year ago.
- While January and February total investment was 13.2% higher than a year ago, investment in March fell by 27.9% from last year.
- Transactions that were far along in the sales process before COVID-19 have proceeded to close. However, sales marketing of new deals has fallen dramatically. Most prospective sellers have moved to the sidelines for the short term.

# FIGURE 8

## LOAN-TO-VALUE RATIOS EDGE UP IN Q1




Source: CBRE Research, Q1 2020. Based on permanent, fixed-rate deals closed by CBRE Capital Markets.

- Multifamily mortgage loan-to-value (LTV) ratios rose slightly in Q1, but since the COVID-19 outbreak have begun to come down. LTVs tend to fall when debt capital providers are less aggressively pursuing financing opportunities and have less confidence in market performance.
- Most lenders—the agencies and banks in particular—remained active until mid-March, when severe credit market dislocation caused CMBS lenders, mortgage REITs and debt funds to stop pursuing new loans. Many life companies also paused in late March due to a dramatic widening of investment-grade corporate bonds. Most of the activity since late March has been in refinancing, and underwriting standards (LTVs, debt-service-coverage ratios and debt yields) have tightened due to uncertainty about how to underwrite rent collections.
- Fannie Mae and Freddie Mac still dominate multifamily lending, but their combined Q1 production fell 20.1% year-over-year to $24.2 billion.
- CMBS multifamily issuance totaled $2.8 billion in Q1. Banks, life companies and alternative debt providers all remained very active, but their Q1 totals are not available yet. Most lenders that rely on a private-label securitization like CMBS lenders, mortgage REITs and debt funds ceased originating new loans by the end of March. The massive credit market support from the Federal Reserve in the last two weeks of March—by purchasing agency multifamily CMBS and other AAA-rated securities—helped stabilize the market.
- The dramatic drop in both short-term and long-term interest rates was the largest change in Q1 for the mortgage market. For example, the 10-year Treasury bond fell to 0.70% from 1.88%.
- Credit spreads over the typical benchmark indices (USTs, Swaps and LIBOR), which determine the mortgage rate, widened by 90 to 100 bps on seven- and 10-year fixed-rate agency loans in Q1, erasing most of the benefit of lower interest rates on mortgage pricing.

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