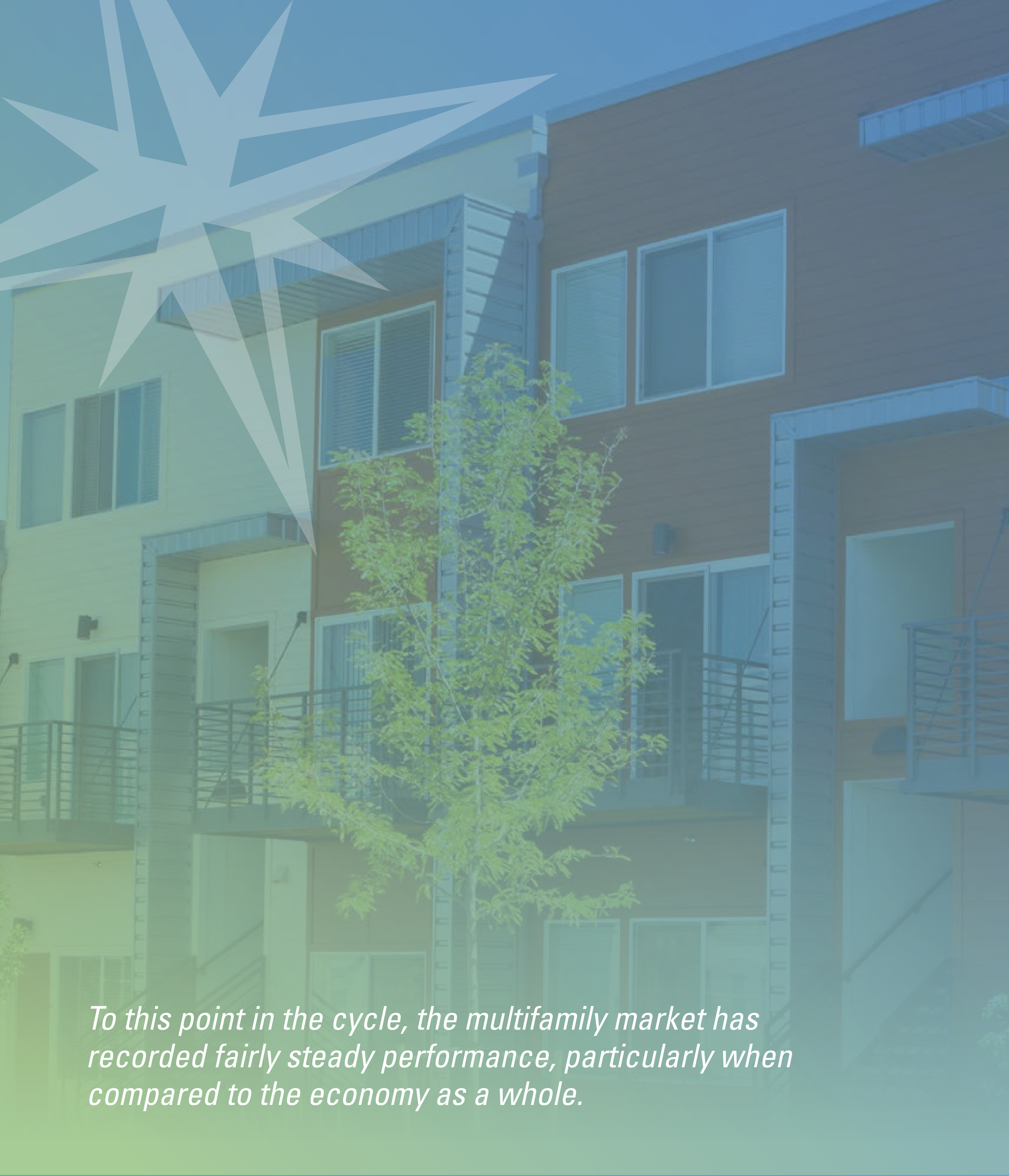
NATIONAL MULTIFAMILY REPORT

MIDYEAR 2020



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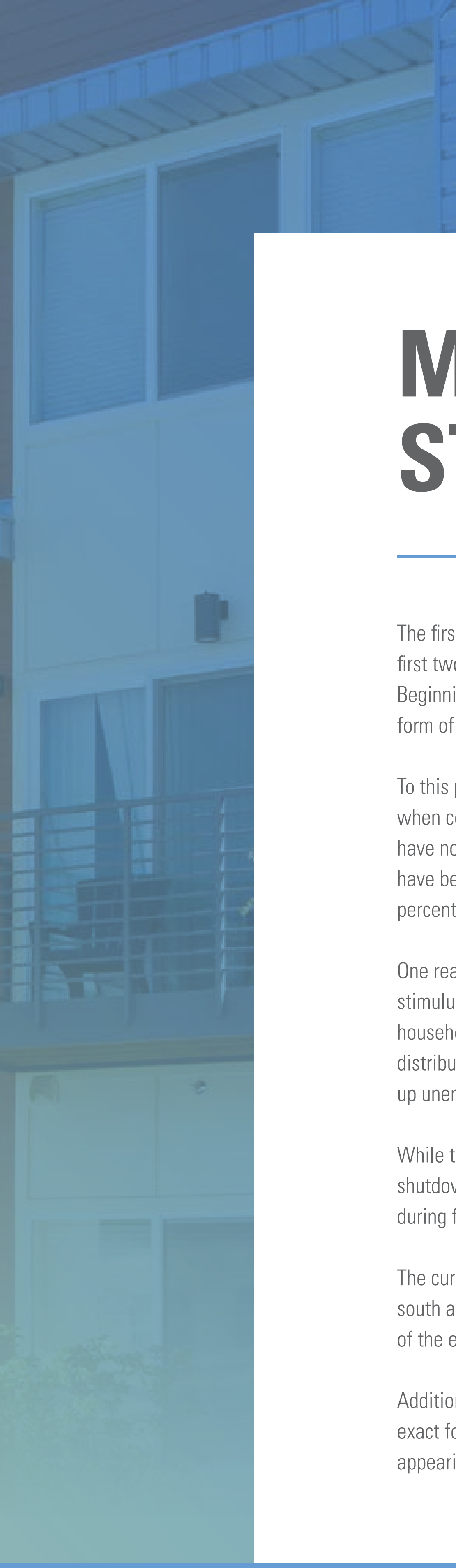

MIDYEAR 2020 STATUS UPDATE

The first half of 2020 has proven to be one of the most volatile periods in recent memory. During the first two months of the year, the economy and the multifamily markets were performing quite well. Beginning in March, extreme levels of market disruption arrived suddenly and unexpectedly in the form of COVID-19, altering both the current landscape and the short-term outlook.

To this point in the cycle, the multifamily market has recorded fairly steady performance, particularly when compared to the economy as a whole. Unprecedented levels of volatility in the labor markets have not carried over directly to apartment property performance. Vacancies at the national level have been mostly steady, and rent collections are only trailing levels from one year ago by a few percentage points.

One reason for this stability in apartment operations has been a surge of short-term government stimulus. Congress acted quickly to pass the $2.2-trillion CARES Act, which included aid to households, businesses, state and local governments, and markets. These payments were largely distributed during the second quarter in the form of one-time direct payments to households, beefed-up unemployment benefits, and payments to businesses in the Paycheck Protection Program (PPP).

While these measures stabilized market conditions during a period of unprecedented economic shutdown and severe job losses, the CARES Act was meant to be a stopgap, supporting the economy during forced closures before a widespread reopening could occur in the second half of the year.

The current environment is uncertain, with the coronavirus still spreading rapidly, particularly in the south and west parts of the country. With the virus not contained, the swift and widespread reopening of the economy that was originally anticipated is unlikely to fully materialize.

Additional stimulus measures will likely be necessary to keep the economy from a double dip. The exact form of the next round of stimulus is to be determined, with the competing sides in Washington appearing to be far from an agreement on the form and the amount of additional measures.

MULTIFAMILY PROPERTY FUNDAMENTALS

The multifamily market posted very stable performance during the first half of the year, even with the economic turbulence swirling around it. According to data provider Reis, the national vacancy rate was 4.8 percent at midyear, just 10 basis points higher than the figure at the beginning of the year.

There are several factors that likely helped keep vacancy rates in check despite economic volatility and severe short-term job losses. The Paycheck Protection Program featured direct payments to approximately 650,000 businesses, allowing them to keep millions of workers on payrolls. For the millions of workers who lost their jobs, enhanced unemployment benefits—which included an additional $600 per week to each state's standard payment—offset lost income. In fact, the average weekly unemployment benefit of more than $900 per week outpaced many workers' wages, creating a slight uptick in disposable income.

In addition to measures that got money to workers, the CARES Act included an eviction moratorium covering properties with federally backed mortgages, while approximately half of the states implemented programs of their own. Several of these programs are set to expire in the third quarter, which could result in a rise in vacancies. While rent collections have been strong to this point, some of this has been supported by stimulus measures that are slated to expire and have not been replaced.

While vacancy was flat, rents generally inched lower in the second quarter. Rents dipped an average of 0.4 percent nationally in the second quarter, wiping out gains recorded in the first three months of the year. Many markets posted rents that were essentially flat in the second quarter, while some of the largest markets—areas that had posted robust increases in recent years—recorded rent declines of more than 1 percent during the second quarter.

One factor that helped keep vacancy in check was a slowing pace of deliveries during the second quarter. Disruptions to supply chains and the loss of more than 400,000 construction jobs slowed the pace of completions. Fewer than 35,000 apartment units were delivered in the second quarter, and the wave of new deliveries that was originally forecast for 2020 will likely spill over into next year.

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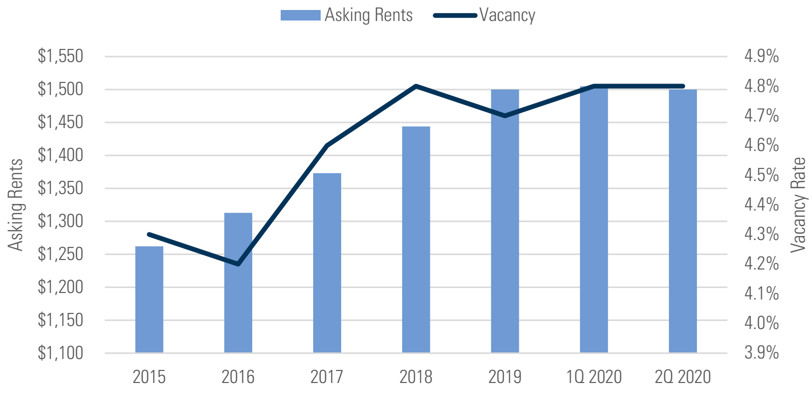
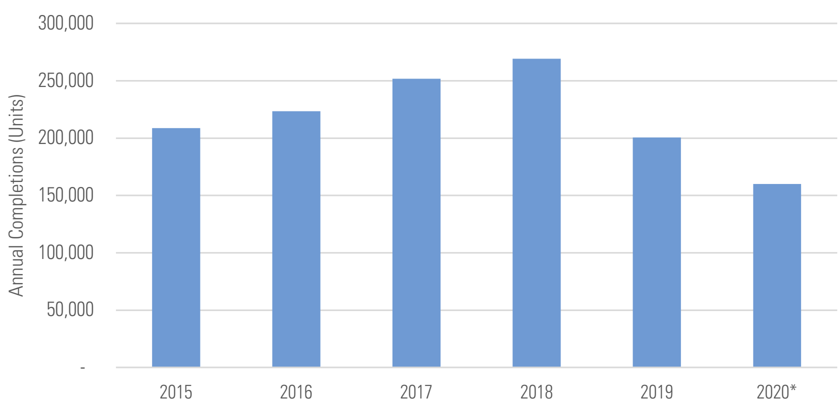
U.S. Vacancy and Rent Trends



Source: NorthMarq, Reis

U.S. Apartment Construction Trends



*Forecast
Source: CoStar, NorthMarq, Reis

AN EMPLOYMENT MARKET ROLLER COASTER

The United States has never recorded such wild swings in the labor markets as have been posted in 2020. Job losses in April topped 20 million positions, a record-setting figure that accounted for more than 13 percent of total payrolls.

While job losses were expected to continue for a few months, the situation reversed course earlier than originally forecast. Employers added 2.7 million jobs in May and another 4.8 million positions were restored in June. Approximately one-third of the jobs that were eliminated during the shutdown have been returned to the market, although additions in the coming months are likely to occur at a far slower pace.

While job losses were recorded across nearly all industries, the leisure and hospitality sector contracted the most. Leisure and hospitality employment was cut in half in a period of just two months, with more than 8.3 million jobs slashed, mostly in restaurants and bars. During the past two months, approximately 40 percent of these jobs have been added back to the totals, as more than 3.5 million positions have returned.

Similar performance has been recorded in the retail sector, where nearly 2.4 million positions were slashed in March and April. In the next two months, more than 1.1 million retail jobs came back, including nearly 740,000 positions in June alone.

The unemployment rate, which spiked to nearly 15 percent in April, has started to return to more manageable levels in recent months. The rate had retreated to 11.1 percent by June, and the Federal Reserve forecasts it will dip to 9.3 percent by the end of 2020 and improve to 6.5 percent by December 2021.

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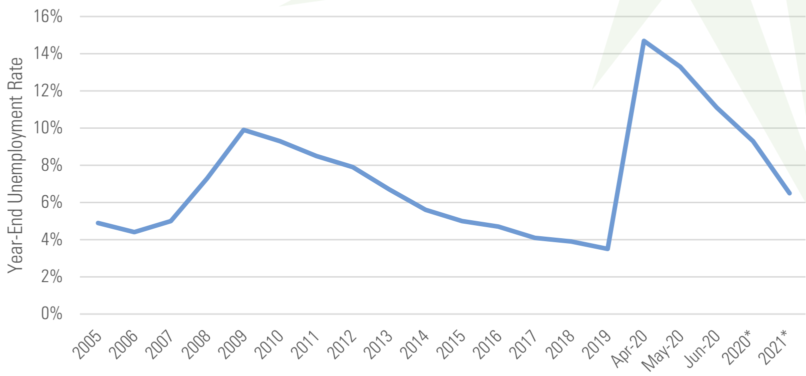
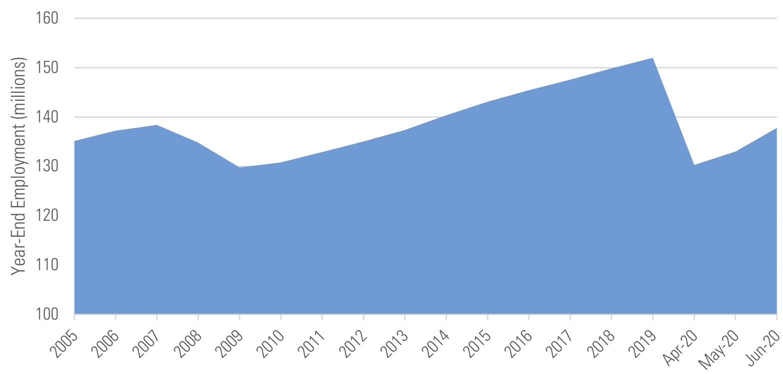
U.S. Unemployment Trends



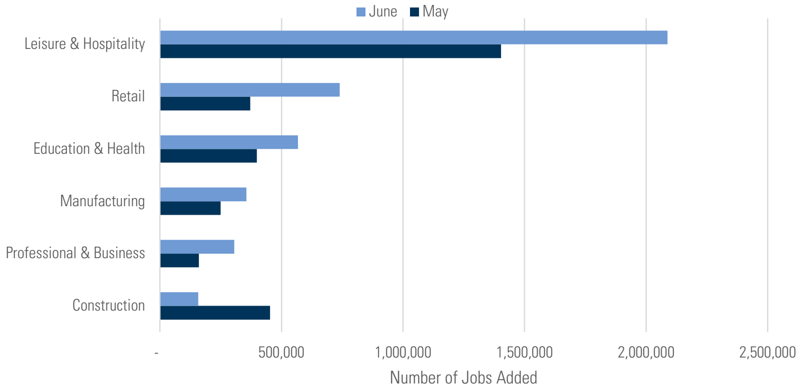
*Federal Reserve Year End Forecast
Source: Bureau of Labor Statistics, Federal Reserve, NorthMarq

Total U.S. Employment



Source: Bureau of Labor Statistics, NorthMarq

Jobs Added by Sector: May & June 2020



Source: Bureau of Labor Statistics, NorthMarq

INVESTMENT MARKET

The multifamily investment market slowed but did not stop altogether during the second quarter. Investors largely took a wait-and-see approach before making acquisitions, while many existing owners were reluctant to list properties in the uncertain environment. Pricing actually ticked higher from the first quarter to the second quarter—which was likely a function of the types of properties that sold—and cap rates only inched higher.

Transaction totals fell approximately 55 percent from the first quarter to the second quarter, with nearly all major markets recording activity declines. A handful of projects traded in markets such as Atlanta, Dallas/Fort Worth, and Chicago, but levels were down from previous periods. A preliminary look at July sales shows activity gaining momentum in a few markets, including Phoenix, Los Angeles, and Tampa.

Multifamily properties demonstrated strength when it came to prices during the second quarter. Despite some early speculation that there could be at least modest pricing declines across the market, the median price in sales during the second quarter rose approximately 5 percent, reaching $132,200 per unit.

While there has been modest upward pressure on cap rates because of greater uncertainty in the market, increases have been limited as financing rates have come down. Cap rates averaged 5.5 percent in the second quarter, approximately 25 basis points higher than during the first quarter. With interest rates expected to remain low for at least the next several quarters, cap rates are unlikely to stray dramatically from their current ranges unless property performance begins to weaken substantially.

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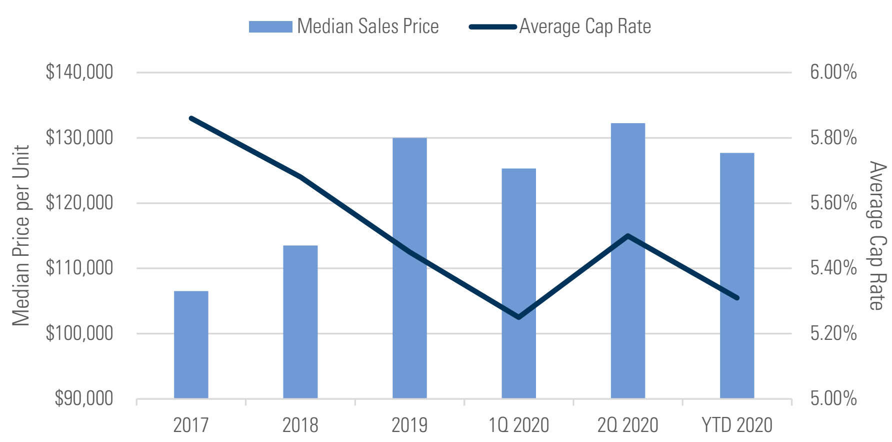
U.S. Price and Cap Rate Trends



Source: CoStar, NorthMarq

AN UNCERTAIN OUTLOOK FOR THE SECOND HALF

While the national multifamily market has performed well through the first half of 2020, the conditions for the remainder of the year are difficult to forecast because of the inability to fully contain the coronavirus outbreak and lingering questions surrounding additional steps the government will take to support the economy. Some of the key external factors that will impact multifamily property performance and investment activity are outlined below.

Coronavirus

Economic forecasting about the pace of a recovery in the second half of 2020 is made increasingly difficult because the coronavirus has not been contained at the national level. Outbreaks of cases have spread into the Sunbelt, delaying the full reopening of the economy, particularly in the retail, travel, and hospitality segments.

Employment

The national labor market experienced an unprecedented shock of job losses in March and April, but the rebound in employment to this point has surpassed expectations. There are two primary questions facing the market now. The first is whether there will be another round of closures and layoffs, while the second is how quickly employers will bring back workers. The current expectation is for approximately half of the jobs that were slashed in the spring to come back by the end of the year.

Occupancy

Multifamily occupancy remained stable through the economic volatility of the first half of the year for a few reasons. The first was that rent collections were strong, supported in part by the increased unemployment benefits being offered to renters who lost jobs. Additionally, evictions were prohibited across much of the country, meaning that operators were more likely to accommodate renters having difficulty staying current on their rents. Looking ahead, some of the measures that propped up occupancy levels are likely phasing out, and it will be worth monitoring to see how operators respond to renters who struggle making rent payments going forward.

Government/Fed Intervention

The COVID-19 outbreak and shutdown was met with swift response from Washington, with trillions of dollars of stimulus and liquidity injected into the economy. While the efficacy of these measures is up for debate, it does appear the intervention provided some relief and calmed jittery markets during the spring. Uncertainty now surrounds next steps. The Congress appears willing to do something, but the sides also appear far apart on what steps are needed.

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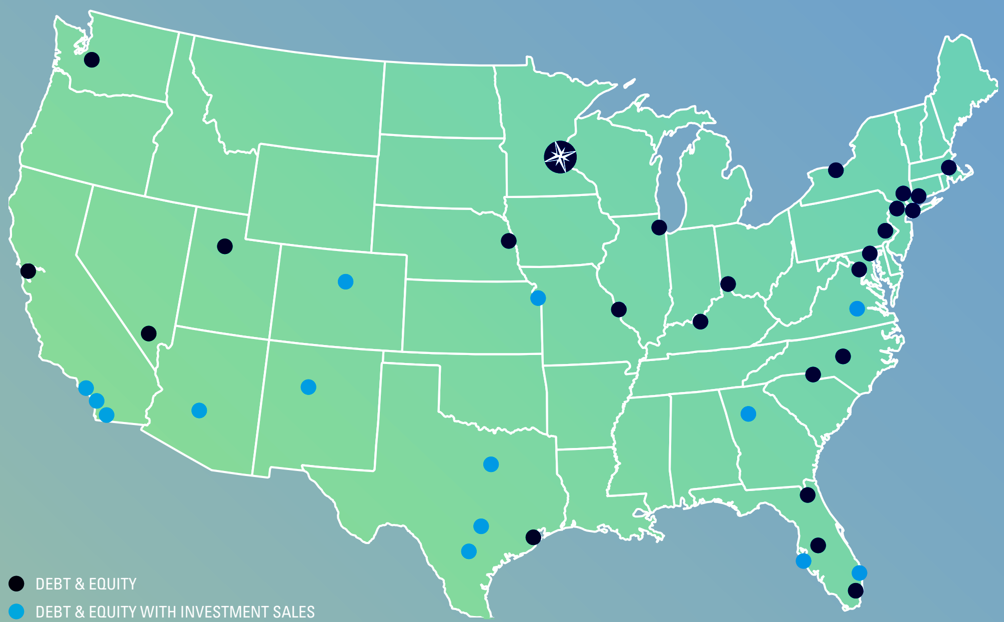

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