MARKET NEWS
YOUR QUARTERLY CAPITAL MARKETS UPDATE
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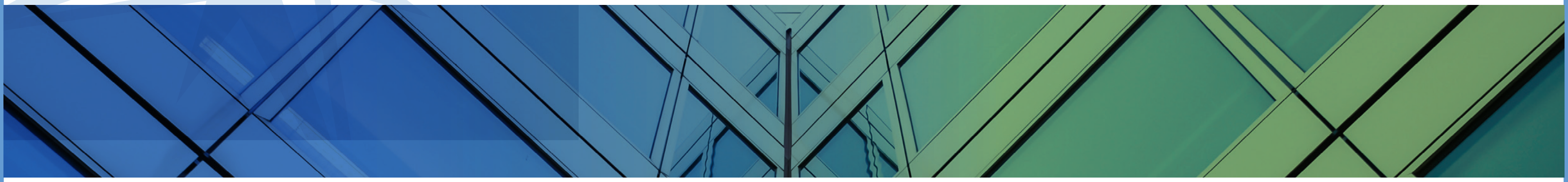

MULTIFAMILY WEATHERING ECONOMIC TURMOIL BETTER THAN MANY OTHER ASSET CLASSES

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Multifamily remains the 'darling' for investors and lenders, even in a pandemic.

The U.S. multifamily vacancy rates and rents held relatively stable and delinquencies were low in the second quarter, despite the economic volatility resulting from the COVID-19 pandemic, according to NorthMarq's Mid-Year 2020 National Multifamily Report.

Multifamily rent collections remained strong, supported in part by the increased unemployment benefits offered to renters who lost jobs. Additionally, federal eviction bans were enacted across much of the country.

While multifamily real estate property values remained relatively steady, there was an expected drop-off in the number of investment sales transactions. Buyers largely took a wait-and-see attitude before moving forward on acquisitions, while many existing apartment owners were hesitant to list properties amid the COVID-induced uncertainty.

» **NORTHMARQ'S MID-YEAR 2020 NATIONAL MULTIFAMILY REPORT**

However, deals are still getting done. A handful of multifamily properties traded in markets like Atlanta, Dallas/Fort Worth, and Chicago, although levels were down from previous periods. A preliminary look at July sales reveals activity increasing in several markets including Phoenix, Los Angeles, and Tampa, FL.

REMAINS A FAVORED ASSET CLASS

Despite the uncertainty, multifamily remains one of the safest asset classes for investors and is favored among the lending community. First-quarter investment sales activity was on track to have a record-pace year. That faded as COVID hit, and transaction volumes dropped 75 to 80 percent in the second quarter.

Subsequently, market activity has begun to pick up. Over the past four to six weeks, there has been a dramatic improvement in transaction volumes. Activity is primarily driven by private buyers with deals in the $10 million to $40 million range, and that is expected to continue through the fourth quarter.

Meanwhile, many institutional groups stepped to the sidelines, though some are selectively active. Traditionally, the private capital investor has a larger appetite in its risk management profile than institutional groups. We expect institutions to return in the first and second quarters of 2021 with an uptick in institutional-quality transactions.

The drivers behind the private buyer acquisitions are the multifamily sector's solid fundamentals and attractive financing rates. With interest rates so low, buyers are able to obtain financing, which makes deals that might have been a little edgier work. Investors are looking to deploy private capital and create returns, and the low interest rates are fueling the fire to complete these transactions.

Another trend is the consistency in the refinance business. Refinancing going into fixed-rate executions has remained popular, and we are also seeing more floating rate executions come into play on a bridge-to-sale strategy.

WHERE INVESTMENT SALES ARE RAMPING UP

The states with the fewest regulatory issues around COVID will likely see the most investment sales activity. They include the Sun Belt states like Texas, Arizona, Florida, South Carolina, and North Carolina.

In markets like California where there is a stricter regulatory component, there will likely be fewer transactions. However, those markets are also picking up steam, just not as quickly.

LACK OF DISTRESSED ASSETS

There was an expectation that there would be deeply discounted multifamily properties on the market due to the underlying conditions of the economic downturn; however, very few have materialized. There is a significant amount of capital looking for any type of distressed multifamily deal, but they are few and far between. Investors, unable to find these opportunities, have pulled back to see what the world might look like in three to six months.

WHO IS LENDING?

A trend to watch is the integration of sustainability into commercial real estate lending. There is an increasing focus on ESG (environmental, social, and governance) in the financial services industry. Having a LEED-certified building, for example, is a way to get a lender's interest and perhaps better rates. This growing movement of green initiatives will create value for the owner and be recognized by the lending community.

The abundance of capital through all types of lenders is bolstering opportunities for commercial real estate investors to grow their portfolios in 2020.

TRENDS ON THE EQUITY SIDE

Equity continues to look for good opportunities in multifamily. Clearly, investors are chasing distress, although there are few opportunities. Equity is also returning on the value-add side. Value-add deals are making sense again, and there is renewed interest by lenders to pursue those assets in select geographies.

Selectively, lenders are also looking at new construction in markets where it still makes sense.

THE OUTLOOK

While there were measures propping up the multifamily market in the first half, the second half has more uncertainty. It is difficult to forecast due to the inability to fully contain the COVID-19 outbreak. In addition, unemployment benefits expired, and there has not been a resolution yet on how they may be replaced. Questions surrounding whether there will be another round of closures and layoffs and how quickly employers will bring back employees add to the ambiguity.

As a result, we anticipate continued disruption in the second half, although it is not clear to what degree. However, there is reason to believe that investment sales volume will rebound toward the end of the year. We are already seeing activity returning in the third quarter. Overall, we predict investment sales volumes will be down approximately 20 to 25 percent compared with 2019, depending on the geographical market.