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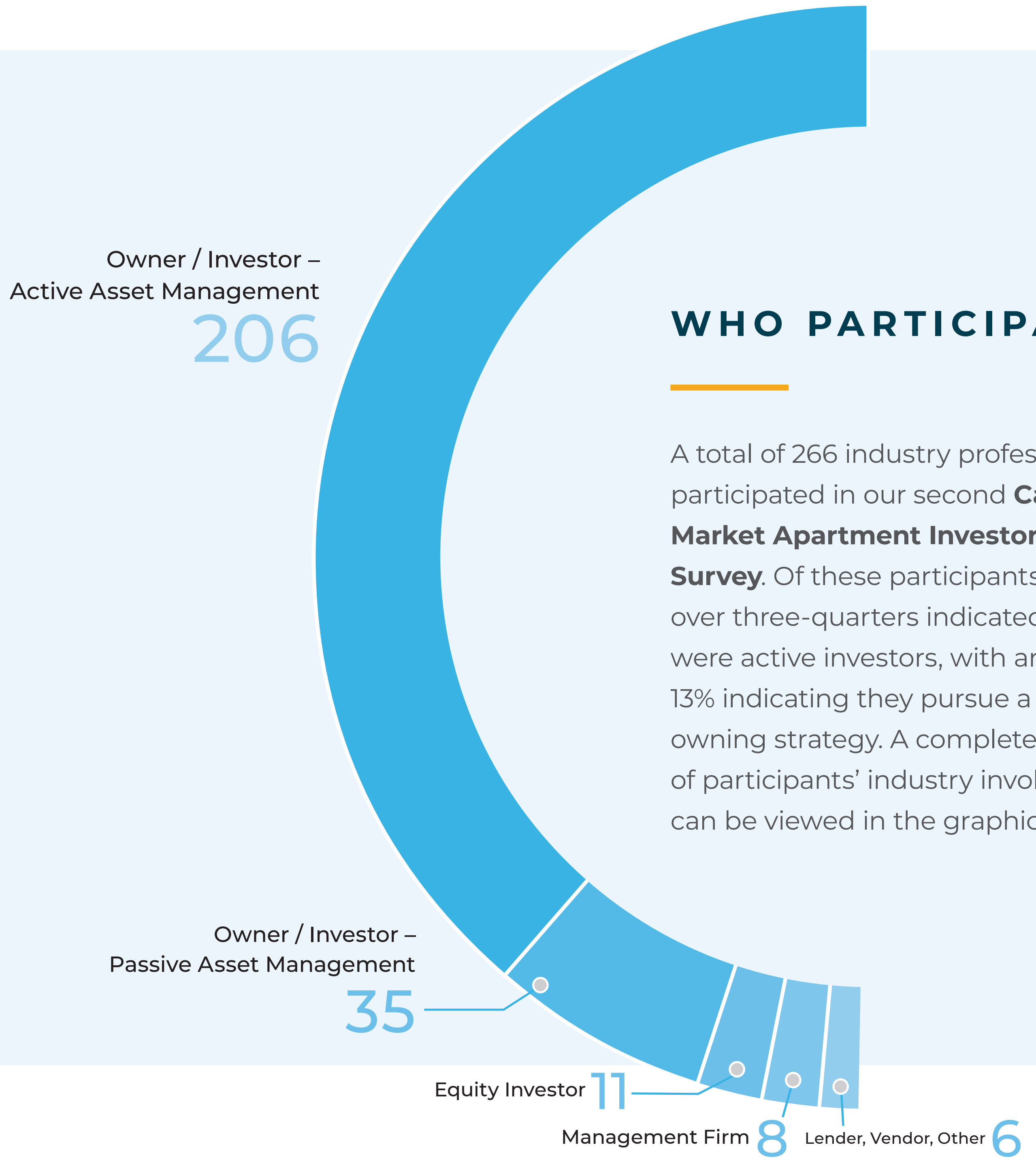
WEEK 2

APARTMENT INVESTOR SENTIMENT SURVEY

Capital Market Conditions

COVID-19 continues to have an oversized influence on our industry and how we operate daily. One of the easiest ways to meet those challenges head-on is by sharing information and leveraging each other's successes.

That's why we recently reached out to hundreds of our industry partners through our **Capital Markets Apartment Investor Sentiment Survey**. We hope these responses will provide you and your associates with a closer look at how industry participants in multifamily are gauging and responding to the COVID-19 crisis.

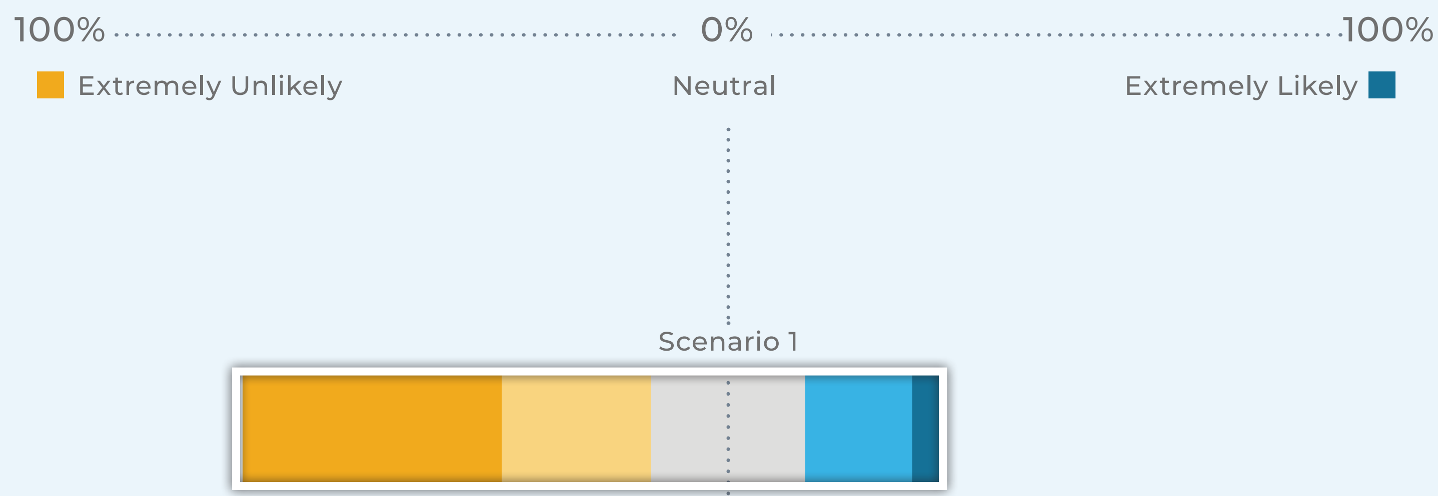


WHO PARTICIPATED

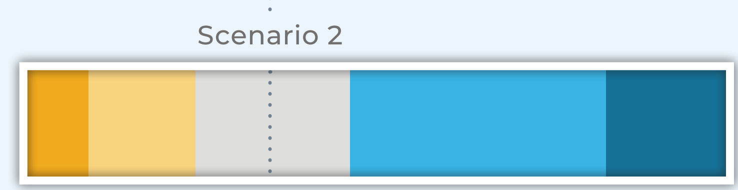
A total of 266 industry professionals participated in our second **Capital Market Apartment Investor Sentiment Survey**. Of these participants, a little over three-quarters indicated they were active investors, with another 13% indicating they pursue a passive owning strategy. A complete breakdown of participants' industry involvement can be viewed in the graphic.

COVID-19 AND LONG-TERM IMPLICATIONS FOR MULTIFAMILY

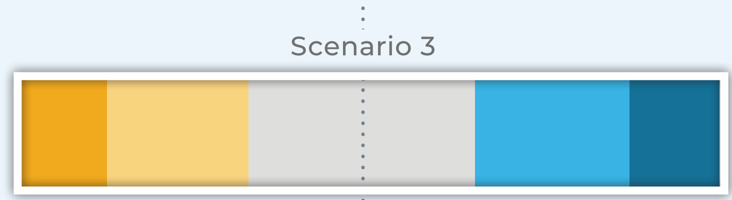
We asked our participants to rank their expectations on three varying scenarios of how the pandemic will affect Capital Market activity.



In the **first scenario**, there was a stronger belief among the respondents in our **second survey** that capital conditions are not likely to return to normal in the third or fourth quarter of 2020. Whereas one-quarter of respondents in the first survey said it was "likely" or "very likely" that conditions would return to normal in the latter half of the year, that share shrunk to below 20% in our second survey.



This time around, in our **second scenario**, our survey takers felt even more confident that the apartment market will have to wait until 2021 to experience a recovery of capital conditions. The share of respondents who said this scenario was "likely" or "very likely" increased from 47% to 55% from our first to the **second survey**.



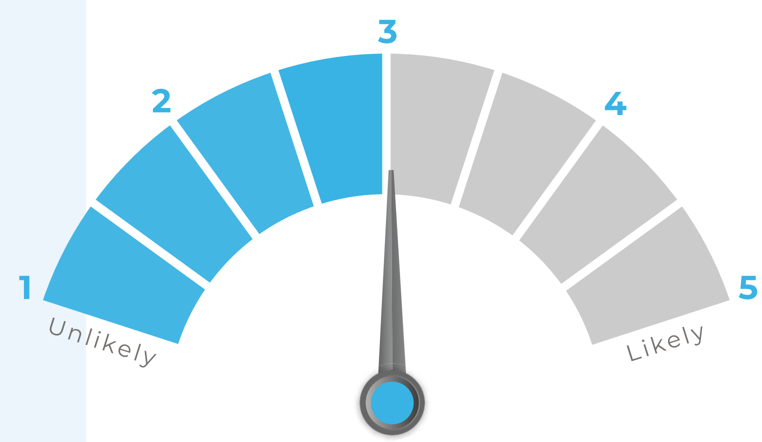
The responses to our **third scenario** were in line with our first survey that stated the effects of the pandemic will lead to a global recession resulting in a prolonged period of instability of capital markets. Roughly one-third said that it was "likely" or "extremely likely," while another third said it was "unlikely" or "extremely unlikely." Approximately one-third were neutral on the statement.

The responses in our **second survey** seem to cement the results of our first survey, which established consensus among our participants that capital market conditions will be fractured through the remainder of 2020, returning to normal in 2021 or beyond.

ANTICIPATED ACTIVITY IN THE NEAR TERM

Respondents were slightly more optimistic in our **second survey** to actively target acquisition opportunities in the next 30 to 90 days. Interestingly, our active-management respondents were more bullish on this question, averaging a response value of 3.13, while passive-management respondents took a slightly more bearish stance, averaging a response value of 2.34.

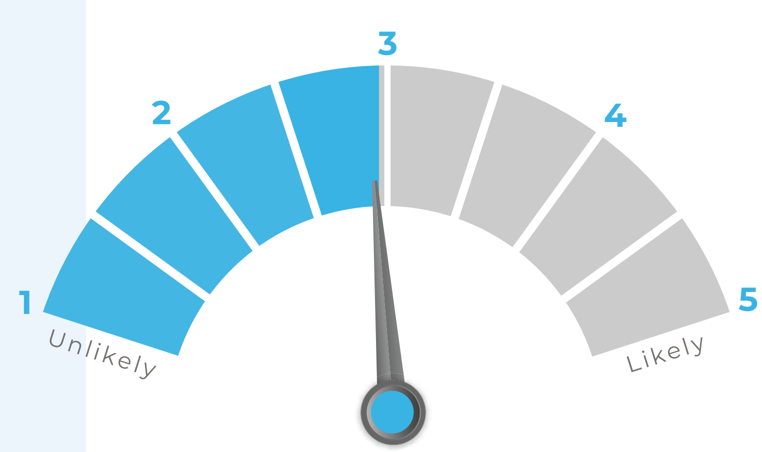
How likely are you to actively pursue acquisition opportunities via underwriting, touring, etc., in the near term (30–90 days)?



ANTICIPATED OFFER ACTIVITY

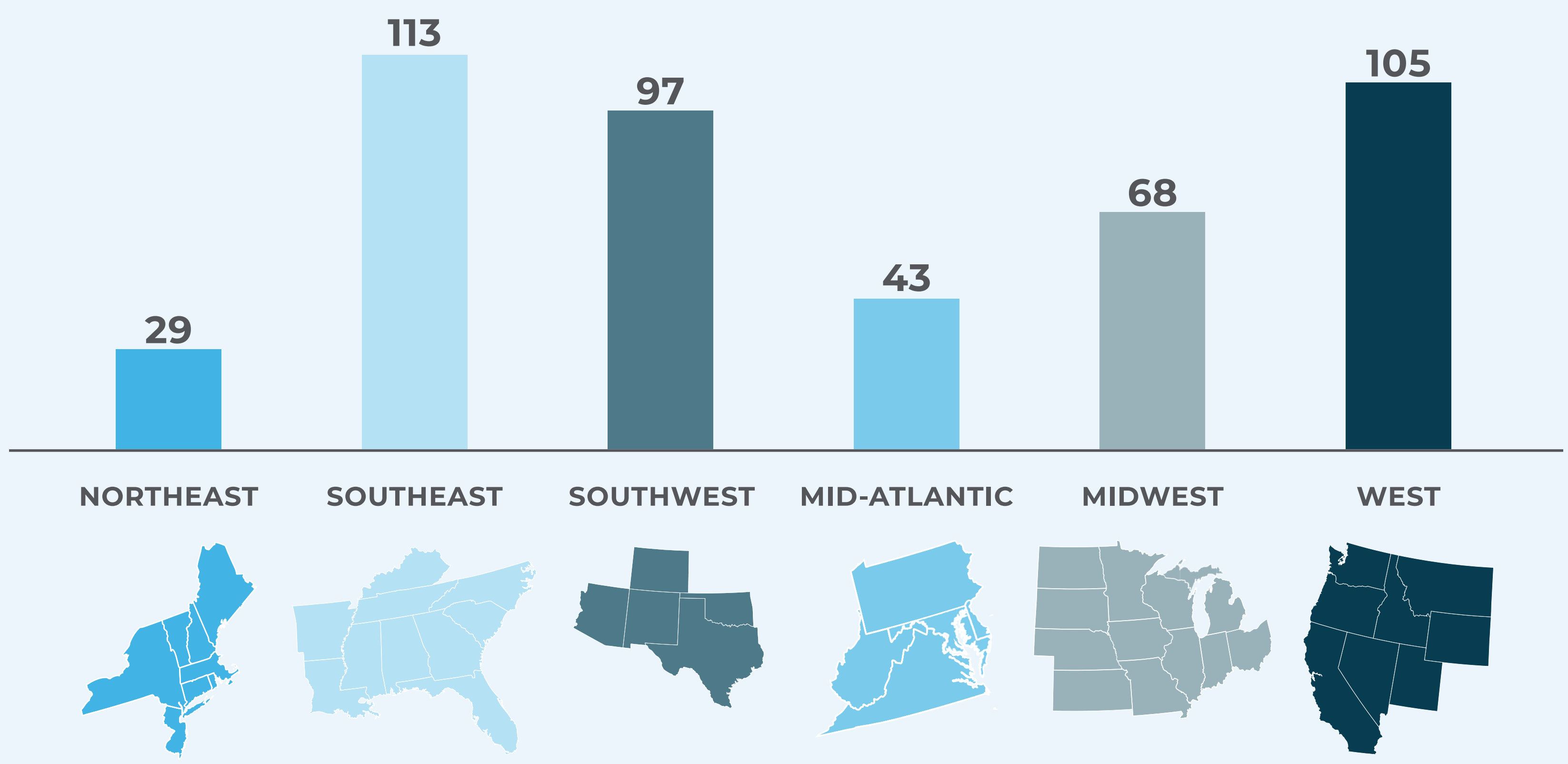
Respondents still seem to take a cautious posture when asked to rank the likelihood they would submit an offer in the next 30 to 90 days. According to **Real Capital Analytics**, individual asset sales fell 12% year over year for the quarter but were down 38% year over year for March.

How likely are you to submit an offer on a property you are interested in acquiring in the near term (30–90 days)?



TARGETED REGIONS FOR ACQUISITIONS

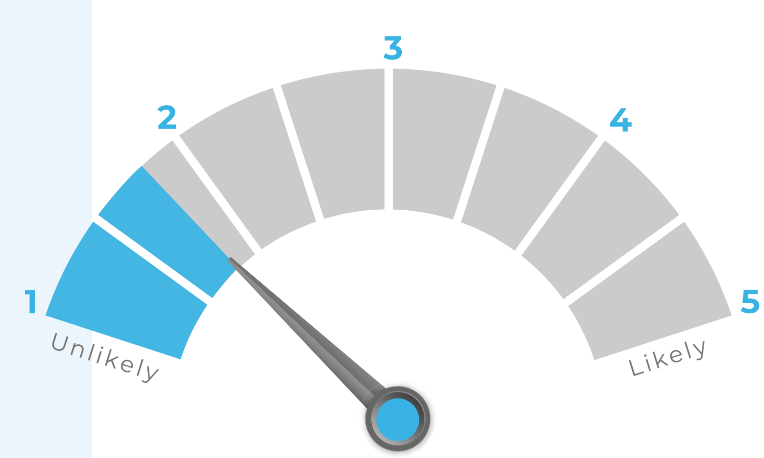
Respondents continue to indicate a strong preference for seeking deals in the **Southeast** in the near term. Several Southeast states have already cautiously reopened their economies or indicated their intent to let stay-at-home orders expire soon, potentially jump-starting the region before other areas of the country. Conversely, many states in the Northeast and Midwest have extended their stay-at-home orders as they continue to bear the brunt of the effects of the virus, further limiting economic activity.



ANTICIPATED DISPOSITION ACTIVITY

Respondents continue to indicate a strong unlikeliness to sell their properties in the next 30 to 90 days. Unless faced with a financing issue or other strong outside influence that would force an owner to sell, it seems unlikely that buyers and sellers will be able to meet on pricing in the near term.

How likely are you to consider selling in the near term (30–90 days)?

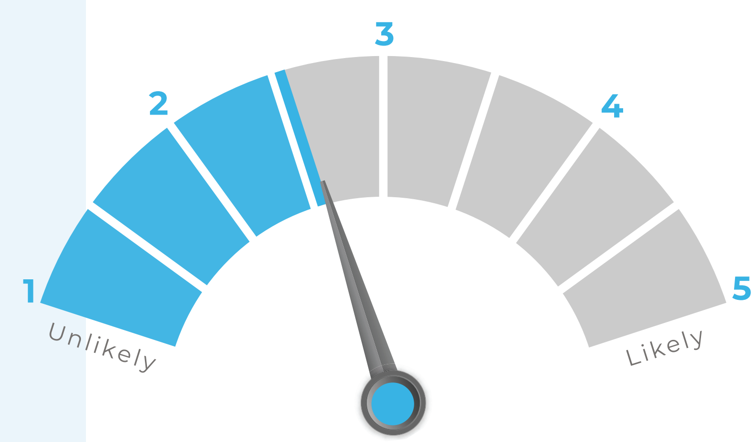


REFINANCING

When asked whether they would refinance their properties, our respondents indicated a slight unlikeliness to do so. But when breaking down the responses by participation type, passive owners indicated a strong unlikeliness to seek financing on a currently owned property. The average value for these respondents registered 1.60.

The majority of new business for Fannie Mae continues to be refinancing activity, with less than 5% of total applications being acquisitions.

How likely are you to seek financing (refinance, supplemental, etc.) on a currently owned property in the near term (30–90 days)?



TENANT HARDSHIPS

In our **second survey**, we saw a greater percentage of respondents (89%) indicating that 0-19% of their tenants had requested or filed for rent forbearance as a result of coronavirus-related job or income loss for April collections.

According to the National Multifamily Housing Council (NMHC), 91.5% of households in professionally managed communities had made a full or partial rent payment as of April 26. This was an encouraging development considering that during the same time period last year that figure was 95.6%. It's unclear whether this trend will be sustainable entering May collections, with more than 30 million Americans filing unemployment claims since the middle of March.

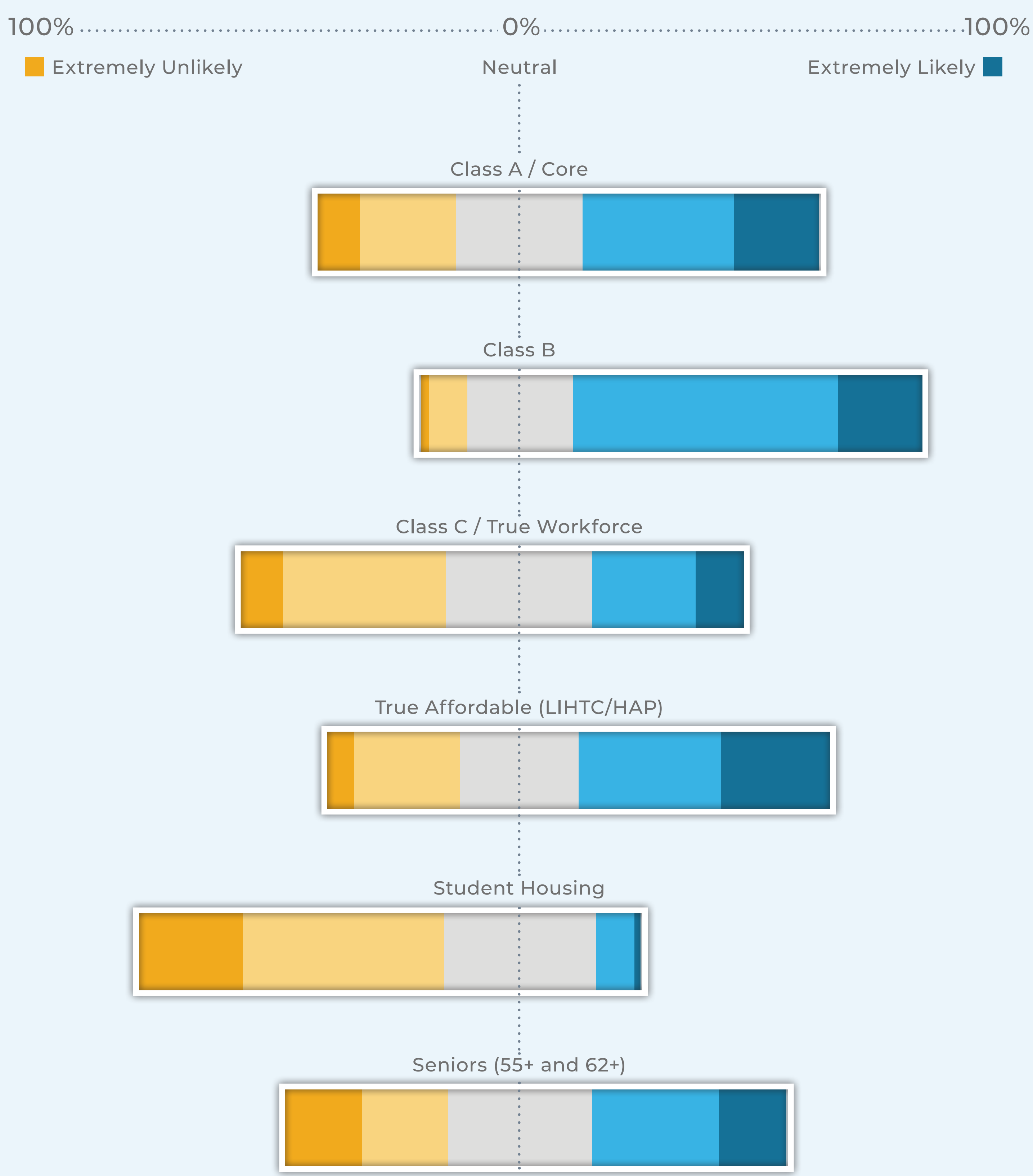
By the 10th of the current month, what percentage of your residential tenants have requested / filed for rent payment forbearance as a result of coronavirus-related job or income loss?

INVESTMENT CLASSES

We experienced some shifts in sentiment in our **second survey** regarding the ability of different multifamily asset classes to weather a prolonged economic downturn. Confidence in Class B assets grew (46% to 70%), while confidence for student housing fell (16% to 9%).

Diving into the data a little deeper, we see a clear difference between active and passive investors. Passive investors are much more bullish on Class A / core properties; 74% of these investors ranked the asset class "likely" or "very likely" to sustain success. Conversely, active-investor respondents were not quite as optimistic on Class A / core properties. Only 42% ranked Class A / core properties a 4 or 5, while 29% were a bit more pessimistic, ranking the asset class a 1 or 2.

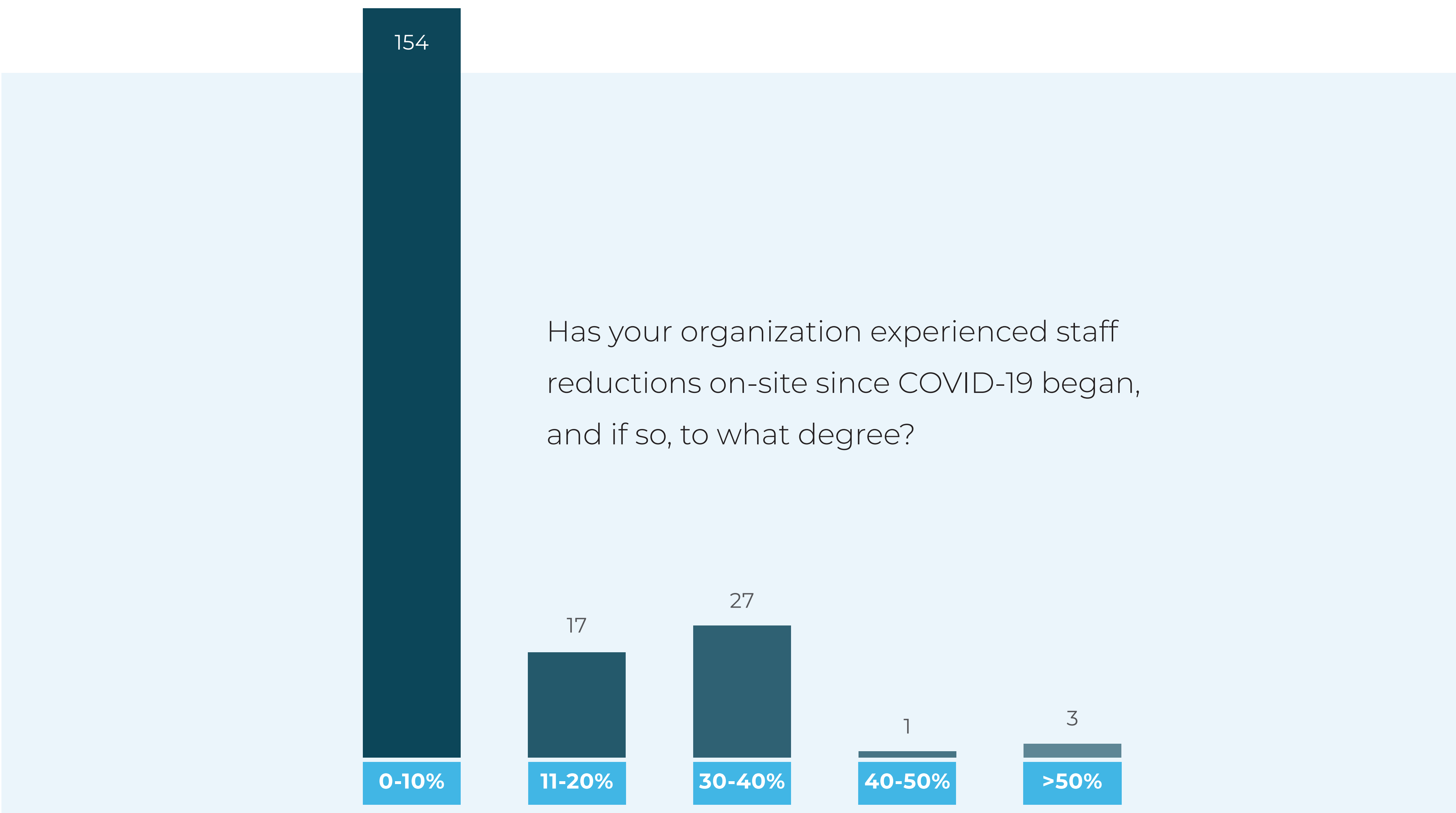
We saw a similar divergence of opinion between the two investor groups on senior housing. Approximately 41% of active investors ranked the asset class as a 4 or 5, while passive investors were more bearish, with only 14% ranking it a 4 or 5.



Respondents ranked the above types of multifamily housing in order of their ability to maintain success through a prolonged economic slowdown due to the coronavirus, in order from 1 (least likely to sustain) through 5 (most likely to sustain).

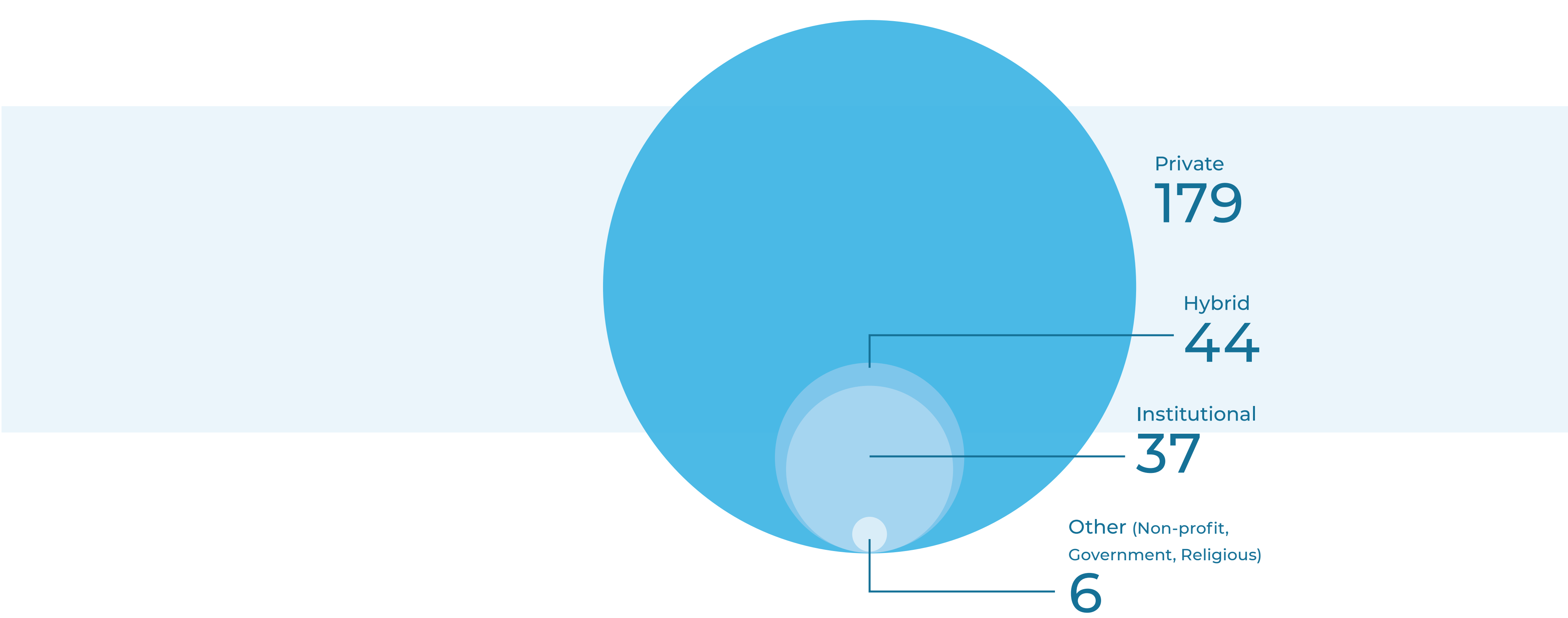
STAFFING REDUCTIONS

Most respondents (76%) for whom this question was applicable indicated their firms had 0-10% staff reductions. Approximately 13% of respondents indicated they trimmed staffing 30-40%.



EQUITY PARTNERS

The overwhelming number of respondents indicated that their equity partners are private firms (67%), with hybrid equity partners (17%) and institutional equity partners (14%) rounding out the base of equity partner types.



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