

APARTMENT ADVISORY

APRIL 2020

COVID-19 has completely shifted the course of the nation's economy, abruptly ending the decade-long expansion as measures to slow the spread of the novel coronavirus shuttered businesses and led to job loss for millions of households. As the vast majority of U.S. citizens have been impacted in some way by COVID-19, it's not surprising to see that apartment demand patterns have adjusted too.

It's not surprising to see that late March and early April leasing numbers are, put simply, bad as people shelter in place to avoid infection or to cope with income loss due to layoffs and furloughs. In the first week of April, traffic to apartment property websites - usually the first place that the majority of renters begin their apartment searches - was down a little more than 7% from the first two weeks of April last year. Guest card creations are down about 23% for the first two weeks of April. And when it comes to pen being put to paper and a resident actually signing those leases, early April 2020 figures represent an even larger departure from last year's mark. New lease signings are down 30% year-over-year.

But here's where a matter of perspective is critically important. Despite what it may appear, it's not all doom and gloom on the leasing front. For one, those April 2020 figures are being compared to one of the strongest periods of apartment demand in the past decade, as more than 170,000 units were

absorbed from April to June 2019.

Further, the fact that the gap between website traffic and actual lease signings is so large

pent-up demand from renters waiting out quarantines.

Perhaps offering further encouragement is that a few of those leasing and traffic metrics

Demand Indicators are Down Year-Over-Year



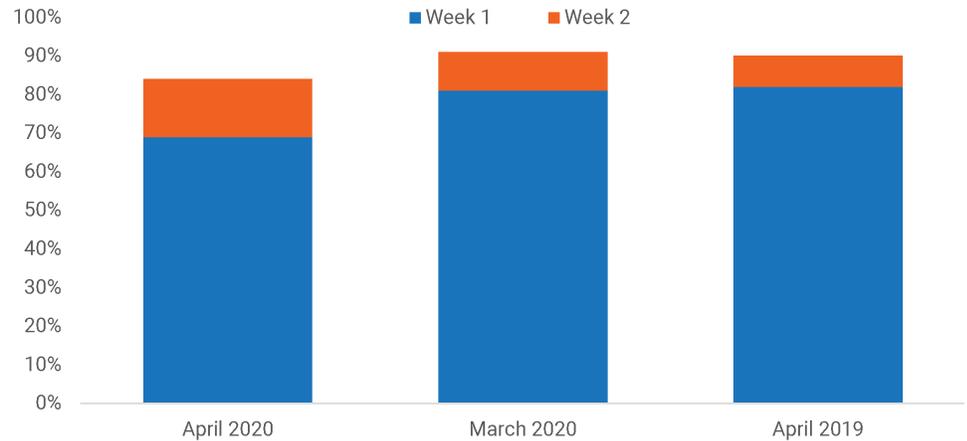
Source: RealPage, Inc.

suggests that people are still shopping for new apartments. They just aren't making the jump from shopping to signing leases due to ongoing stay-at-home orders by state and local governments. This suggests there's a significant amount of

have actually improved from their March lows.

Underscoring the multifamily sector's resilience, the vast majority of renters were able to pay rent in April. Roughly 84% of apartment households made a full or partial rent payment by

April 2020's Rent Payment Rate Only Lags Slightly



Source: NIMHC

APARTMENT ADVISORY

APRIL 2020

April 12, according to a National Multifamily Housing Council analysis of payments data provided by RealPage, Inc. and other multifamily technology providers. That was down just 5.5% from that same period in April 2019.

With signs pointing to significant pent-up demand in the marketplace and the continued ability to make payments among the vast majority of renters, things don't look as bad as initially feared. Of course, it's way too early to draw sweeping conclusions - not only due to the number of unknowns, but also because different pockets of the market are impacted differently. Take, for example, properties working through the initial lease-up phase. In short, these assets are going to face a lot of challenges building their resident bases as many would-be renters stay at home. What we'll likely see are slower-than-anticipated lease-up schedules and larger concessions being offered to get residents into those units.

Lease-ups are a significant slice of the market thanks to a construction pipeline that ramped up meaningfully in 2018 and into 2019. As of early April, some 986 apartments totaling almost 238,000 units were in the lease-up phase. None more than in Dallas, where over 16,300 units were accounted for among 51 lease-up properties. By comparison, second-place Washington, DC's lease-up to-

tal was a comparatively meager 8,600 units among 29 lease-up assets.

That will create a spillover effect for other luxury assets. With lease-up properties likely offering concessions that are on par with decade highs, nearby Class A assets will need to become competitive. As a result, their rent growth - particularly among new leases - is likely to ease.

On the other end of the product spectrum are Class C assets. These assets are the most likely to have resident bases most impacted by widespread layoffs, as business closures hit the typically lower-paying jobs in tourism, restaurants and retail hardest. For now, occupancy among those assets is supported by stay-at-home orders, but future declines are expected.

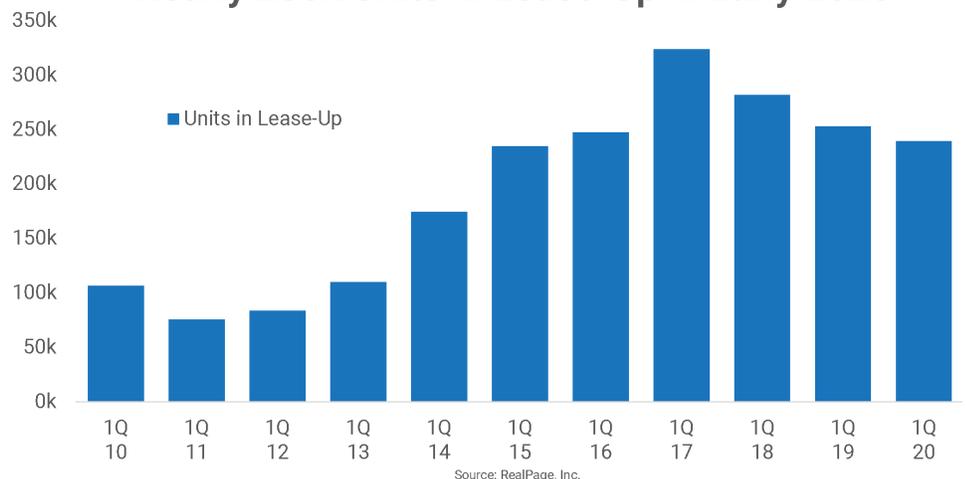
In the middle are "bread and butter" Class B assets. There's reason to believe these as-

sets are most protected from the economic downturn. But there will still be impacts. For upper-tier Class B properties, there is some potential that Class A assets offering large concessions will siphon off some demand. For lower-tier Class B assets, there will be similarly large resident bases experiencing layoffs seen in the Class C tranche.

To summarize, challenges will differ across the product spectrum - but they will be there regardless.

Bearing everything in mind, the early April data could have suggested things would be a lot worse than what actually played out. A few of the indicators discussed here show just that. Still, it's vitally important to remember that the industry is far from being in the clear and that rising vacancies and rent cuts will soon be seen in most - if not every - U.S. market.

Nearly 250k Units in Lease-Up in Early 2020



Source: RealPage, Inc.

© 2020 Berkadia Proprietary Holding LLC. Berkadia® is a trademark of Berkadia Proprietary Holding LLC. RealPage® is a trademark of RealPage Inc. Commercial mortgage loan origination and servicing businesses are conducted exclusively by Berkadia Commercial Mortgage LLC and Berkadia Commercial Mortgage Inc. This newsletter is not intended to solicit commercial mortgage loan brokerage business in Nevada. Investment sales and real estate brokerage businesses are conducted exclusively by Berkadia Real Estate Advisors LLC and Berkadia Real Estate Advisors Inc. For state licensing details for the above entities, visit: www.berkadia.com/legal/licensing.aspx