

# APARTMENT ADVISORY

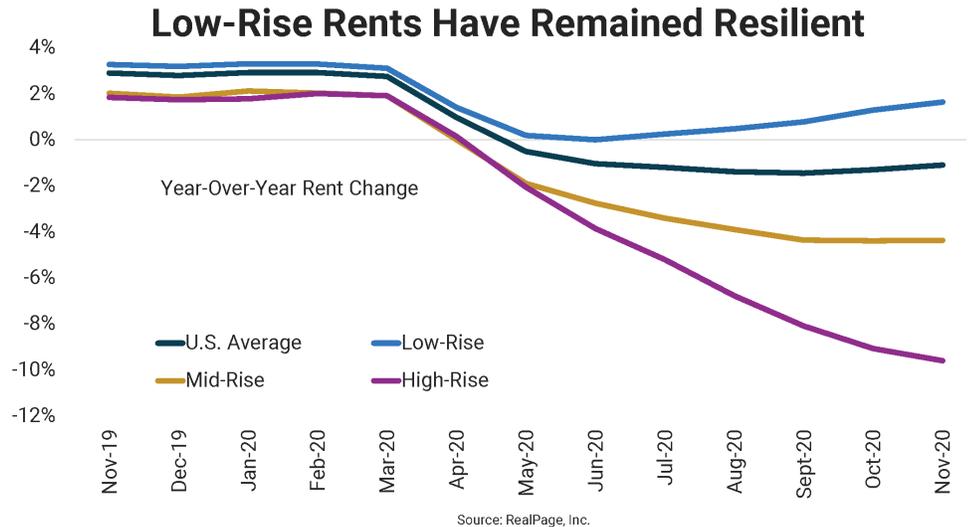
DECEMBER 2020

The nation's gateway markets and downtown areas have been hit hard since the onset of the COVID-19 pandemic. In turn, the high-rise apartment properties concentrated in those areas have suffered. The apartment industry's clear winners during this unprecedented year are low-rise properties, the only product type to avoid rent cuts over the course of the pandemic.

Across the nation's 50 largest markets, low-rise properties are outperforming mid- and high-rise apartments for both rent growth and occupancy. In all 50 markets, low-rise occupancy and rent change runs at or above the market average, boosting overall results. The exact inverse is true of high-rise product. Lower-than-average rent change and occupancy in high-rise units in the nation's largest markets is dragging down overall market performance.

Low-rise apartments are defined as properties with three or fewer stories. They are concentrated in the nation's suburbs and often characterized by comparative affordability and predictable demand. Mid-rise properties have four to six stories, and high-rises have seven or more stories.

Effective asking rents in the U.S.



overall were cut 1.1% year over year as of November. Across the building height spectrum, low-rise apartments were the only product still seeing rent growth, at 0.8% annually in November. Alternatively, price declines were steepest in high-rise apartments, with cuts of 9.6%, while mid-rise properties saw rents fall 4.4%.

After bottoming out at annual cuts of 1.5% in September, price positioning in the U.S. has been marginally improving for the last two months. Low-rise rents are rebounding, while high-rise rents continue to tumble.

In fact, on average, operators in low-rise properties haven't had to resort

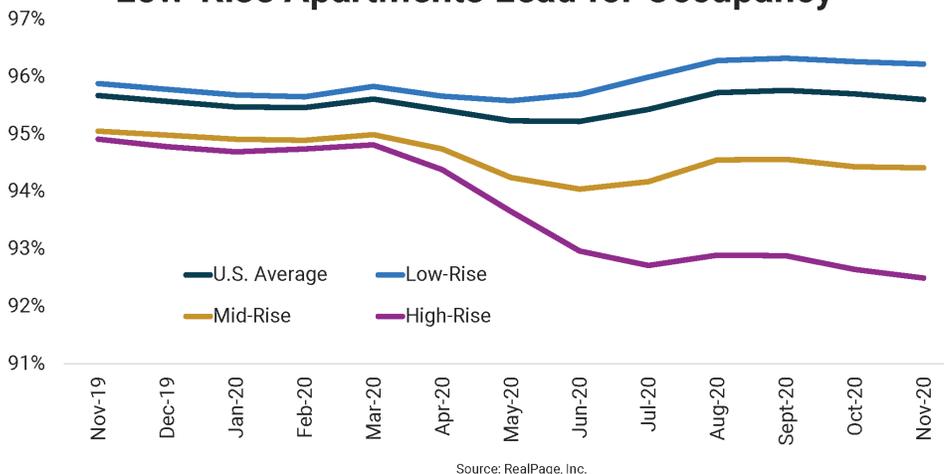
to rent cuts during the pandemic. After pricing power in this product line dropped down to the break-even point in June, rents have steadily gained momentum and are now at the highest point since March, before the pandemic-induced downturn started.

On the other hand, high-rise rent cuts have been getting deeper and deeper, recently hitting the lowest point in years. Meanwhile, mid-rise rent cuts have stagnated at 4.4% for the last three months.

On a market level, low-rise apartments are still logging rent growth in about two-thirds of the largest apartment markets. In fact, in several markets including Phoenix, Atlanta, Indianapolis, Charlotte, Portland, Washington, D.C., and Kansas City, low-rise rent growth is the only thing keeping the market's rent change in the black. Even in places where low-rise rent change is seeing the steepest cuts - the Bay Area, Boston, and Chicago - that performance is still much better than deep cuts seen in mid- and high-rise product.

Occupancy across the different building heights shows similar trends. In the 50 largest apartment markets in the U.S., low-rise occupancy runs at or higher than the market's total average occupancy

### Low-Rise Apartments Lead for Occupancy



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rate. And in many markets, low-rise occupancy is picking up the slack seen in mid- and high-rise performance.

In November, average occupancy in the U.S. dipped to a still respectable 95.6%, down a mere 10 basis points

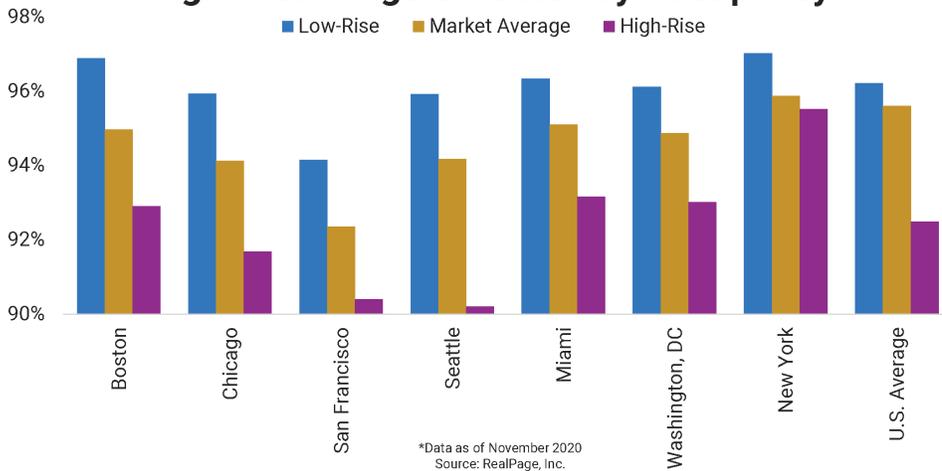
look at markets with the most high-rise properties. These list of high-rise-heavy markets – which include Washington, D.C., Chicago, New York, Seattle, Newark, Los Angeles, Boston, Philadelphia, and Miami – is, unsurprisingly, full of gateway mar-

rent change in November looks familiar. In San Francisco, New York, Boston and Chicago, high-rise rents are being cut more than 12% annually, compared to much milder cuts or minimal growth in low-rise product.

Intrinsically, nothing about building height points to a clear-cut reason for better performance in low-rise units. But geographically, low-rise properties are heavily concentrated in America’s suburbs – particularly in the Sun Belt, which has proven much more resilient to the economic effects of COVID-19 than gateway markets. The pricier downtown areas across the country – the ones that tend to have the most high-rise product – have struggled through the pandemic and resulting economic recession. High-rise renters tend to spend a greater portion of their income on rent, making them more vulnerable to move-outs in the event of a job loss. The more affordable suburbs, however, have better withstood those effects, as renters are better able to cover the lower rents in the event of wage loss.

Steady low-rise performance isn’t a new trend. But considering the uncertainty brought by the COVID-19 pandemic, this building class is primed to stay strong in the near-term.

## High-Rise Drags On Gateway Occupancy



(bps) from the year-ago reading. Average low-rise occupancy of 96.2% boosted the national norm. Meanwhile, a reading of 92.5% in the nation’s high-rise stock and 94.5% in mid-rise properties hampered total performance. Additionally, low-rise properties have actually seen occupancy improve since the pandemic began in March.

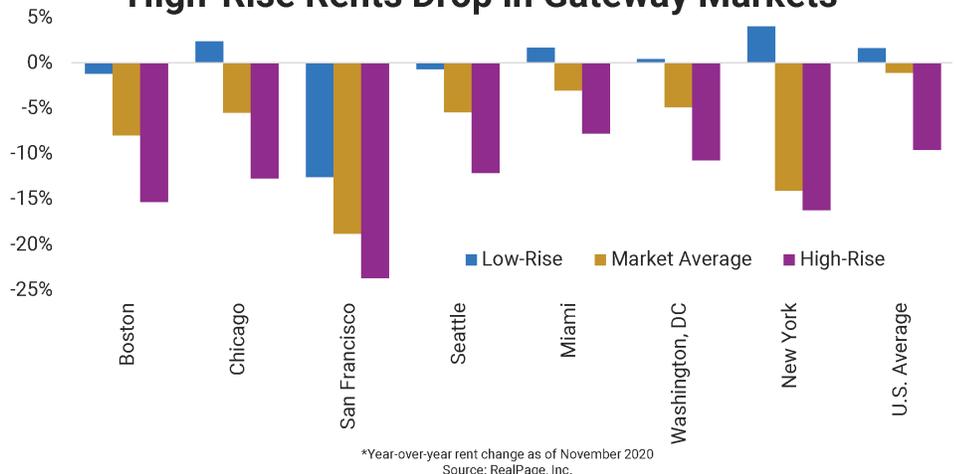
kets. In all nine of these markets, high-rise rent change and occupancy are at long-time lows. In all these markets, rents haven’t been cut this steeply in high-rise properties in over a decade – some have never been cut this severely on record.

Given that, the markets that report the worst performance for high-rise

There are 11 markets where low-rise occupancy outperforms the market average by more than 100 bps: Boston, Chicago, San Francisco, Seattle, Washington, D.C., Miami, Minneapolis, New York, Los Angeles, Portland, and Newark. These markets (except Minneapolis) have several things in common: they tend to have pricier rents and are heavy in high-rise product. Underperforming high-rise occupancy is bringing down the market average while stable low-rise occupancy performance is boosting it.

Another way to consider performance among building heights is to

## High-Rise Rents Drop in Gateway Markets



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