

# APARTMENT ADVISORY

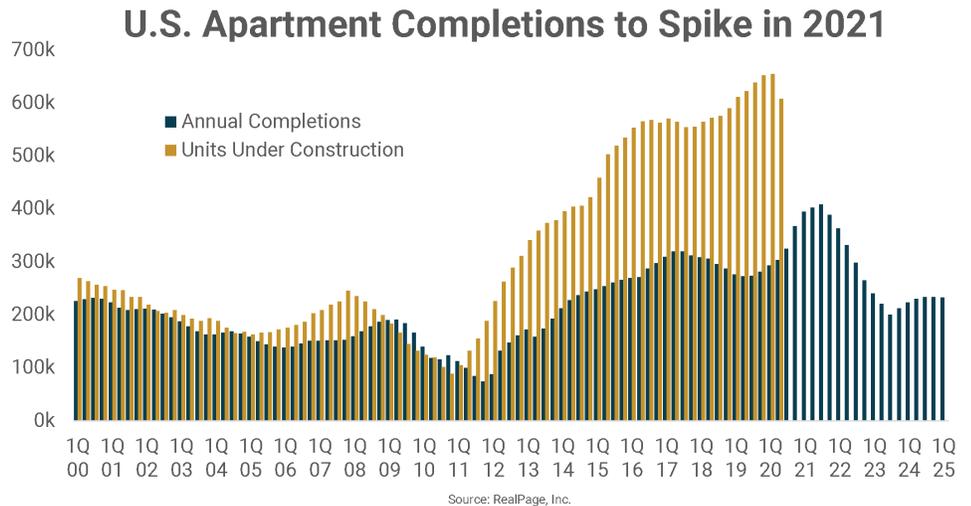
JULY 2020

U.S. apartment construction activity remains near multidecade highs, compounding uncertainty in a market already struggling with depressed demand and economic recession during the COVID-19 pandemic. Nearly 608,000 units were under construction as of second quarter 2020, a figure well above long-term norms. More than 400,000 of those units are scheduled to complete by mid-2021. If all goes as planned, that will be the biggest annual supply volume in decades.

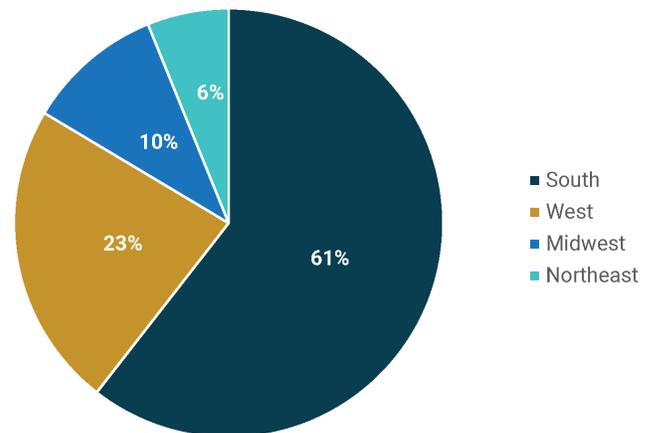
This surge in supply levels points to concerns in the near-term apartment market performance, especially given the ongoing demand slowdown and the nationwide economic recession. Elevated deliveries place particular stress on top-tier and lease-up product in markets that have already seen higher-than-average supply volumes in the past few years. After the coming year, however, completions are scheduled to slow during the second half of 2021, moderating to levels closer to the long-term average in the outer years of the forecast.

### Many Second Quarter Starts Pushed to Third Quarter

While overall construction volumes are at record highs, building starts in second quarter were lower than usual, as project timelines were pushed out due to site shutdowns. Nearly 37,500 apartments got underway in second quarter, roughly half



### Second Quarter 2020 Starts by Region



the volumes that started during the same period in the past two years. With many of those starts pushed to 2020's third quarter, a sizable 141,400 units are expected to break

ground in third quarter, accounting for nearly 50% of calendar 2020's total construction starts.

### South Region Dominates Second Quarter Starts

Of the 37,500 units starting construction in second quarter, nearly two-thirds are located in the South region. Roughly 23% are underway in the West region and smaller volumes are rising in the Midwest (10%) and Northeast (6%). Looking back, the West region led the nation in multi-family construction starts in second quarter back in 2016 and 2017. However, by 2018 the South region had taken a commanding lead, and the region has dominated second quarter starts since.

### Top Markets for Construction Starts in Second Quarter 2020

Region	Market	2Q 20	2Q 19	% Change YOY
South	Washington-Arlington-Alexandria, DC-VA-MD-WV	3,366	3,933	-14.4%
South	Dallas-Plano-Irving, TX	2,891	3,736	-22.6%
South	Fort Worth-Arlington, TX	1,721	2,150	-20.0%
South	Houston-The Woodlands-Sugar Land, TX	1,701	3,824	-55.5%
South	Orlando-Kissimmee-Sanford, FL	1,594	1,257	26.8%
South	Charlotte-Concord-Gastonia, NC-SC	1,523	920	65.5%
West	Los Angeles-Long Beach-Glendale, CA	1,345	3,047	-55.9%
West	Seattle-Bellevue-Everett, WA	1,299	1,305	-0.5%
Midwest	Minneapolis-St. Paul-Bloomington, MN-WI	1,242	2,036	-39.0%
West	Salt Lake City/Ogden/Clearfield, UT	1,150	787	46.1%

Source: RealPage, Inc.

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## Second Quarter 2020 Starts by Market

Not surprisingly, most markets followed the national pattern, logging fewer construction starts in second quarter 2020 than in the same period last year. For some markets, this is simply because fewer starts were scheduled this year. Other markets experienced project delays related to the COVID-19 pandemic. The more extreme cases were seen in Los Angeles, Houston, Denver, and Nashville, which saw second quarter starts come in at half of their prior year levels.

On the other hand, some markets bucked the trend, posting large percentage increases in construction starts during second quarter. Charlotte, Baltimore, Salt Lake City, and Orlando stand out as primary markets with big second quarter construction ramp-ups versus last year. A few of the secondary markets, most notably Fayetteville, have also seen construction starts increase dramatically.

## Mid-Rise Units are Increasing Nationwide

Mid-rise units (four to six stories) have outpaced both garden and high-rise units in second quarter starts since 2018. During 2020's second quarter, mid-rise starts totaled 19,345 units, the vast majority of which are located in the South region (12,072 units). The West (4,174 units)

came in a distant second place, followed by the Midwest (2,312 units) and the Northeast (787 units). While the West, Midwest, and Northeast regions had fewer mid-rise starts than the South region, the mid-rise product was still the highest percentage of product type being built in each of those regions. Thus, the smaller number of units was more of a reflection of lower overall regional start levels, not an indication that other product types were preferred.

With the big jump in apartment construction starts scheduled nationwide during third quarter 2020, mid-rise units will see a sizable 67,100 starts nationally, with about half of those units in the South region (31,328 units). West region starts in

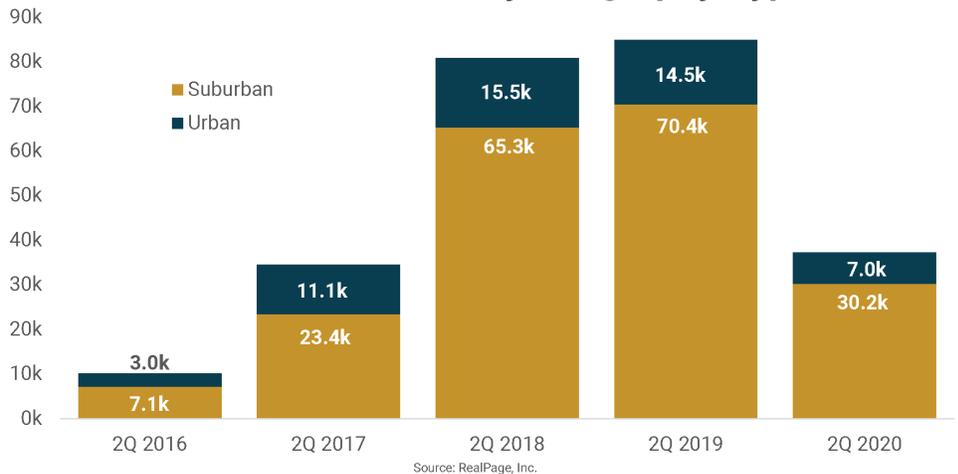
mid-rise units will account for about a quarter of the national start pool (15,673 units) in third quarter, while Midwest and Northeast regions together will take up the last quarter share of unit starts (11,654 and 8,411 units, respectively).

## Suburban Construction Outpaces Urban Core

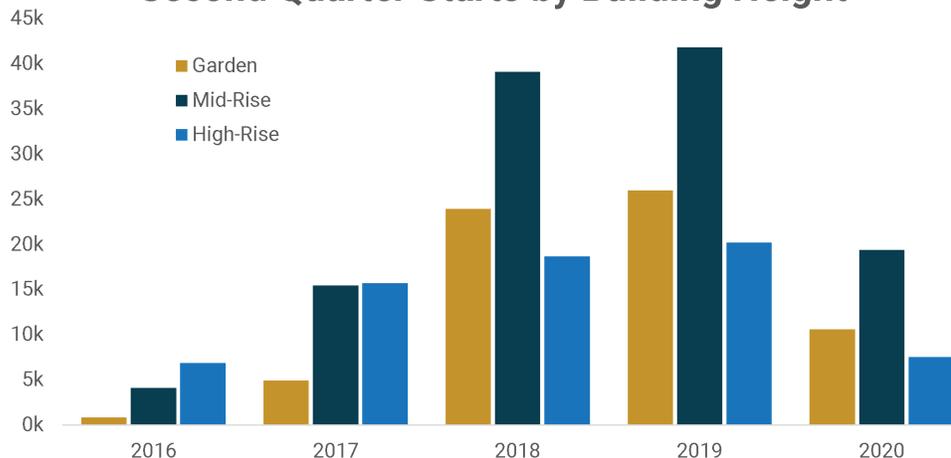
Suburban product accounts for most of the apartments under way nationwide, outside of New York. In second quarter, a little over 30,000 of the units that broke ground were in suburban locations.

Among the product currently in the planning and pre-planning phases, suburban properties also dominate. Both occupancy and annual effective asking rent growth have tended to perform better in suburban submarkets versus urban markets in recent years, likely due at least in part to lower supply levels, a benefit likely to change if suburban deliveries continues to swell. Demographic shifts and health care concerns are also factors, as many urban renters may be seeking locations with lower population density and better school districts. Many investors are considering changing their focus to suburban areas as well, as COVID-19 has enabled the ability for many to work remotely going forward.

## Second Quarter Starts by Geography Type



## Second Quarter Starts by Building Height



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