APARTMENT ADVISORY

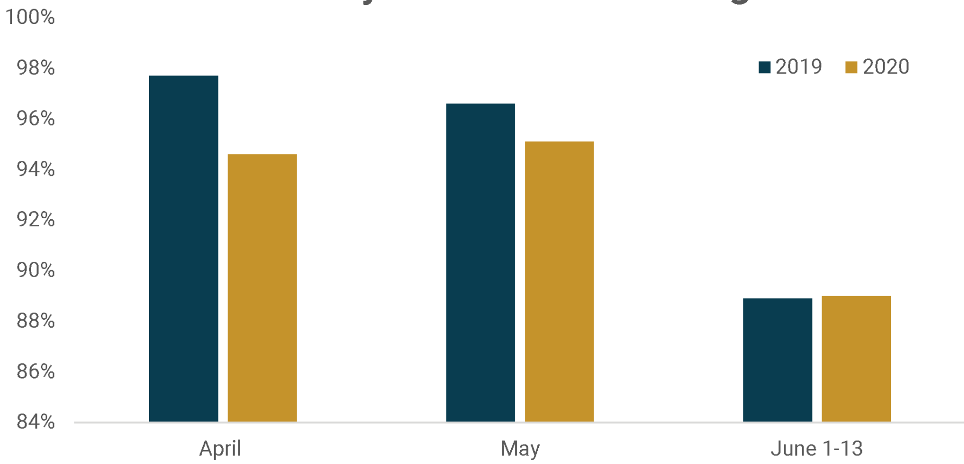
JUNE 2020

The U.S. apartment industry held its collective breath going into April and ended the month with a giant sigh of relief as rent collections far exceeded expectations. As the calendar moved into May, rent payments continued to hold up, and that trend has strengthened through mid-June.

The National Multifamily Housing Council reports that 89% of the U.S renters living in professionally managed apartments have paid this month's rent as of June 13. That figure is virtually identical to the 88.9% share up to date on payments at the same time a year ago. It's also a significant improvement over the first two weeks in both April (85.0%) and May (87.7%).

Information compiled by the National Multifamily Housing Council comes from five key property management software providers, including RealPage, Inc. The data set covers more than 11 million units.

Rent Payments are Promising



Source: National Multifamily Housing Council

The data shows that renters continue to prioritize paying their rent, despite massive job loss that has occurred over the past three months. Enhancements to unemployment benefits and the one-time stimulus checks provided in the CARES Act appear to be working as intended, allowing those who have lost jobs to continue paying their bills for the short term. Federal unemployment benefits of $600 per week – on top of the normal state payments that vary widely by location – are set to run through the month of July.

Mid-June Rent Payment Results Climb in Some Markets

Market	June 1-13, 2020	June 1-13, 2019	Difference
New Orleans-Metairie, LA	86.8%	84.1%	2.7%
Pittsburgh, PA	92.7%	90.0%	2.7%
Columbus, OH	91.7%	89.6%	2.1%
Cleveland-Elyria, OH	90.6%	88.9%	1.7%
St. Louis, MO-IL	91.9%	90.3%	1.6%
Detroit-Warren-Dearborn, MI	91.2%	89.9%	1.3%
Minneapolis-St. Paul-Bloomington, MN-WI	94.8%	93.5%	1.3%
Baltimore-Columbia-Towson, MD	88.5%	87.3%	1.2%
Greensboro/Winston-Salem, NC	89.8%	88.6%	1.2%
Memphis, TN-MS-AR	91.7%	90.7%	1.0%

Source: RealPage, Inc.

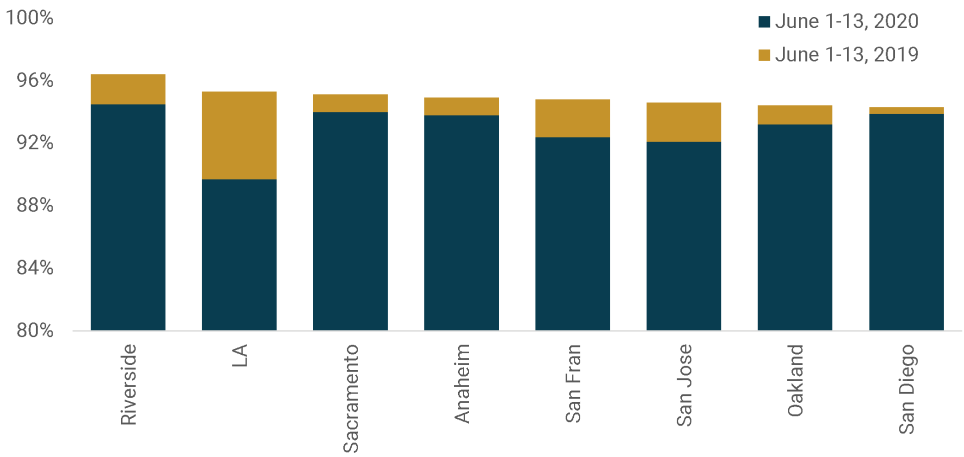
Many Markets Show Growth in Annual Rent Collections

Out of the nation's largest local apartment markets, roughly 40% received June rent payments at or above collection levels seen during the first two weeks of the month last year, according to the information that RealPage provided for NMHC's research efforts. The upturns are mainly in the Midwest, plus a few Sun Belt markets are on the list. Markets on the West Coast are noticeably absent. While a few of these markets remain below the national average for rent collection, they have still managed strong annual growth despite challenges in the current economic environment.

California Metros Payments Remain Sluggish

Markets where RealPage will be watching payment results closely for the rest of June include much of the state of California, where markets tend to have the weakest results in terms of annual change. Collections were dismal in most California metros in the first week of June, but there was improvement in the second week – particularly in San Diego, which has almost caught up to 2019 levels. The Bay Area is still down 2 to 3 percentage points versus 4 to 5 percentage points in the first week of the month. Los Angeles is down 6 percentage points compared to nearly 8 percentage points in the first week. Though improved, Los Angeles still has the largest drop in annual rent collection among the nation's largest markets.

California Rent Payments Sluggish



Source: RealPage, Inc.

Las Vegas is also showing weakness, with only 85.7% of monthly rent collected through June 13. That rate was the nation's lowest, and down 4.7 percentage points from the first two weeks of June 2019. June collections in Cincinnati, Seattle, and Portland are also down 2.6 to 2.8 points year over year.

Timing Delays Seen for Lower-Income Households

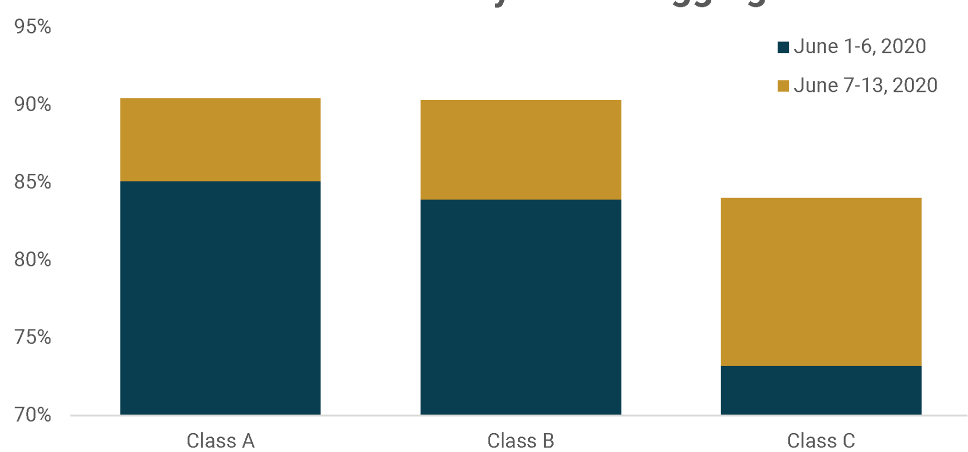
Like trends seen in California, collections for Class C product continue to lag, but those more affordable units saw substantial improvement in the second week of June. The shortfall relative to upper- and middle-tier units is back to around 6 percentage points, after it hit 10 points for the initial week of June. Slow processing of physical checks, rather than electronic payments, could help explain the delay in collections.

The share of residents in Class C properties paying rent by June 13 was 84.0%, compared to 90.4% in the Class A projects and 90.3% in the Class B communities.

The Class C shortfall has been a consistent trend over the past few months. When NMHC's Rent Payment Tracker was launched in April, Class C property collections were running 5 to 6 percentage points under results for Class A and B apartments. Similar findings were also seen in May.

With lower incomes and limited savings, any interruption in wages tends to lead to financial struggle for residents of Class C properties. Furthermore, some of these households hold the types of jobs that aren't eligible for unemployment benefits.

Class C Rent Payments Lagging



Source: RealPage, Inc.

Short-Term Rentals Impact High-Rise Rent Collections

Another weak spot among product niches: high-rise properties predominantly located in urban centers. That weakness ran counter to otherwise above-average collections in big cities generally and in Class A properties specifically. High-rise challenges trace primarily to high exposure to short-term rentals (STRs). Apartment operators have reported that some STRs have been unable to pay rent on their master leases, and some have abandoned their units – and accompanying furniture – altogether.

Overall, apartment operators collected rent payments from 88.1% of occupied high-rise units through June 13. That's the lowest among building types and roughly 2.3 percentage points below the average collection rate for Class A properties as most high-rises are classified as Class A. April and May numbers showed similar trends.

While the weakness in high-rise rent collections has been exacerbated by the COVID-19 economic shutdown, it began to appear before the onset of the pandemic. For comparison, high-rise operators received 89.7% of rent collections through mid-June last year. That number was 1.6% higher than the current level but still placed second lowest among the building types. This trend will likely continue into the foreseeable future as the economy continues to recover and numerous markets absorb elevated levels of new supply within the urban core.