APARTMENT ADVISORY

AUGUST 2020

Prior to COVID-19, inquiries about apartment rent collections seemed few and far between. But in the months since, it's arguably one of the closest watched metrics in the industry – and for good reason, as millions of Americans have lost their jobs and incomes.

So far, rent collections have held up relatively well, coming in only 1 to 2 percentage points off of what they were last year. Payment rates have hovered around 95% to 96% between April and July. Through August 13 – two weeks after the expiration of the enhanced unemployment benefits granted in the federal CARES Act – about 87% of households living in the country's stock of professionally-managed, market-rate apartment properties had paid rent for August, according to the National Multifamily Housing Council.

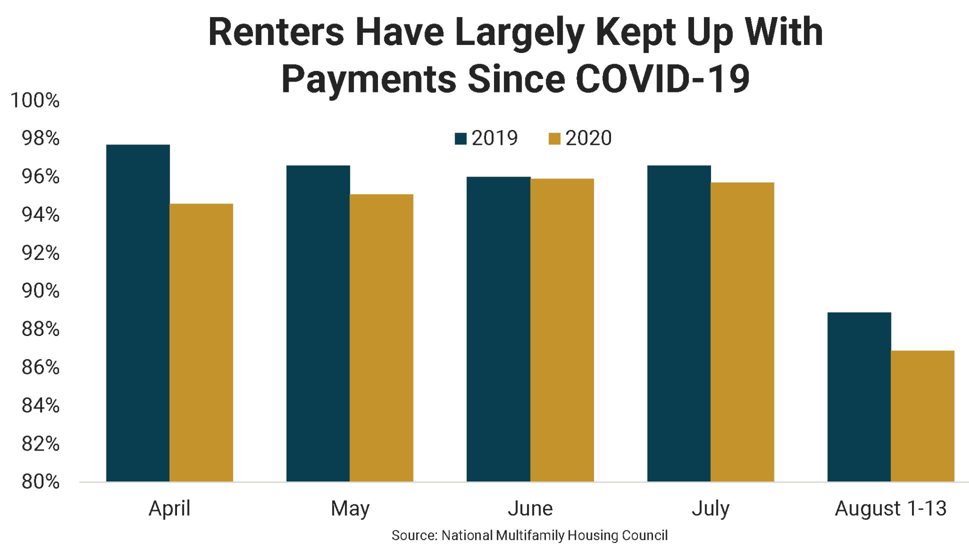
Considering the unprecedented economic backdrop, many apartment owners and operators have been relatively content with results. The CARES Act enacted by Congress provided a lot of buffer for renters either temporarily or permanently laid off in recent months. That's helped boost rent collections to better-than-anticipated levels. Analyzing rent collection trends across the product spectrum, however, points to the potential for some weakness in the coming months.

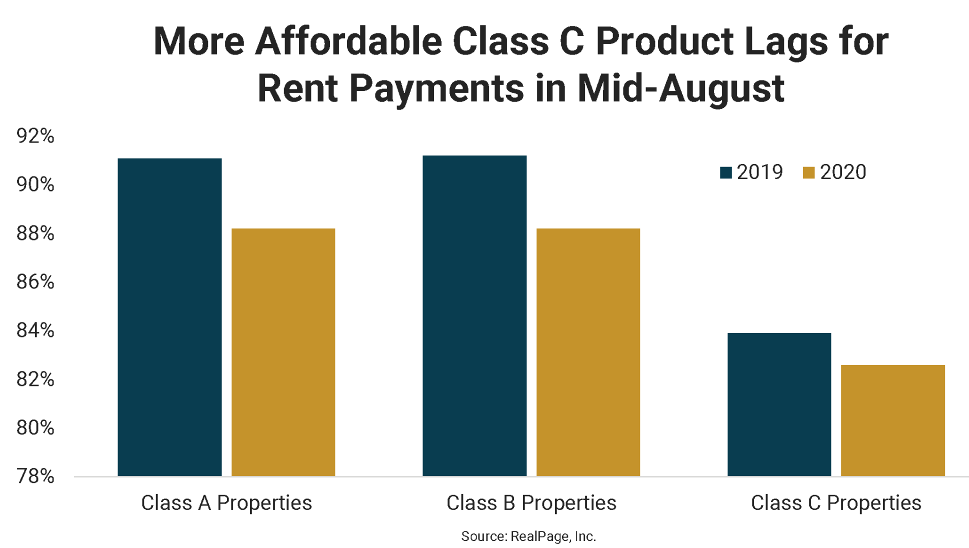
Lower-Priced Product Lags

Class A rent collections across the U.S. equaled roughly 96% in June and July. Class B collections were just a touch weaker, but not significantly so. Meanwhile, Class C collections have been the weakest, coming in around 94% in both June and July.

Those trends held up through the second week of August, as rent payment rates landed at about 88% in both Class A and B product, while only 83% of Class C renters had paid their monthly rent. It's that lower-priced product grouping that causes some concern in the coming months. With the CARES Act lapsing at the end of July, many operators wonder whether residents will be challenged by a reversion to the state-level assistance that averages only about $400 a week. The CARES Act provided an additional $600 a week on top of state-level benefits.

While more federal help may ultimately emerge, it remains unclear when those funds can be distributed, if the assistance arrives at all. Even if the federal government were to restore some unemployment benefits tomorrow, most states are saying they don't have the ability to implement changes to unemployment payments very quickly. So most who are unemployed now face a big cut in the benefits they will receive, at least for a little while.





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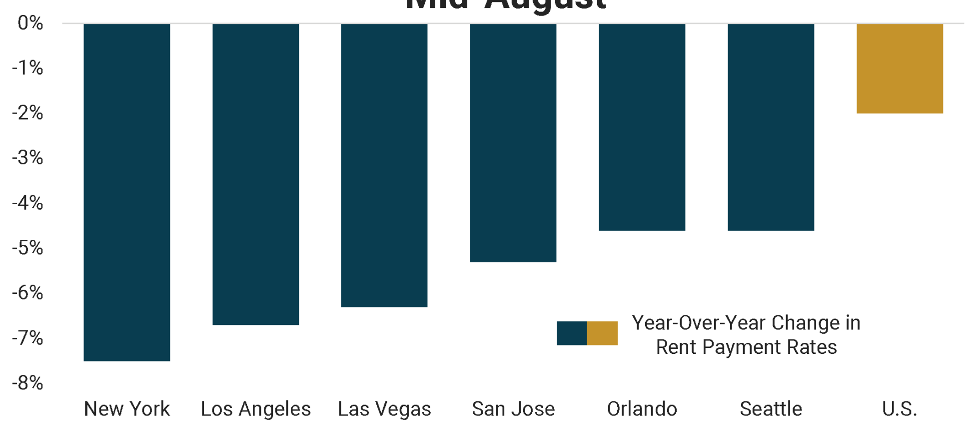
From the product class breakout, then, the summary is that on-time payment collections haven't plummeted to the level initially feared. But with economic policies changing quickly, there's some concern in the coming months for operators – particularly those active in the lower-priced property tier.

Some Markets Are Experiencing Weakness

Breaking out payment collections by market yields a wider range of results. Some markets can be classified as solid. Others, however, are far from solid.

Biggest Laggards for Rent Payments Through Mid-August



Source: RealPage, Inc.

Collections through mid-August in markets such as Tampa and Indianapolis remain in pretty good shape overall. Tampa – a market where the median renter age is among the nation's highest – is an example of a market where an outsized portion of renters are retirees living off fixed income, thereby less affected by the economic downturn. Indianapolis and many other Midwest markets have also been more insulated from the COVID-19-driven downturn.

Unfortunately not every market is experiencing that same trend, however. The weakest markets for recent collections can generally be grouped into two categories.

The first is the expensive Gateway markets. Markets such as New York, Los Angeles and the San Francisco Bay Area have really struggled in recent months to maintain steady collection totals on a year-over-year basis.

So far in August, rent collections in New York have plummeted some 7.5 percentage points year-over-year. Los Angeles' shift has been similarly large, losing 6.7 percentage points. Meanwhile, San Jose has seen a slip of roughly 5.3 percentage points year-over-year, while neighboring San Francisco's rate is down 4.2%.

In these instances, the likely cause for weaker-than-typical collections is a confluence of factors. The first being that these economies have been among the hardest hit by COVID-19, thereby resulting in a larger share of layoffs and furloughs.

A corollary of that is that unemployment benefits – even under the enhanced CARES Act package – simply don't offer the same bang for the buck that the more affordable Sunbelt and Midwest metros feature. As a result, skips have become increasingly challenging in the Gateway markets.

The second group of lagging metros are markets with an overreliance on tourism-based jobs. Las Vegas is a prime example of a market struggling to regain its economic footing due to COVID-19. The mid-August payment rate there is down 6.3%. Orlando is another trouble spot, though the drop off in payments in less pronounced than Las Vegas.

Renters Aren't Relying on Credit

One myth that has been generally dispelled in the early months of the COVID-19 outbreak is renters' reliance on credit card payments. The initial thesis was that if credit card payments were increasing then that was a signal for renter distress.

But that hasn't been the case, at least not through the late spring and into the summer months.

Increased credit card usage is likely more indicative of a larger trend of increased utilization of online payment options.

COVID-19 has compelled property managers to accelerate the shift toward providing more electronic payment options, and renters have taken advantage. Some property managers have even waived card processing fees to encourage renters to pay online rather than dropping off a check at the leasing office.

There's no data that can reveal how often apartment renters using cards to pay rent are taking on debt versus using cards for convenience and accumulation of points. But there are some ancillary data points that suggest it's the latter.

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