Multifamily Real Estate Markets Update (October 2020)

Unsurprisingly, the markets that have been hit the hardest in 2020 have continued this trend as we enter the 4th quarter. Primary/Gateway markets and urban core/downtown areas have seen the largest decline in rents and occupancy. COVID-19 has amplified the impact of new construction, increasing supply in heavily populated areas that have seen a drop in renter demand from Lifestyle renters.

Below are key takeaways from the following reports:

Urban Core Apartments Turn to Steep Rent Cuts as Performance Headwinds Strengthen – *RealPage* – Link

Matrix National Multifamily Report – August 2020 – *Yardi Matrix* – Link

Urban Core Apartments Turn to Steep Rent Cuts as Performance Headwinds Strengthen

RealPage

- Urban Core Asking Rents Dive
  - Apartments in downtown areas averaged year-over-year effective asking rent cuts of 1.7% in Q2. This is the first time the urban core has seen rent cuts since early 2010.
  - Suburban areas are still seeing a slight incline in rents, with an increase of 0.4% year-over-year
- Occupancy in the Urban Core is coming down
  - The COVID-19 pandemic took occupancy down by roughly 100 basis points between the 1st and 2nd quarters of the year, which ultimately caused operators to slash rents
  - Two major factors are causing this steep decline in Urban areas
    - COVID-19 has driven young workers away from downtown areas (specifically gateway markets) and into suburban areas where there is less of an impact on opportunities for jobs, business operations and entertainment
    - Massive construction activity has amplified the negative effects of the pandemic. More than 600,000 apartments were under construction in the 2nd quarter of 2020.

Matrix National Multifamily Report – August 2020

Yardi Matrix

- Secondary Markets Outperform Primary Markets
  - Multifamily rents increased by $1 in August, to $1463, which is the second consecutive month of overall growth since March
  - Year-over-year, national rents are continuing to decline, with a change of -0.3% (unchanged from July)
- Lifestyle renters are continuing to see the largest decline in rent growth
  - 22 of the top 30 markets experiencing negative rent growth in August
  - Renters by necessity are holding strong relative to Lifestyle renters, with only 8 of those same 30 markets experiencing negative growth
- Three markets with the largest Year-over-year rent decline
  - San Francisco, San Jose and Boston are seeing the largest declines across all asset classes
    - Boston has seen relatively flat growth in renter by necessity assets but has fallen more than 4% in Lifestyle assets
    - San Francisco and San Jose have seen the largest decline in both lifestyle and renter by necessity classes, with an overall decline of more than 5% year-over-year in both markets