Q3 2020

U.S. MULTIFAMILY FIGURES

CBRE

Q3 2020 U.S. MULTIFAMILY FIGURES – EXECUTIVE SUMMARY

MULTIFAMILY FUNDAMENTALS STRENGTHEN IN Q3

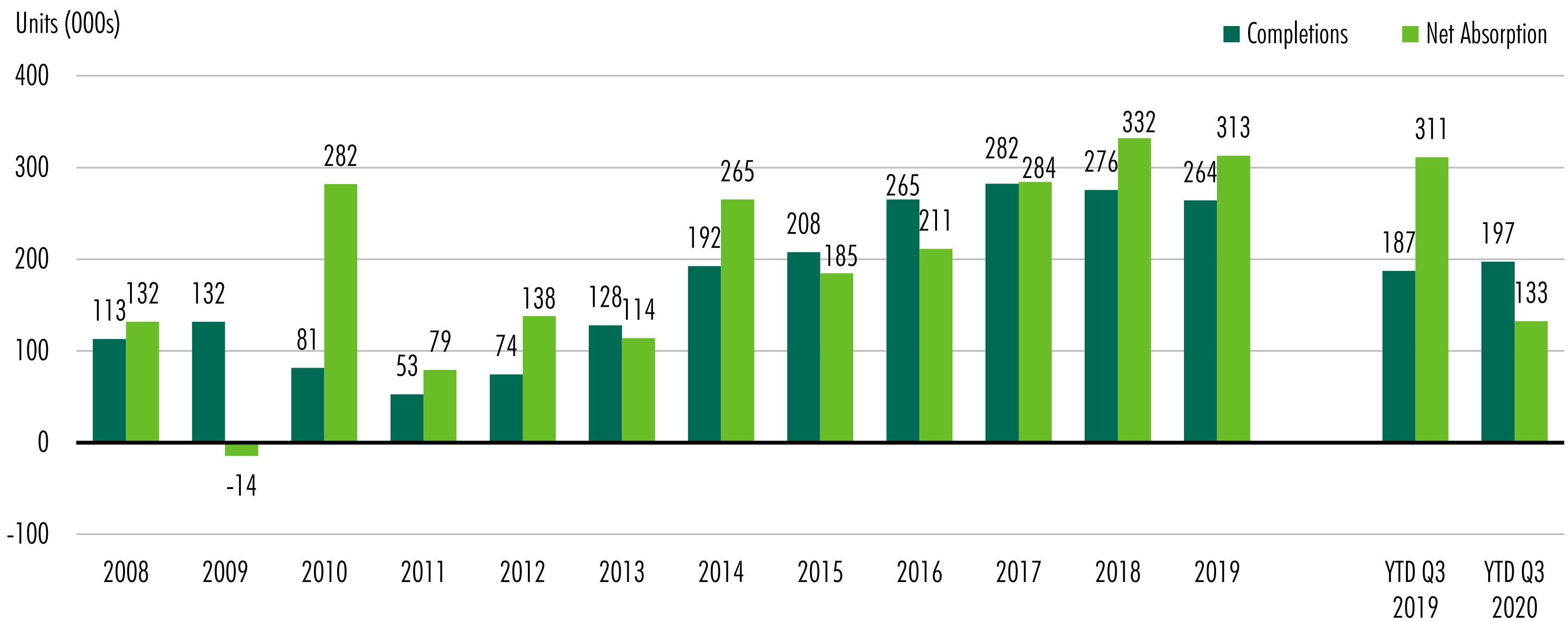
Vacancy Rate	Completions*	Net Absorption*	Y-o-Y Rent Change	Acquisitions Volume*
▲ **4.4%**	▲ **274,100 Units**	▼ **134,200 Units**	▼ **-3.3%**	▼ **$136 Billion**

Arrows indicate from the same quarter in the previous year.
*Total past four quarters.

- Q3 net absorption totaled 90,300 units, up by 300% from Q2 but down by 27.6% from a year ago.
- The overall vacancy rate edged down 16 basis points (bps) quarter-over-quarter to 4.4% and average monthly rent fell by 1.6% to $1,694.
- Despite declining rents, the multifamily market held up better than expected in Q3 given that enhanced unemployment benefits were not renewed.
- Market fundamentals likely will be under increased pressure for the remainder of the year, as continued high unemployment and COVID-19 uncertainty crimp demand and rental payments.

FIGURE 1

Q3 NET ABSORPTION REBOUNDS AFTER SOFT START TO THE YEAR

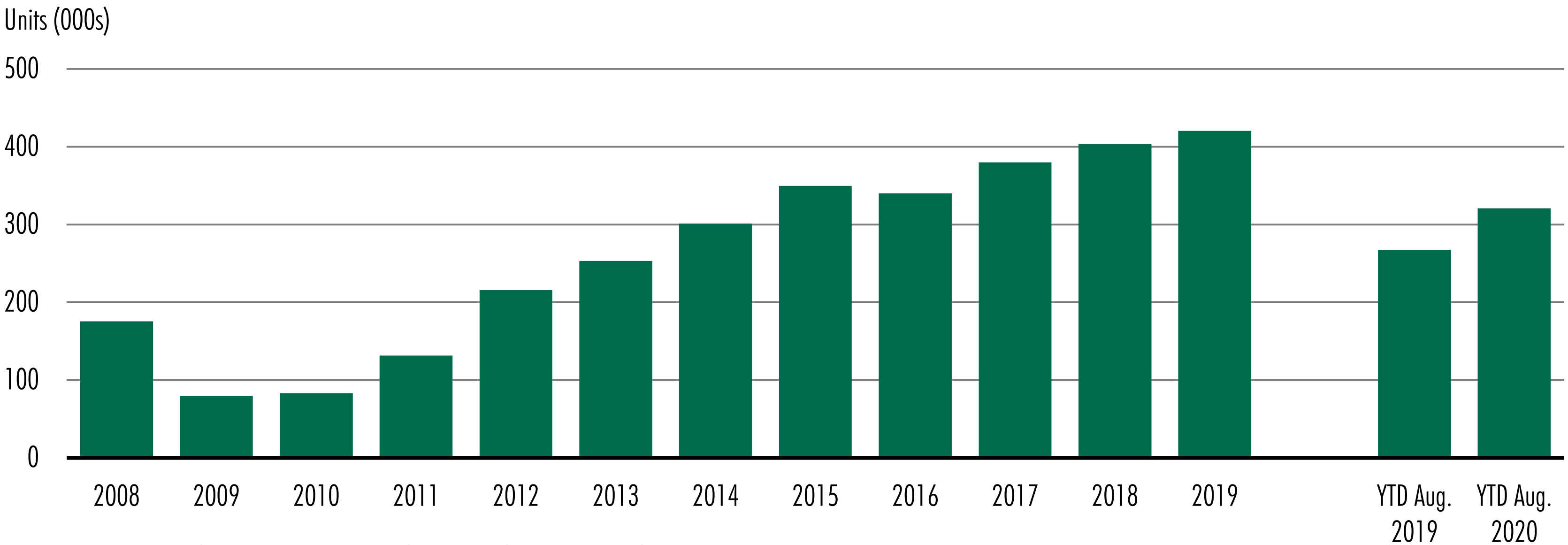


Source: CBRE Research, CBRE Econometric Advisors, Q3 2020. Based on the 66 markets tracked by CBRE EA. Completions and net absorption of newly-built communities are counted in the quarter in which the property reaches occupancy stabilization.

- Net absorption jumped by 300% quarter-over-quarter to 90,300 units in Q3, but the year-to-date total of 132,500 units was down by 57.4% from a year ago. The Q3 total was down by 27.6% year-over-year.
- Net absorption, which outpaced completions in Q3, improved markedly from a particularly weak Q2 due to the COVID-19 pandemic and a struggling economy. Net absorption is expected to be quite low in Q4, largely due to seasonality and in line with historical Q4 levels.
- Completions remained elevated at 66,600 units in Q3 even though there was a modest year-over-year decline of 5.6%. Year-to-date completions totaled 197,300 units, up by 5.3% from a year ago.

FIGURE 2

CONSTRUCTION STARTS INCREASE FOR THIRD CONSECUTIVE MONTH



Source: CBRE Research, CBRE Econometric Advisors, Dodge Data & Analytics, Q3 2020.

- Year-to-date multifamily construction starts totaled 320,500 units through August, up 19.9% from the same period a year ago.
- Starts moderated in April and May, averaging 32,100 units per month, before picking up to a monthly average of 42,700 units in June, July and August.
- The under-construction total rose to an 18-year high of 699,200 units in August, a modest gain of 1.4% from July.
- Expired construction moratoriums and improved fundamentals allowed some developments to break ground in Q3.
- Multifamily permits for 105,600 units in Q3 increased by 4.9% from Q2 but were down 17.9% from a year ago, according to the U.S. Census Bureau.

FIGURE 3

NEW YORK & HOUSTON LEAD IN COMPLETIONS

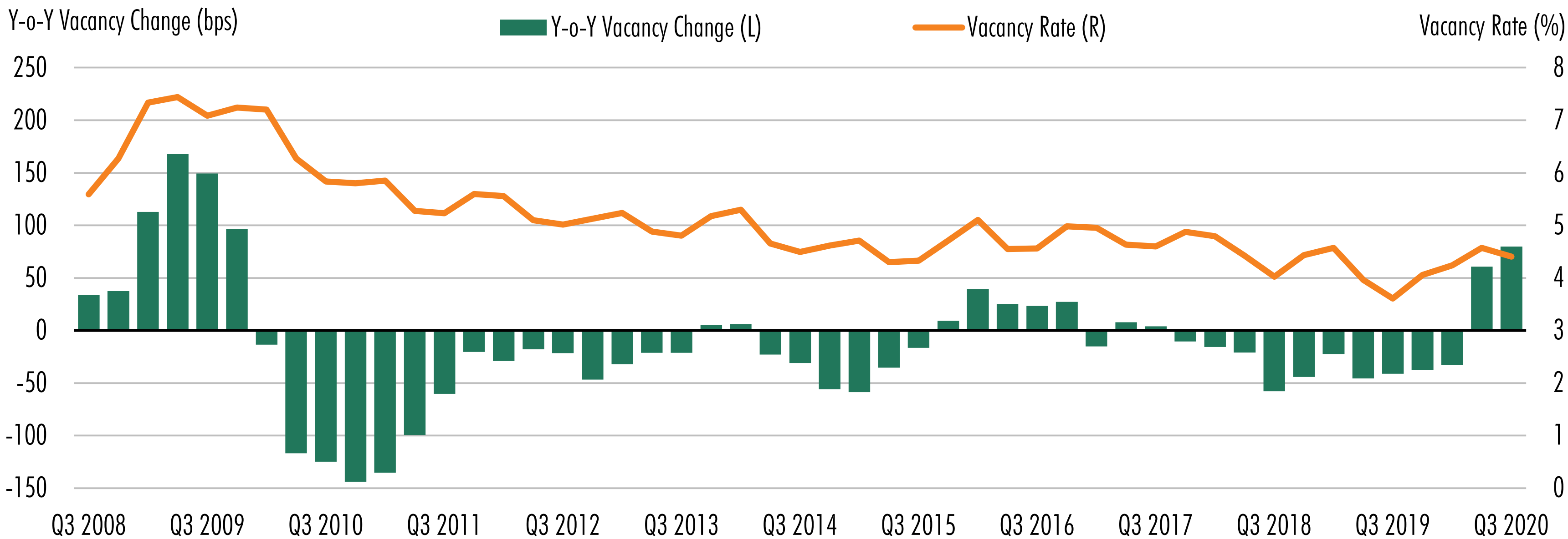
Rank by Completions	Metro Market	Net Absorption Q3	Completions Q3	Net Absorption 4 Quarters Ending Q3	Completions 4 Quarters Ending Q3	Completions As % of Inventory
	Sum of Markets	90,300	66,600	134,200	274,100	1.7
1	New York	-3,700	5,600	-2,200	23,600	1.0
2	Houston	7,100	5,000	9,800	17,600	2.8
3	Dallas	4,800	3,800	7,900	14,600	2.6
4	Washington, D.C.	1,200	3,900	5,500	13,600	2.2
5	Boston	1,700	2,700	3,000	11,300	2.2
6	Austin	1,700	1,700	5,800	10,000	4.4
7	Minneapolis	2,000	2,300	6,000	9,300	3.1
8	Atlanta	6,700	2,100	7,600	8,700	1.9
9	Los Angeles	800	700	-7,800	8,100	0.7
10	Seattle	400	1,700	3,700	8,100	2.0
11	Orlando	2,100	1,600	4,600	7,700	3.6
12	Denver	3,100	1,000	5,000	7,200	2.2
13	Chicago	-100	2,000	-800	7,000	0.9
14	San Antonio	2,700	1,200	5,400	6,900	3.5
15	Charlotte	2,800	1,600	5,500	6,600	3.9
16	Oakland	1,000	1,000	4,400	6,300	2.9
17	Miami	1,500	2,000	1,600	6,200	2.1
18	Phoenix	3,600	1,800	4,300	5,500	1.5
19	Columbus	1,600	1,000	4,700	5,000	3.0
20	Philadelphia	2,500	1,500	4,100	5,000	1.6
21	N. New Jersey	1,000	800	3,200	5,000	2.3
22	Kansas City	1,700	1,500	3,800	4,700	3.0
23	Portland	2,600	1,600	2,800	4,400	2.1
24	Ft. Lauderdale	2,000	1,000	4,500	4,400	2.2

- New York and Houston led the nation for most multifamily units completed in the year ending Q3. Roughly 23,600 units were delivered in the New York metro (including Northern New Jersey and Long Island) and 17,600 units in Houston. Dallas had the third largest amount with 14,600 units.
- Other metros with at least 10,000 units completed were Washington, D.C., Boston and Austin.
- Austin's completions-to-inventory ratio—a measure of overbuilding risk—was particularly high at 4.4% (based on the four-quarter completions total). Omaha and Richmond were next at 4.2% and 4.0%, respectively. Omaha's and Richmond's net absorption for the period nearly matched completions, while Austin's net absorption represented 57.7% of deliveries.
- Several markets had negative net absorption in the four quarters ending Q3, including Los Angeles (-7,800 units), San Francisco (-6,300), New York (-2,200), Honolulu (-1,300) and San Jose (-1,200).

Source: CBRE Research, CBRE Econometric Advisors, Q3 2020. All ratios based on unrounded figures. Markets are MSAs or Metropolitan Divisions, whichever is smaller.

FIGURE 4

VACANCY TICKS DOWN IN Q3

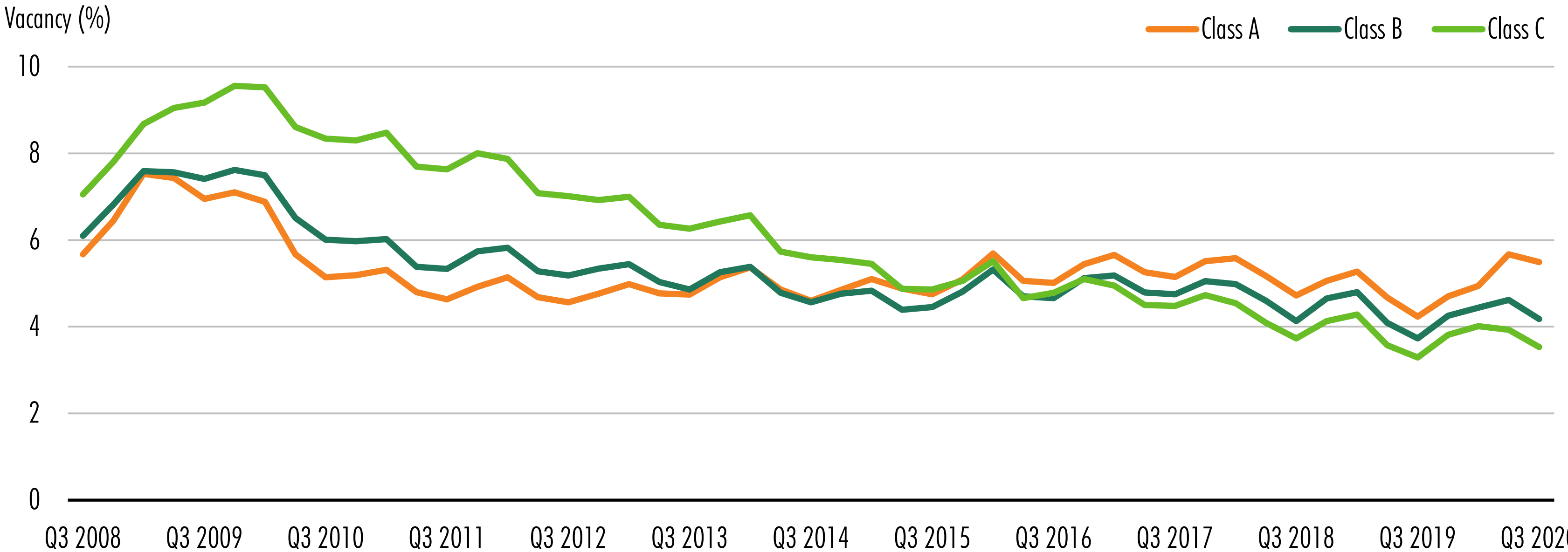


Source: CBRE Research, CBRE Econometric Advisors, Axiometrics Inc., Q3 2020. Based on the 66 metro markets tracked by CBRE EA.

- The overall multifamily vacancy rate fell by 16 bps quarter-over-quarter in Q3 to 4.4%, largely due to an atypical increase in Q2 caused by the COVID pandemic. However, the vacancy rate has increased by 80 bps year-over-year.
- Vacancy is expected to increase in Q4, which is typical due to seasonality.
- CBRE Research projects the multifamily market will stabilize in Q1 2021 and experience solid recovery throughout the year. Vacancy is expected to return to pre-COVID levels by late 2021.

FIGURE 5

CLASS C VACANCY REMAINS LOW

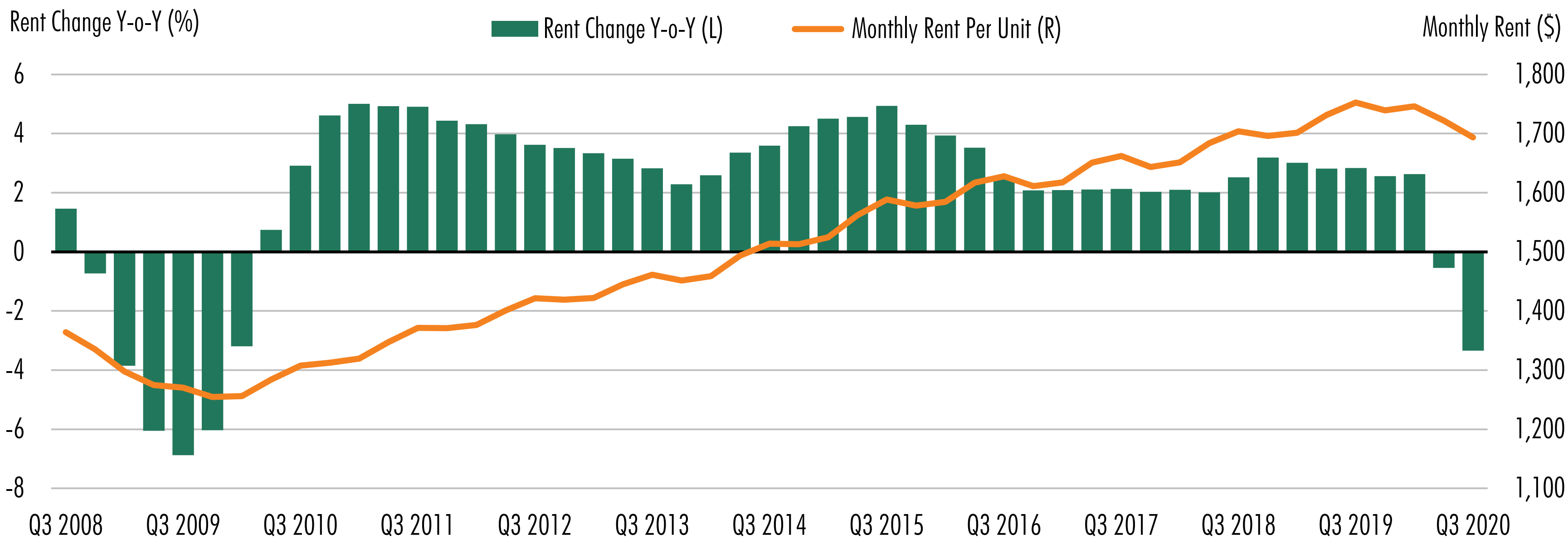


Source: CBRE Research, RealPage, Q3 2020.

- The market downturn has impacted Class A properties the most so far. The Class A vacancy rate declined by 18 bps quarter-over-quarter to 5.5%. The Class B rate fell by 44 bps to 4.2%, while the Class C rate dropped 40 bps to 3.5%.
- Class A effective rents dropped more than Class B and Class C. Class C assets had the smallest decline in effective rents.
- Renters of Class B and C multifamily assets were harder hit by the job losses in Q3 than renters of Class A assets. However, Class B and C renters have fewer housing options than those of Class A renters, so they tended not to move. Eviction moratoriums also helped keep these renters in place. Additionally, Class A assets continued to face competition from new supply.
- Suburban submarkets continued to outperform urban submarkets in Q3, partly due to high concentrations of COVID-19 infections in certain cities and from remote-working arrangements.

FIGURE 6

AVERAGE ANNUAL RENT DECLINES



Source: CBRE Research, CBRE Econometric Advisors, RealPage, Q3 2020. Effective same-store rents based on the 66 metro markets tracked by CBRE EA.

- The average "same-store" effective rent fell 1.6% to $1,694 in Q3. Rent is down 3.0% from Q1 and 3.3% from the peak a year ago.
- Effective rents fell for new leases at Class A properties due to higher concessions. Class B and C effective rents fell more moderately.
- Rent held up better in suburban markets than urban, with many suburbs recording year-over-year rent growth.
- Urban cores in gateway markets were the weakest, particularly San Francisco and New York. Downtown San Francisco rents fell 22.7% year-over-year, while SoMa's were down 17.4%. In New York, rents fell most in the Financial District (-18.8%), Upper East Side (-16.3%), Upper West Side (-16.0%) and Midtown West (-15.1%).

FIGURE 7

MIDWEST HAS BEST Q3 RENT GROWTH

Rank	Market	Rent Change (%) Q-o-Q	Rent Change (%) Y-o-Y
	ALL MARKET		
	Sum of Markets	-1.6	-3.3
	PACIFIC		
1	Inland Empire	3.9	4.7
2	Sacramento	3.4	3.6
3	Ventura	3.0	-0.4
4	Portland	1.0	-1.0
5	San Diego	0.7	-1.1
6	Orange County	0.3	-1.6
7	Honolulu	-0.3	-2.6
8	Seattle	-1.4	-1.8
9	Los Angeles	-1.6	-5.0
10	Oakland	-1.8	-5.0
11	San Jose	-6.4	-11.1
12	San Francisco	-7.7	-12.2
	MOUNTAIN WEST		
1	Las Vegas	3.5	1.2
2	Tucson	3.4	4.7
3	Albuquerque	3.2	3.9
4	Colorado Springs	3.0	3.0
5	Phoenix	2.4	3.0
6	Salt Lake City	1.5	0.7
7	Denver	0.8	-2.5

Rank	Market	Rent Change (%) Q-o-Q	Rent Change (%) Y-o-Y
	SOUTH CENTRAL		
1	Tulsa	2.3	4.6
2	Oklahoma City	1.7	2.4
3	Ft. Worth	1.3	1.0
4	El Paso	1.2	1.4
5	San Antonio	0.8	-1.1
6	Dallas	-0.3	-1.0
7	Houston	-0.7	-2.8
8	Austin	-1.3	-4.2
	SOUTHEAST		
1	Lexington	3.6	1.9
2	Richmond	3.2	3.1
3	Greensboro	2.8	3.0
4	Birmingham	2.7	1.5
5	Jacksonville	2.5	1.8
6	Norfolk	2.3	3.7
7	Atlanta	2.1	-0.2
8	Memphis	2.0	3.2
9	Tampa	1.8	1.2
10	Raleigh	1.4	-0.1
11	Greenville	1.2	0.0
12	Charlotte	1.0	-0.6
13	Louisville	0.8	0.6
14	West Palm Beach	0.5	0.0
15	Orlando	0.0	-3.4
16	Nashville	-0.1	-1.9
17	Ft. Lauderdale	-0.1	-1.3
18	Miami	-0.8	-2.7

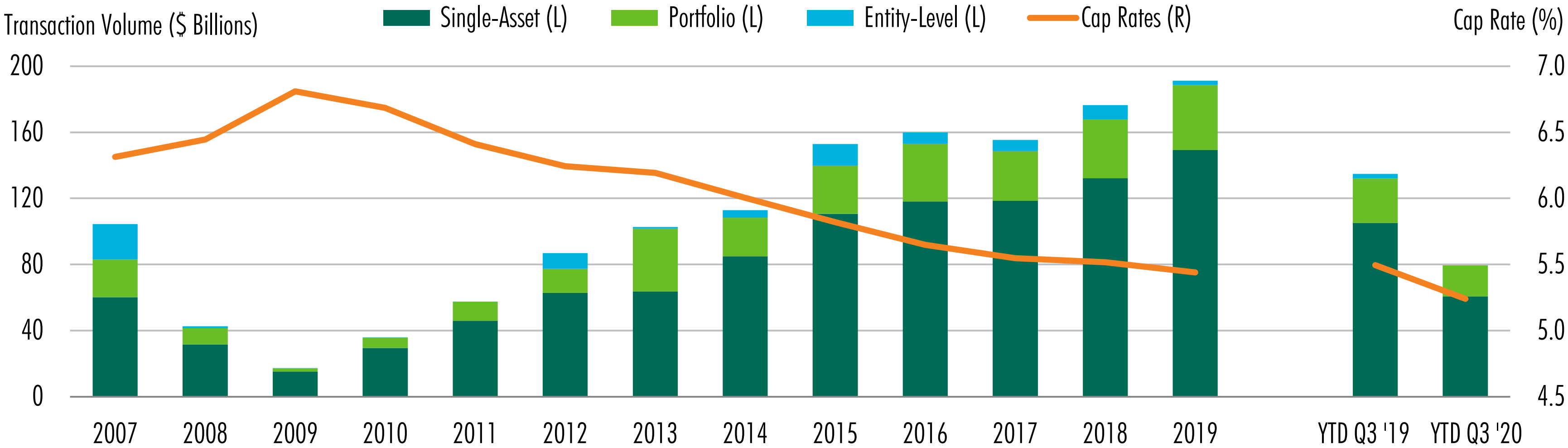
Rank	Market	Rent Change (%) Q-o-Q	Rent Change (%) Y-o-Y
	MIDWEST		
1	Columbus	1.9	2.5
2	Detroit	1.8	2.1
3	Indianapolis	1.5	2.5
4	Dayton	1.0	2.6
5	Cincinnati	1.0	2.4
6	Cleveland	0.9	1.5
7	Kansas City	0.7	1.6
8	St. Louis	0.7	1.6
9	Omaha	0.6	2.2
10	Minneapolis	-0.5	-0.4
11	Chicago	-1.8	-3.8
	NORTHEAST/MID-ATLANTIC		
1	Long Island	2.3	1.4
2	Providence	1.9	1.5
3	Baltimore	1.5	0.7
4	Hartford	1.1	1.1
5	Pittsburgh	0.8	-0.1
6	Philadelphia	0.6	0.7
7	Newark	0.5	-0.1
8	Washington, D.C.	-1.7	-3.2
9	Boston	-1.9	-4.8
10	New York	-5.2	-6.5

- Of the six major U.S. regions, the Midwest had the highest percentage of major markets with quarter-over-quarter rent growth. Only Minneapolis and Chicago had rent declines.
- The Pacific region had the most major markets recording quarter-over-quarter rent declines. The Inland Empire and Sacramento performed better than the national average and the larger California markets.

Source: CBRE Research, CBRE Econometric Advisors, Q3 2020. Based on effective "same-store" rents.

FIGURE 8

Q3 INVESTMENT INCREASES FROM MUTED Q2

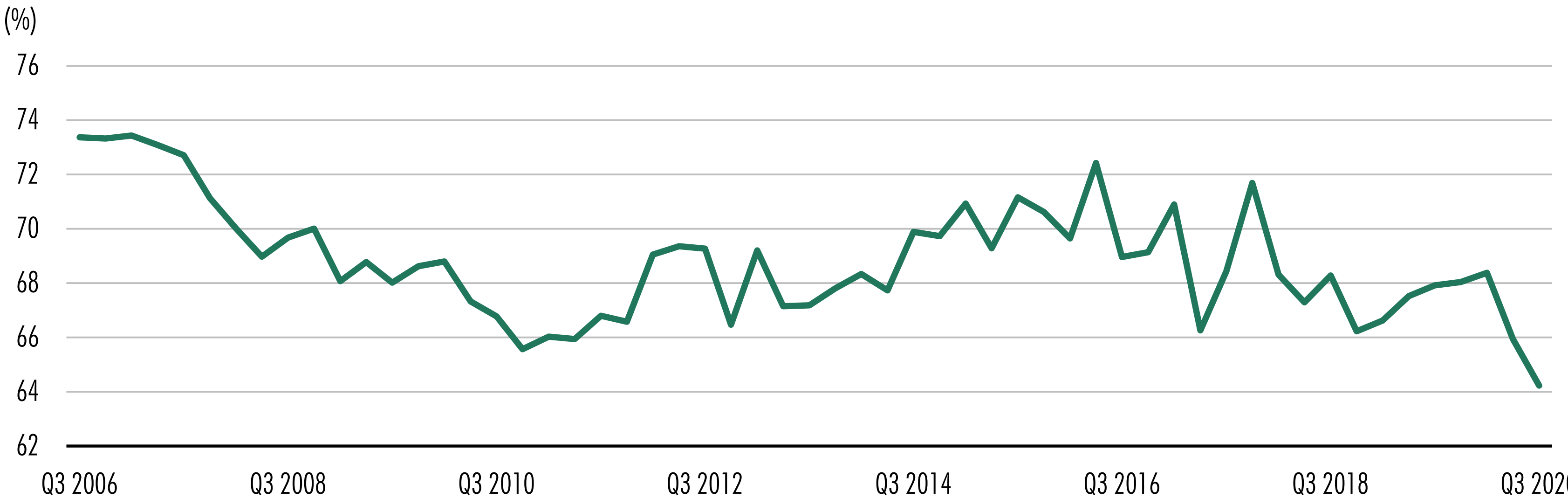


Source: CBRE Research, Real Capital Analytics, Q3 2020.

- Q3 multifamily investment rose by 55.9% quarter-over-quarter to $24.0 billion, coming off the lowest quarterly level in nearly a decade. Multifamily's 34% share of total investment was the largest of all commercial real estate sectors.
- While Q3 volume improved significantly from the previous quarter, investment is still down 51.2% year-over-year. There remains a wide bid-ask gap between many buyer and seller pricing expectations. According to CBRE's Q3 Cap Rate Survey, a disconnect has emerged between buyer and seller expectations across all property types, with 61% of buyers looking for discounts from pre-pandemic prices and only 9% of sellers willing to offer discounts. The mismatch in buyer and seller expectations has led to extremely low investment volume.
- Most of the Q3 acquisitions were by private companies, including 1031 buyers. Institutional, REIT and international capital largely remained on the sidelines. Low interest rates and adequate debt capital were key attractions for buyers in Q3.
- CBRE Research expects higher multifamily investment volume in Q4 due to increased investor interest, some of which is shifting from less-well-performing property sectors. More deals were launched in Q3 than in Q2.
- Multifamily cap rates rose only 20 bps in Q3, according to Real Capital Analytics. CBRE transaction pricing confirms that Q3 cap rates moved very little.
- The CBRE Cap Rate Survey also reported that suburban multifamily had the most markets of any sector reporting cap rate decreases (36%). Twenty-one percent of infill markets had decreasing rates. Tier II markets accounted for most of the reported decreases.

FIGURE 9

MORE CONSERVATIVE LENDING IN Q3



Source: CBRE Research, Q3 2020. Based on permanent, fixed-rate deals closed by CBRE Capital Markets.

- The interest rate environment remained largely unchanged in Q3. The 10-year Treasury rate ticked down to 0.65% in Q3 from 0.69% in Q2, although has since risen to 0.78% as of November 4. The remarkably low short-term and long-term interest rate environment in Q3 created some of the lowest borrowing costs in decades, even with wider credit spreads.
- Underwriting turned more conservative in Q3 due to the COVID-19 downturn. Multifamily mortgage loan-to-value (LTV) ratios fell 1.6 percentage points to 64.2% in Q3 based on CBRE's lending activity, the lowest level since 2011. LTVs tend to fall when lenders are less aggressively pursuing financing opportunities and/or have less confidence in market performance.
- Fannie Mae and Freddie Mac remained the dominant sources of multifamily debt capital. Their combined production totaled $33.4 billion in Q3, the largest share of which was in refinancings. However, acquisition loans have been rising. Despite a 29.8% year-over-year decrease in Q3, agency loan production is expected to pick up in Q4 given a recent surge in forbearance.
- Despite a decline in revenue for many properties, delinquency rates remained relatively low, especially compared with the previous downturn. Fannie Mae reported a 60-day delinquency rate of 1.20% in August, up from May's 0.47% rate but still relatively low. Freddie Mac's August delinquency was only 0.09%, essentially unchanged from May's 0.08%. Bank delinquencies declined by just 2 bps in Q2, the latest available data.

FOR MORE INFORMATION, PLEASE CONTACT:

CBRE RESEARCH

RICHARD BARKHAM, PH.D., MRICS
Global Chief Economist &
Head of Americas Research

SPENCER LEVY
Chairman of Americas Research
& Senior Economic Advisor

JEANETTE I. RICE, CRE
Americas Head of Multifamily Research

GEORGE ENTIS
Senior Research Analyst

NATHAN ADKINS
Senior Economist

CBRE CAPITAL MARKETS

BRIAN MCAULIFFE
President
Capital Markets, Multifamily

MITCHELL W. KIFFE
Senior Managing Director
Co-Head of National Production
Debt & Structured Finance

KYLE DRAEGER
Senior Managing Director
Debt & Structured Finance

DAN WINZELER
Managing Director, Debt & Structured
Finance, Business Lending

Learn more about CBRE Multifamily