

Executive Summary

- COVID-19 and its impact on the U.S. economy will lead to increased multifamily vacancy and declining rents over at least the next two months.
- CBRE Econometric Advisors (CBRE EA) expects the multifamily market to bottom out in Q3 and begin a recovery in Q4.
- Overall vacancy is expected to rise 2.7 percentage points to 6.3% by Q3 2020 from its recent-low 3.6% in Q3 2019 and to recover fully in 2021.
- Rents are projected to drop 6.7% from peak (Q3 2019) to trough (Q4 2020). Rent recovery should begin in Q1 2021 and be completed by Q2 2022.

2020 Multifamily Performance to Follow Broader Economy

CBRE EA projects multifamily fundamentals will take a sharp downturn before a rebound beginning in Q4 for vacancy and Q1 2021 for rents. It's not like the V-shaped recovery expected for the broader economy, but still quite promising.

The multifamily outlook is based on CBRE's economic forecast of a 4.3% contraction in GDP this year and a loss of 14 million jobs. If the outlook weakens, the multifamily downturn could be worse than currently expected and the recovery delayed.

Vacancy Recovery to Start in Q4

CBRE EA projects multifamily vacancy to rise 2.7 percentage points to 6.3% in Q3 2020 from the most recent low of 3.6% in Q3 2019.

Vacancy should begin to decrease in Q4 2020 and return to its former low levels by Q3 2021—a relatively rapid recovery phase.

Rents Projected to Fall through 2020 and Rebound in 2021

Rents are expected to decline through 2020, with lower rental rates for new leases and renewals. Average rent is projected to drop by 6.7% to \$1,603 in Q4 2020 from \$1,717 in Q3 2019.

A healthy rebound in rents is expected through 2021. Rents should reach their pre-coronavirus level by Q2 2022.

Changes in rents and vacancy do not fully capture the income downside for property revenues. Economic downturns lead to much higher revenue losses from credit defaults (residents not paying rent). Additionally, this downturn has a new factor that could weigh on rent collections in that some residents may not be able to pay back deferred rent payments.

Figure 1: Historical & Projected Rent Change and Vacancy

