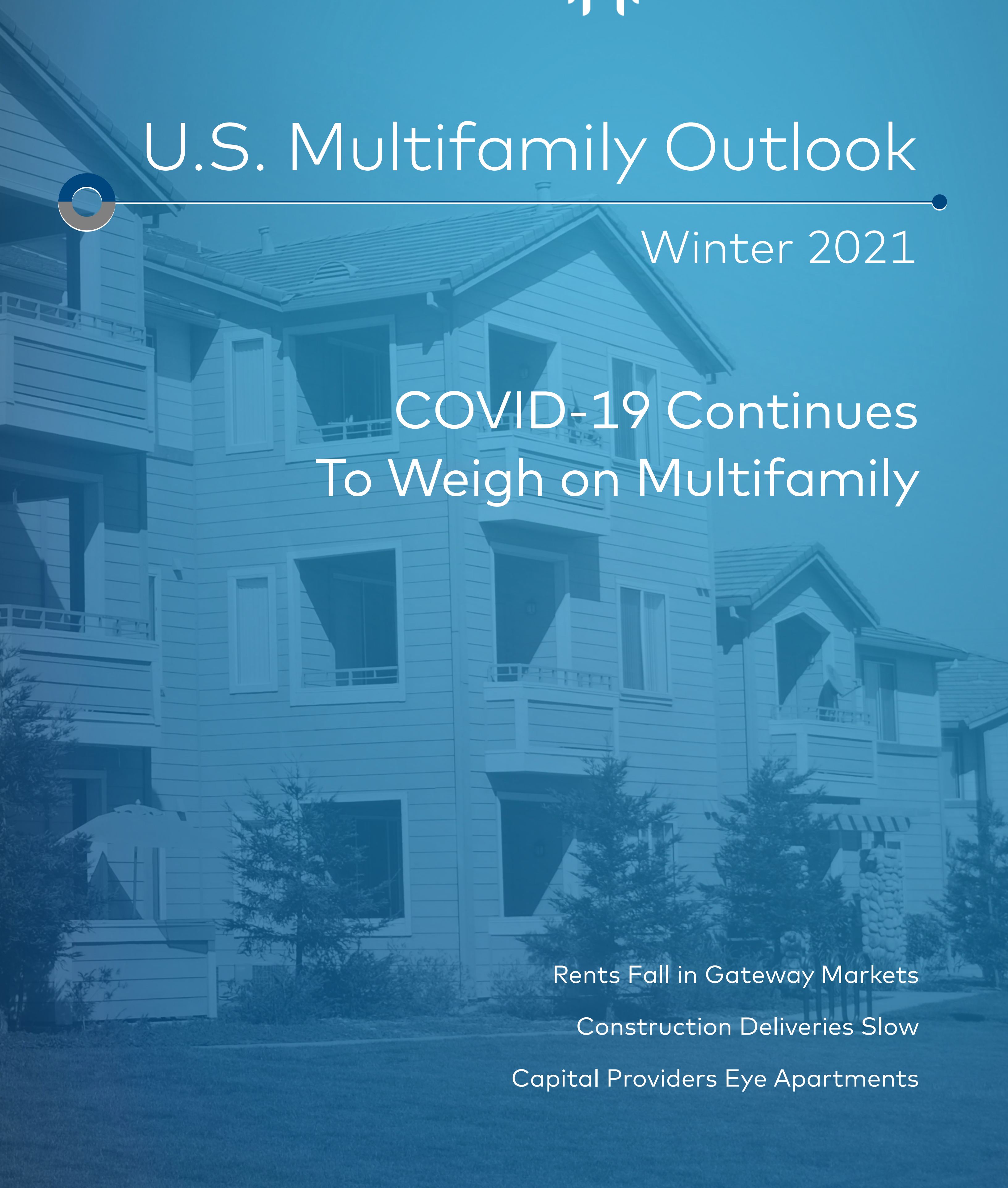
Yardi® Matrix

U.S. Multifamily Outlook

Winter 2021

COVID-19 Continues To Weigh on Multifamily



Rents Fall in Gateway Markets

Construction Deliveries Slow

Capital Providers Eye Apartments

Market Analysis
Winter 2021

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COVID-19 Continues to Weigh on Multifamily

- After a year ravaged by a global pandemic and political division, nothing would be more satisfying in 2021 than a return to normal. While there does appear to be light at the end of the tunnel, it will take some months to get most of the country vaccinated and get businesses operating as normal.

- Job growth has been mostly positive since the summer, but the economy remains nearly 10 million jobs off its peak. Millions of renters continue to struggle to make monthly payments. The $900 billion stimulus package passed at the end of 2020 provided some relief, especially the $25 billion renter assistance, $25 billion for Housing and Urban Development (HUD) programs and $300 per week unemployment aid. However, another package is likely to be needed in 2021 to keep many families and property owners afloat.

- Nationally, rent growth fell only slightly in 2020, but there was a huge variation among metros. Rents and occupancy levels fell sharply in high-cost gateway markets, as renters left crowded and expensive coastal centers. More affordable markets in the Sun Belt, Southwest, Midwest and Mid-Atlantic saw modest rent growth.

- The pandemic slowed construction. What would have been a year of peak development instead turned into less than 300,000 deliveries. With more than 750,000 units under construction, new supply should stay in the 300,000 range for a few years.

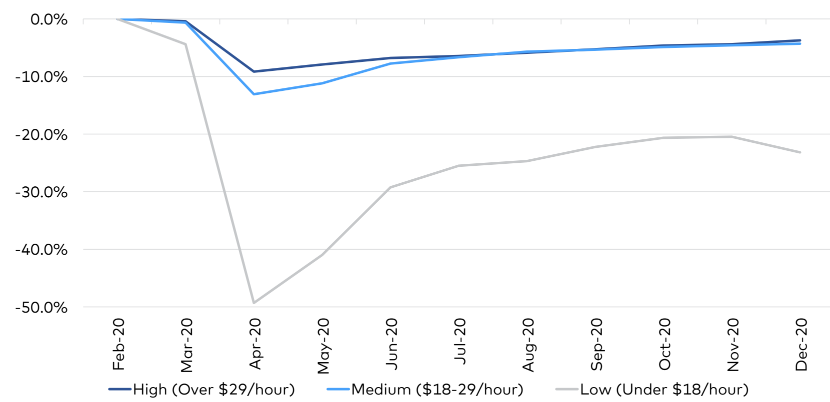
- Despite the myriad issues the industry is facing, capital flow remains strong. Sales activity dropped about 35% in 2020, but there's no shortage of dry powder looking to buy apartments. Agency lenders have had their allocations clipped slightly, but debt availability is strong, as well.

- We expect 2021 to be better than 2020, particularly the second half, but the year won't be without tumult. Gateway markets will continue to struggle, and the industry will have to deal with weak rent collections, eviction bans, forbearance requests, lobbying for renter aid and a new federal mortgage oversight regime.

Economic Outlook

Nine months into the largest global pandemic and economic disruption in nearly a century, the U.S. economy remains a very bifurcated story. Equity markets have repeatedly reached all-time highs, as large public companies have maintained revenue streams. E-commerce, home improvement goods and services, and recreational vehicle sales have had banner years, as consumers have been forced into goods and away from services.

% Change in Employment by Wages from Feb. 2020



Sources: Yardi Matrix; U.S. Employment & Training Administration (ETA): Unemployment Insurance Weekly Claims

On the other hand, weekly jobless claims remain elevated as new unemployment claims have topped the 2009 peak every week since March, when record numbers of jobs were lost as the virus induced shutdowns that closed many businesses. The economy lost 22.3 million jobs over two months. Although job growth was positive for seven straight months before December, the economy remains 9.9 million jobs below its peak.

A debate raged about the "shape" of the recovery, but as time has played out it is clear that the "K-shaped" model will turn out to be the most accurate. Employees with lesser education and those working in low-wage positions have been disproportionately impacted, as those job losses were most severe and have yet to recover. As of December, leisure and hospitality was down by 3.8 million jobs, or 22.8% from the year before, according to the Bureau of Labor Statistics. Travel has taken a blow from the pandemic's second wave, as nearly 500,000 leisure and hospitality jobs were lost in December. Moving up the education and wage scale, job losses have been fewer and the recovery has been much quicker. The finance sector lost less than 1% of its jobs as of December, while professional and business services was down 3.8%.

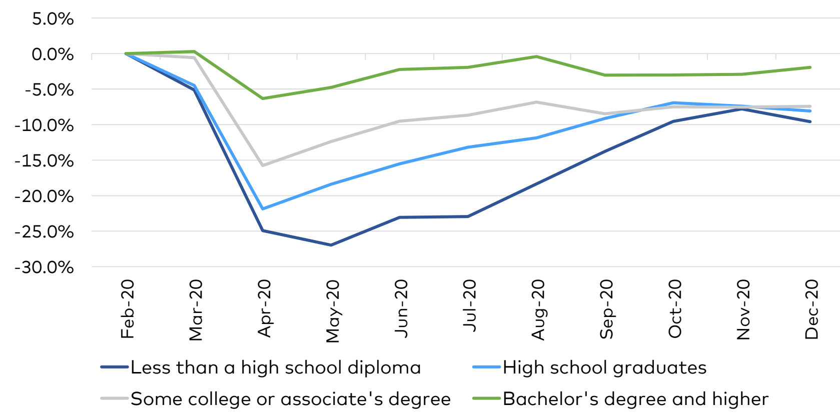
There is hope for a strong economic recovery as 2021 proceeds, but much of that hope will depend on the pace of vaccine adoption and the reopening of businesses nationwide. In the early stages, the vaccine rollout appears to be lagging initial expectations; however, a new presidential administration and an organized national effort for vaccine deployment may increase the speed of the recovery.

Consumer confidence will also determine how quickly the overall economy can recover, although it is also subject to the K-shaped model. Many lower-income households saw stimulus checks run out in the second half of the year and have had to borrow to pay for basic expenses such as rent. For higher-income households, extra stimulus and reduced spending allowed them to increase savings. When the vaccine distribution enables the economy to reopen, probably in the second half of 2021, the economy is likely to see a jolt of growth from pent-up consumer demand among high-income households.

As low-income families sink into debt, they may face increased problems paying rent. The National Multifamily Housing Council's Rent Payment

Tracker showed modest declines in the waning months of 2020, after reporting surprisingly strong numbers throughout the early stages of the pandemic. The prospects for rent payments were boosted by the passage of the second round of stimulus, which included $300 per week of federal unemployment aid. Now that Democrats control Congress and the presidency, they are likely to approve higher aid, possibly $600 per week for unemployment and individual stimulus checks of $2,000 being sent to many Americans.

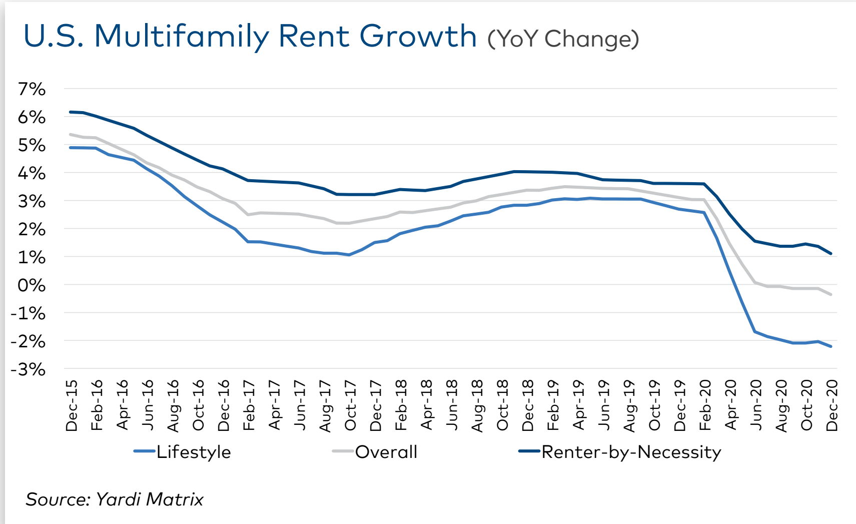
% Change in Employment by Educational Attainment from Feb. 2020



Source: Yardi Matrix

We expect growth to remain tepid during the first half of the year as employees continue to work from home. Jobs that require in-person work and human interaction will likely see volatile growth until the virus is fully contained. The same is true for wages versus assets. Wages, especially in service jobs, will fluctuate as dining, travel and leisure make a slow recovery. However, market indicators point toward strong asset growth in both the equity and real estate markets. The latter half of 2021 may indicate a return to more pre-pandemic economic trends, as the vaccine will hopefully be fully administered by then. Still, the long-term impact of the pandemic will take years to sort out, depending on the development of trends such as work from home, e-commerce and domestic migration between regions, cities and suburbs.

Rent Growth Trends



Source: Yardi Matrix

Despite the COVID-19 pandemic, national rent growth remained relatively flat on a year-over-year basis, ending the year at -0.8%. There was a large divergence in performance between markets, though. High-cost gateway markets struggled the most, while many tech hub and tertiary markets thrived.

The most dramatic example of bifurcation can be seen in California, where rents declined sharply in San Jose (-13.7%), San Francisco (-9.4%) and Los Angeles (-3.0%) in 2020. We expect little comfort for those metros in the coming year, as tenants continue to flee expensive coastal markets. Our forecast calls for 2021 declines of 1.7% in San Francisco and 1.4% in San Jose, with rent growth of 0.3% in Los Angeles. Meanwhile, less expensive California markets performed much better, in response to increased demand for more affordable housing. Rents grew in Sacramento (6.1%) and the Inland Empire (7.3%) in 2020, and we expect growth in these two markets to continue into 2021. Our projections call for rent growth of 2.4% in the Inland Empire and 3.4% in Sacramento.

The exodus out of gateway markets was occurring prior to the pandemic, as Millennials began to settle down and buy houses in the suburbs or chose to be closer to family. The pandemic has only accelerated the trend, as remote work is here to stay for many and the lack of open amenities in gateway markets has driven residents out. For some, it doesn't make sense to pay exorbitant rents given the low quality of life that comes with being secluded in a small apartment.

On the other hand, many tertiary and tech hub markets have benefited from migration out of the gateways. The best-performing markets this year, after the Inland Empire and Sacramento, were Phoenix (4.6%), Tampa (3.9%) and Las Vegas (3.8%). These are fast-growing tech hubs that have benefited from having a lower population density during the pandemic.

Some surprises among Matrix markets with the best overall rent growth in 2020 included Boise (9.5%) and Scranton-Wilkes-Barre (7.8%). Markets that are poised to outperform in 2021 include Reno, Nev. (Matrix forecast: 5.4%), Huntsville, Ala. (4.9%) and Las Vegas (4.8%). The growth of these metros can be attributed to positive migration trends, lower-cost housing and an influx of high-paying tech jobs that can be performed remotely.

Although rents held up better than expected in 2020, considering the circumstances, the market has issues to work through. One is the rate of collections. With the excessive job losses caused by COVID-19, many forecasted a decline in rent payments. For the most part, that hasn't materialized, as tenants have prioritized their rent payments. However, rent payments did decline slightly at year-end as federal aid wound down. According to the National Multifamily Housing Council's Rent Payment Tracker, 93.8% of apartment households paid rent by the end of December—down 2.1 percentage points from December 2019.

Due to the surge in coronavirus cases that occurred over the last few months, many have been left jobless. As of December 2020, the unemployment rate was 6.7%—nowhere near the high of 14.7% in April but still well above normal levels. With a new stimulus package recently signed into law, most Americans received a $600 direct payment and additional unemployment benefits of $300 per week until March 2021. With Democrats firmly in control of Washington, more aid could be passed in 2021 that could boost rent payments and stabilize rent growth.

Metros	Top Markets 2021 Rent Forecast % Change	YoY Change Dec. 2020
National—All Markets	2.0%	-0.8%
Las Vegas	4.8%	3.8%
Salt Lake City	4.3%	3.8%
Austin	3.9%	-3.6%
Indianapolis	3.9%	3.5%
Phoenix	3.7%	4.6%
Winston–Salem	3.6%	6.6%
New Orleans	3.5%	0.6%
Birmingham	3.4%	2.8%
Sacramento	3.4%	6.1%
Cincinnati	3.3%	2.2%
Atlanta	3.3%	3.0%
Columbus	3.3%	2.3%
Louisville	3.3%	1.8%
Raleigh	3.2%	0.0%
Richmond	3.1%	6.5%
Memphis	3.1%	5.9%
Tucson	3.0%	5.9%
Nashville	3.0%	-1.5%
Tampa–St. Petersburg	2.9%	3.9%
Houston	2.8%	-1.9%
Tacoma	2.8%	4.8%
Charlotte	2.7%	2.2%
Denver	2.7%	-1.7%
Detroit	2.7%	3.7%
Philadelphia	2.7%	2.4%

Source: Yardi Matrix

Supply

Last year's multifamily deliveries were impacted by COVID-19, but not as severely as many initially forecasted. The pandemic temporarily shut down some work sites, especially in large urban metros, and created some delays in supply chains. In the end, 285,000 units were delivered in the U.S. in 2020, only about 7% less than 2019.

The robust pipeline—some 765,000 units are currently under construction, representing 5.4% of existing stock—should keep deliveries above that 300,000 mark for the next few years. We project approximately 328,000 units to be delivered in 2021, with significant variations among metros. As a percentage of stock, metros with the most forecast new supply are White Plains (4,464 units, 6.5% of existing stock), the Southwest Florida Coast (4,108 units, 5.9%) and Louisville (4,484 units, 5.8%).

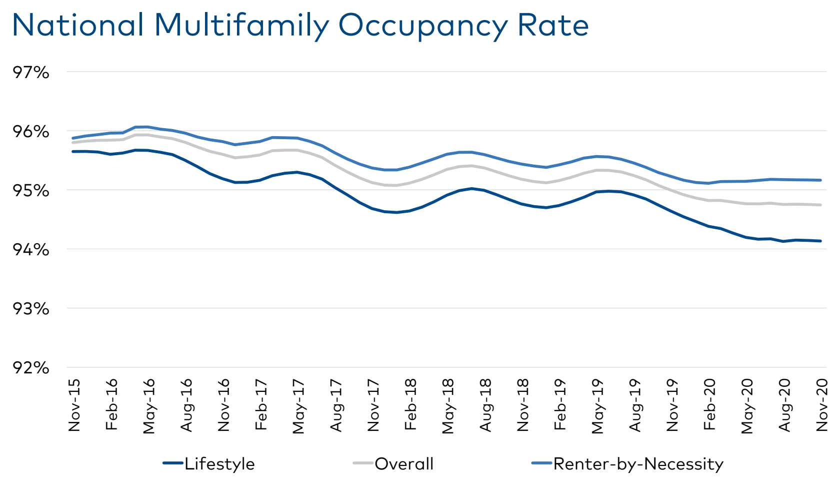
Among the leaders in deliveries in 2020 were the Southwest Florida Coast (4,650 units, 6.7% of existing stock) and Austin (11,400 units, 4.7% of existing stock). Charleston, S.C., (4,200 units, 6.4%) also was among the leaders. These high-growth metros benefit from strong migration out of the high-cost gateway markets into these lower-cost locations in the Sun Belt and Southwest.

On an absolute basis, the markets with the most units to be delivered in 2021 include Dallas (22,909 units, 3.0% of existing stock), Miami (16,262 units, 5.4%), and Washington, D.C. (14,541 units, 2.7%). Unsurprisingly, all three of the Texas metros fall in the top 10, with Houston (11,500) in fourth place and Austin (10,301 units) in seventh place. Some metros, especially in Texas, that had large increases in supply in recent years have moderated

Metros	Top Markets 2021 Forecast Completions	2021 Completions % Change
National—All Markets	327,718	15.3%
Dallas	22,909	12.1%
Miami	16,262	66.3%
Washington, D.C.	14,541	50.5%
Houston	11,500	-3.1%
Los Angeles	11,296	16.5%
Atlanta	10,939	9.7%
Austin	10,301	-10.0%
Seattle	9,816	29.9%
Phoenix	9,334	13.6%
Denver	8,653	-29.7%
Boston	8,449	20.8%
Chicago	7,797	0.8%
New York City	7,335	24.2%
San Francisco	7,166	64.8%
Twin Cities	6,760	4.9%
Charlotte	6,692	55.3%
Orlando	6,662	21.5%
Philadelphia	6,071	27.7%
Nashville	5,457	41.1%
Tampa–St. Petersburg	5,103	20.1%
San Antonio	4,960	-6.5%
New Jersey–Northern	4,955	29.9%
Salt Lake City	4,633	-0.6%
Louisville	4,484	215.6%
White Plains	4,464	199.6%

Source: Yardi Matrix

a little, but long-term growth is high in Sun Belt and Western markets.



Source: Yardi Matrix

High-cost gateway markets have taken the biggest hit as apartment dwellers search for more affordable housing during a downturn in which the economy has lost 10 million jobs. Among gateway markets, Boston has the most forecast deliveries in 2021, at 3.7% of existing stock, followed by San Francisco (2.8%), Washington, D.C. (2.7%), Los Angeles (2.6%), Chicago (2.2%) and New York City (1.3%). The mass exodus out of the gateway markets could affect the leaseup of these new deliveries over the next few years, especially since most of the new supply is concentrated in the Lifestyle segment.

New deliveries will take longer to fill until the economy recovers from COVID-19, since the demand for high-cost apartments has declined. Most projects, however, should find tenants in the long term. Occupancy has declined somewhat during the pandemic, especially among high-end properties, but at year-end the average occupancy in the U.S. was 94.7%. Demographic trends are still positive, with the prime renter-age population (20-34 years old) set to continue growing through the middle of the decade.

As Millennial renters reach their late 30s and 40s, a prime stage for first-time homebuyers, all eyes are turning to the rental preferences of Gen Z—those 25 years and younger—which was the only renter segment to see an upward trend in renter activity in 2020. Gen Z is expected to demand new design preferences; most importantly, young renters demand advanced technology built into the units. Other design changes likely to be popular this year coming out of the pandemic include more dedicated office spaces (either in the apartment or common areas) and more outdoor space.

Capital Markets

The industry faces many hurdles in 2021, but surprisingly capital markets conditions are not among them. Slow economic growth, the decline in rent collections and shrinking demand in primary markets might portend waning capital conditions, but that's not the case in multifamily.

Transaction volume declined to just over $80 billion from $127.6 billion in 2019, mostly because deal flow plummeted in the spring. Some facilities and activities necessary to complete deals were closed, lenders paused until they could assess the landscape, and some equity sources withdrew bids or sought to retrade deals. After a short pause, though, multifamily once again became a sought-after asset class.

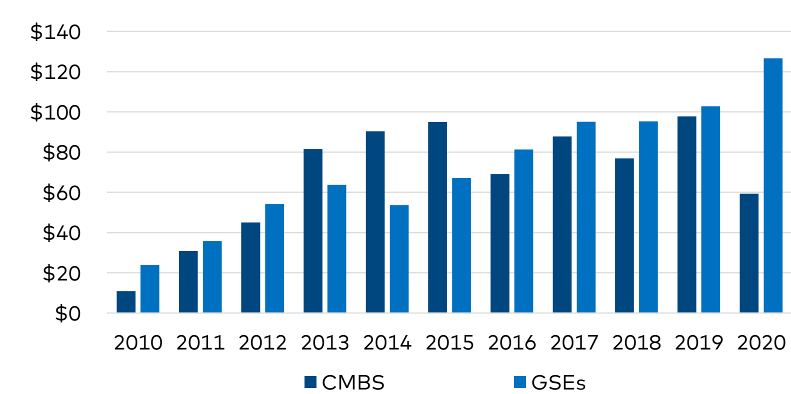
Many investors remain bullish on the prospects for multifamily demand. With a national long-term shortage of reasonably priced housing, demand for multifamily is projected to remain strong, especially in the Renter-by-Necessity and affordable segments. Investors see multifamily as a highly appealing investment product. Apartments typically produce 4-6% dividend yields, which is a better return than sovereign bonds or investment-grade corporate bonds. Multifamily also is attractive relative to other commercial property classes, except for industrial.

The biggest impediment to transaction volume is not a lack of capital looking to buy properties but the reluctance of owners to sell and the pricing gap between buyers and sellers. The pool of dry investment capital is substantial, but buyers are either waiting for prices to go down or being outbid by more aggressive investors. The effect is a filtering down, in which investors are moving down a notch in market size.

Despite the sudden decline in transaction activity, acquisition yields have not changed much. Usually a sales slowdown leads to higher capitalization rates. However, that hasn't happened during the pandemic, since demand is high, property performance has been solid in most market segments, and interest rates fell from pre-pandemic levels, making borrowing cheaper. The 10-year Treasury rate fell as low as 0.54% in March before recovering and has mostly remained below 1.0% in recent months (although it rose to 1.1% in mid-January). That gives property buyers a large premium over the risk-free rate and a cheap cost of debt.

Multifamily lending snapped back after a month-long period in the spring when the market needed time to adjust. The market was steadied by the presence of Fannie Mae and Freddie Mac, whose government support helped them get back to business. Agency lenders Freddie Mac, Fannie

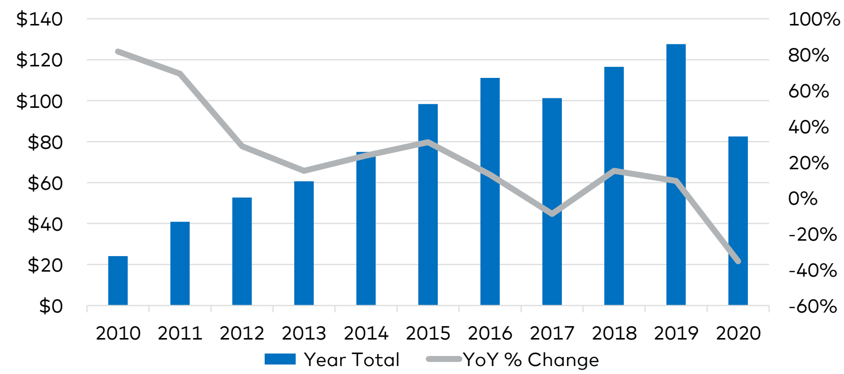
CRE Securitization Volume



Source: Commercial Mortgage Alert

Mae and Ginnie Mae funded a record $181 billion of loans in 2020, up from $155 billion in 2019, according to "Commercial Mortgage Alert" and Fannie Mae.

U.S. Multifamily Sales Volume (Bil)



Source: Yardi Matrix

The rapid growth of the GSEs might end in 2021. Fannie's and Freddie's regulator, the Federal Housing Finance Agency, reduced their 2021 loan allocations to $70 billion, down 12.5% from $80 billion. FHFA also mandated that at least half of new loans have an affordable component, up from 37.5% in 2020, while the definition of what constitutes "affordable" was tightened. A bigger issue with the GSEs is the oversight of a new administration. Donald Trump's FHFA administrator, Mark Calabria, had set the agencies on a path to releasing them from conservatorship, but the Biden administration is likely to take a more gradual approach.

Even with the lower caps, multifamily properties will have plenty of debt options available. Other lenders—commercial banks, life companies, CMBS and private equity—have varying competitive pressures, but all want to increase multifamily business.

That's not to say impediments don't exist. Properties with weak rent collections have had to ask for forbearance plans. While it hasn't been as large of an issue as was anticipated in the early stages of COVID-19, servicing will be critical in 2021. Loan delinquency rates remain low for multifamily. As of December 2020, the delinquency rate for multifamily loans in CMBS pools was 2.8%, according to Trepp. It's possible that multifamily defaults will spike in 2021 if unemployment rates remain high, renters run out of the financial wherewithal to pay rents, and the government relief ends before employment returns to normal.

The upshot is that demand for multifamily investments is high among both equity and debt providers and should remain so in 2021, barring a sharp and unexpected economic downturn or a health crisis that would create another shutdown.

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- A young-professional, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- Students, who also may span a range of income capability, extending from affluent to barely getting by;
- Lower-middle-income ("gray-collar") households composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- Blue-collar households, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- Subsidized households, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- Military households subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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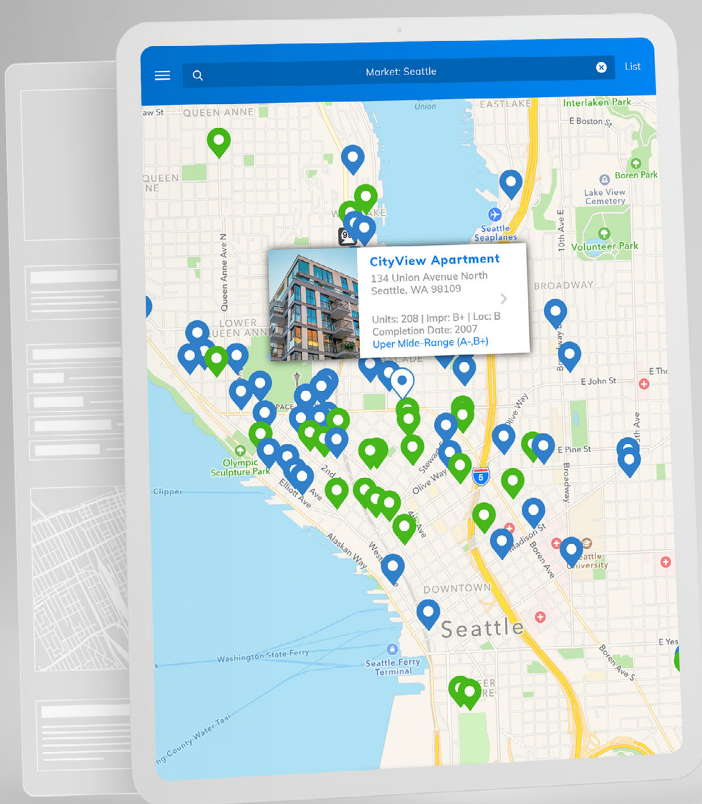

Yardi Matrix Multifamily provides accurate data on **18+ million units**, covering over **90% of the U.S. population**.

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