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Steep Multifamily Occupancy Declines an Urban Phenomenon

- Roughly one out of every 14 multifamily properties in the U.S. has seen occupancy rates drop by 5% or more over the last 12 months, according to a study of Yardi Matrix's database. However, the loss is concentrated in urban assets in gateway metros, which limits the potential for distress.

- The study shows a large bifurcation in market performance and recovery period. Some markets are back to pre-pandemic performance levels already, while it could take 3 years or more for rents to recover in the most affected urban submarkets.

- The study tracked 78,000 properties with 14.4 million units in Matrix's database. In the year ending February 2021, 7.3% of properties nationally saw occupancy rates drop by 5% or more and 1.8% of properties saw occupancy rates drop by 10% or more.

- The decline in property-level performance was concentrated in urban centers, particularly Manhattan, San Francisco, Chicago and Los Angeles. Severe drops in demand are rare. Only nine metros saw as many as 2% of properties suffer a decline in occupancy of 10% or more over the last year.

- While the data demonstrates the troubles some segments of the market face, the industry can take solace in the finding that the poor performance in demand and occupancy is limited. The results show that the amount of distress anticipated by some is likely to remain limited, and whatever does occur will almost certainly be concentrated in high-cost gateway centers that will have a much bigger hill to climb to get back to pre-pandemic revenue levels when normality returns.

End of Strong Multifamily Cycle

The multifamily market was a decade into a strong performance cycle when the effects of COVID-19 started to be felt in March 2020. Rent growth was up 3.0% year-over-year nationally in February 2020, averaging 3.2% during the previous 120 months. Growth was positive in virtually every metro during the entire cycle. The occupancy rate for stabilized properties in February 2020 was 94.9%, and it had been near that level for most of the last decade.

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COVID-19 hit the economy hard. More than 20 million jobs were lost at some point during the last three quarters of 2020. U.S. employment was 144.1 million in March, 8.4 million fewer than February 2020, according to the Bureau of Labor Statistics. Job losses were the highest in urban centers and among low-wage service workers in hospitality, food services and tourism, as most office workers were able to work from home.

Demand varied sharply by market. Absorption was strong in many secondary and tertiary metros in the Southeast, Southwest and West, led by Dallas, Atlanta, Denver and Phoenix. Urban centers, however, where large central business district office buildings emptied, fared less well. In-migration dropped as the usual influx of workers failed to materialize and immigration fell sharply. Out-migration also increased as many chose to relocate to less expensive areas and find more spacious housing. Some renters moved in with family or friends, some moved to the suburbs, and others relocated to different markets.

The differences in metro-level demand are reflected in the occupancy rates of stabilized properties. Some markets saw substantial increases. For example, Sacramento's occupancy rate rose 210 basis points to 97.8% year-over-year through February 2021, capitalizing on an influx of Bay Area renters who were looking for less expensive housing but wanted to remain in Northern California. Charlotte (140 basis points), Dallas and Tampa (110 basis points) and Denver and Las Vegas (90 basis points) also saw substantial growth in occupancy rates.

New York City and the Bay Area led metros with large decreases in overall occupancy rates in the year ending February 2021. Average occupancy in New York City dropped by almost 5% (-490 basis points), with large drops in San Francisco (-340 basis points) and San Jose (-290 basis points).

Location, Location, Location

Big-picture trends don't address how many properties have had a severe enough revenue decrease to potentially become distressed. Foreclosures have been slow to arrive for several reasons, including forbearance policies implemented by lenders including Fannie Mae and Freddie Mac due to COVID-19, slowing state court dockets, and the unexpected healthy performance in most markets.

To gauge where there is most potential for distress, we reviewed our U.S. database to determine how many properties saw occupancy rates fall by 5% or more and 10% or more between February 2020 and February 2021. We found 5,705 properties, or 7.3% of the total, experienced an occupancy decrease of 5% or more, and 1,422 properties, or 1.8% of the total, had an occupancy rate decrease of 10% or more.

The totals, however, tell only part of the story, as there is an enormous discrepancy based on location. New York City had by far the most properties with serious occupancy decreases. Some 857 multifamily properties (32.6% of the total in the city) saw occupancy decrease by 5%, while 251 properties (9.8% of the total) saw occupancies decline by 10% or more.

Other metros with substantial property-level issues include San Jose, where 182 properties (25.1% of the total) saw a 5% or more drop in occupancy and 54 properties (7.4%) a drop of 10% or more; Los Angeles, with 485 properties (21.8%) with a 5% or more drop and 92 (4.2%) with 10% or more; Chicago, which had 396 properties (20.9%) with a 5% or more drop and 112 properties (5.9%) with 10% or more; and San Francisco, which had 360 properties (19.4%) with a 5% or more decline and 125 properties (6.7%) with 10% or more.

Property-Level Occupancy Drops, Rent and Occupancy Change by Metro

Market	Prop with > 5% Drop in Occ	% of All Prop	Prop with > 10% Drop in Occ	% All Prop	YOY Occ Change	YOY Rent Growth
New York	857	32.6%	251	9.6%	-5.2%	-13.6%
San Jose	182	25.1%	54	7.4%	-3.4%	-12.0%
Los Angeles	485	21.8%	93	4.2%	-1.2%	-2.2%
Chicago	396	20.9%	112	5.9%	-2.3%	-2.3%
San Francisco	360	19.4%	125	6.7%	-2.9%	-9.4%
Seattle	233	13.4%	64	3.7%	-1.4%	-7.6%
Washington DC	285	13.2%	99	4.6%	-1.7%	-4.4%
Twin Cities	163	10.1%	43	2.7%	-1.7%	0.1%
Houston	230	8.6%	50	1.9%	-0.4%	-0.8%
Nashville	56	8.4%	14	2.1%	-0.7%	0.0%
Austin	85	7.8%	15	1.4%	-0.8%	-1.1%
Dallas	223	6.7%	38	1.1%	-0.1%	1.7%
Boston	86	6.4%	26	1.9%	-1.3%	-2.6%
Kansas City	53	5.9%	13	1.4%	-0.5%	2.7%
Raleigh	42	5.6%	8	1.1%	0.1%	0.5%
Portland	64	5.5%	13	1.1%	0.3%	1.7%
Orlando	51	5.5%	16	1.7%	-0.4%	-0.1%
Phoenix	78	5.1%	7	0.5%	0.4%	6.9%
Denver	74	5.0%	14	0.9%	0.0%	0.4%
Indianapolis	43	4.9%	9	1.0%	0.6%	3.9%
Philadelphia	72	4.3%	16	1.0%	0.2%	3.4%
Miami Metro	61	4.0%	11	0.7%	-0.1%	2.8%
Baltimore	37	3.7%	10	1.0%	0.9%	3.8%
Orange County	37	3.4%	5	0.5%	0.3%	1.0%
Sacramento	28	3.1%	13	1.4%	1.1%	7.3%
Las Vegas	23	3.0%	2	0.3%	1.4%	6.1%
Atlanta	56	3.0%	9	0.5%	1.1%	4.7%
Tampa	25	2.5%	6	0.6%	0.9%	5.0%
Charlotte	21	2.3%	2	0.2%	0.5%	2.7%
Inland Empire	12	1.2%	4	0.4%	2.2%	8.3%
National	5,705	7.3%	1422	1.8%	-0.2%	0.6%

Source: Yardi Matrix

Even the metro-level numbers fail to do justice to the concentration of the problem. Within each of these metros, urban submarkets had substantially worse performance. In New York City, for example, occupancy decreases were largely confined to Manhattan, where a whopping 830 properties, or 47.8% of all apartment buildings, experienced a 5% or more decline in occupancy rates and 13.6% declined by 10% or more. Meanwhile, only 4.4% of properties in Queens and 2.0% of properties in Brooklyn saw occupancy rates drop as much as 5%.

The story was similar, if not as dire, in other gateway metros. In the San Francisco Peninsula, 35.1% of properties had a 5% decrease in occupancy rates, compared to only 6.5% in the East Bay. Some 34.5% of properties in Urban Chicago saw occupancy rates increase by 5%, while the rate was 2.5% in Suburban Chicago. In Urban Los Angeles, 32.5% of properties had an occupancy rate increase of 5% or more, compared to only 2.6% in the Eastern County.

Not every metro saw the same urban-suburban split. The performance between submarkets was minimal in some metros, including Dallas, Atlanta, Miami, Philadelphia and Houston. And just because a market performed well in overall occupancy rates doesn't mean that individual properties didn't struggle. For example, despite its large jump in occupancy on the metro level, Sacramento had 28 properties (3.1%) with a 5% or more drop in occupancy in the year ending February 2021, and 13 (1.4%) dropped by 10% or more. Dallas had 223 properties (6.7%) with a 5% or more decline in occupancy rates, and 38 (1.1%) dropped by 10% or more.

Urban Recovery Years Away

Potential distress is not just a matter of how much performance falls, but how long it remains down. To get a feel for the length of recovery, we looked at how long it will take for occupancy rates and income to recover to pre-pandemic levels in each market.

For most metros, the answer was simple: Occupancy and rents are already at or above 1Q20 numbers. Nationally, the average rent hit $1,401 in February 2021, above the $1,400 figure of February 2020, per Matrix. National occupancy rates for stabilized properties averaged 94.6% in February 2021, still 20 basis points lower than February 2020. In the 131 metros we examined, average rent in February 2021 was higher year-over-year in 108 and is expected to be more by the end of the year in 117.

The outlook is worse for the primary metros with the largest declines in property fundamentals. Rents have dropped by double-digit percentages in New York and the Bay Area. Based on Yardi Matrix rent forecasts, it will take New York City more than three years to get back to 1Q20 rent levels. Despite solid rent growth forecasts, it will take several years for rents to get back to pre-pandemic levels in San Francisco and San Jose and 2023 in Los Angeles and Seattle.

Occupancy is not as clearly defined by the primary/secondary/tertiary metro divide because rapid supply growth will push down rates in some markets with strong demand. That said, we forecast that it will take at least three years to return to 1Q20 occupancy levels in gateway cities such as New York, San Francisco (and San Jose), Los Angeles and Chicago, and in secondary metros such as Orlando, Miami and the Twin Cities.

Property-Level Occupancy Drops, Rent and Occupancy Change by Metro Urban/Suburban

Market	Prop with > 5% Drop in Occ	% of All Prop	Prop with > 10% Drop in Occ	% All Prop	YOY Occ Change	YOY Rent Growth
Atlanta						
Atlanta–Suburban	22	2.6%	3	0.4%	1.7%	7.9%
Atlanta–Urban	34	3.3%	6	0.6%	0.6%	1.8%
Chicago						
Chicago–Suburban	29	3.5%	8	1.0%	0.2%	2.4%
Chicago–Urban	367	34.5%	104	9.8%	-6.1%	-5.9%
Dallas						
Dallas–North	102	7.2%	17	1.2%	-0.2%	0.5%
Dallas–Suburban	65	6.9%	13	1.4%	-0.3%	1.6%
Fort Worth	56	5.7%	8	0.8%	0.2%	3.3%
Houston						
Houston–East	65	6.9%	13	1.4%	-0.3%	0.0%
Houston–West	165	9.5%	37	2.1%	-0.5%	-1.0%
Los Angeles						
Los Angeles–Eastern County	21	2.6%	3	0.4%	0.4%	2.4%
Los Angeles–Metro	464	32.5%	90	6.3%	-3.5%	-5.0%
Miami Metro						
Fort Lauderdale	13	2.9%	1	0.2%	0.2%	2.8%
Miami	38	4.9%	9	1.2%	-1.2%	1.5%
West Palm Beach–Boca Raton	10	3.1%	1	0.3%	0.9%	5.2%
New York						
Brooklyn	10	2.0%	6	1.2%	-1.0%	-10.5%
Manhattan	830	47.8%	236	13.6%	-7.4%	-14.3%
Queens	17	4.4%	9	2.3%	-1.4%	-9.4%
Philadelphia						
Philadelphia–Suburban	23	2.4%	1	0.1%	1.0%	4.7%
Philadelphia–Urban	49	6.9%	15	2.1%	-1.1%	1.6%
San Francisco						
Bay Area–East Bay	66	6.5%	15	1.5%	-0.5%	-3.3%
San Francisco–Peninsula	294	35.1%	110	13.1%	-6.0%	-14.7%
Twin Cities						
Twin Cities–Suburban	27	4.1%	3	0.5%	-0.2%	2.1%
Twin Cities–Urban	136	14.4%	40	4.2%	-3.0%	-1.6%
Washington DC						
Northern Virginia	60	7.6%	15	1.9%	-1.4%	-5.5%
Washington DC–Suburban Maryland	225	16.3%	84	6.1%	-2.0%	-3.8%

Source: Yardi Matrix

Estimated Rent and Occupancy Recovery Periods, By Metro

Market	Rent 1Q20	Rent Recovery Quarter	Rent Growth 2021-2023	Cumulative Rent Growth 2021-2025	Occupancy 1Q20	Occ Recovery Quarter
New York	$3,601	> 3 Years	9.4%	15.1%	98.5%	> 3 Years
San Jose	$2,949	> 3 Years	8.4%	14.1%	95.5%	> 3 Years
San Francisco	$2,742	> 3 Years	6.2%	13.6%	95.5%	> 3 Years
Los Angeles	$2,357	1Q23	6.0%	11.2%	96.1%	> 3 Years
Seattle	$1,948	1Q23	10.0%	16.4%	95.4%	> 3 Years
Washington DC	$1,865	3Q22	8.2%	13.2%	95.4%	> 3 Years
Chicago	$1,611	2Q22	6.7%	11.2%	94.4%	> 3 Years
Boston	$2,312	1Q22	7.4%	11.7%	96.2%	4Q23
Austin	$1,416	4Q21	8.8%	15.1%	94.6%	> 3 Years
Houston	$1,140	2Q21	10.5%	17.7%	92.7%	4Q21
Orlando	$1,381	2Q21	9.6%	16.6%	94.9%	> 3 Years
Twin Cities	$1,362	Recovered	7.3%	12.3%	96.6%	> 3 Years
Nashville	$1,316	Recovered	8.8%	14.8%	95.1%	4Q23
Dallas	$1,237	Recovered	8.9%	15.2%	94.1%	2Q21
Kansas City	$1,013	Recovered	8.1%	13.9%	94.9%	> 3 Years
Raleigh	$1,239	Recovered	10.9%	18.6%	94.6%	Recovered
Portland	$1,445	Recovered	9.0%	15.4%	95.2%	Recovered
Phoenix	$1,247	Recovered	11.1%	19.7%	95.2%	Recovered
Denver	$1,587	Recovered	10.3%	17.4%	94.7%	Recovered
Indianapolis	$962	Recovered	8.5%	14.1%	94.3%	Recovered
Philadelphia	$1,415	Recovered	6.6%	11.4%	95.6%	Recovered
Miami Metro	$1,725	Recovered	8.9%	15.2%	95.1%	> 3 Years
Baltimore	$1,388	Recovered	7.0%	12.2%	94.9%	Recovered
Orange County	$2,165	Recovered	6.1%	10.9%	96.0%	Recovered
Sacramento	$1,561	Recovered	13.3%	21.0%	96.0%	Recovered
Las Vegas	$1,128	Recovered	11.5%	18.7%	94.8%	Recovered
Atlanta	$1,342	Recovered	9.3%	16.3%	94.0%	Recovered
Tampa	$1,309	Recovered	7.4%	13.3%	94.7%	Recovered
Charlotte	$1,235	Recovered	9.4%	16.3%	94.9%	Recovered
Inland Empire	$1,601	Recovered	14.9%	21.8%	95.9%	Recovered
National	$1,400	Recovered	11.9%	14.8%	94.8%	

Source: Yardi Matrix

Distress Not Materializing—Yet

On a broad level, the multifamily industry is surviving COVID-19 without too much disruption. Nationally, rent and occupancy levels fell only slightly in 2020 before turning positive again in the first quarter of 2021, while acquisition yields barely budged. As of February 2021, only 2.3% of multifamily CMBS was delinquent, according to Trepp.

Drilling down, however, reveals segments that are struggling and problems that must be addressed in the wake of the pandemic. Urban submarkets in gateway metros will take years to recover lost revenue, even though rents started to increase again in those markets. What's more, urban markets are bracing for a wave of supply just as demand is now in doubt. Much of the development pipeline has been concentrated in urban high-rise Lifestyle properties, where demand has been strongest for the last decade. The pandemic, however, prompted demand to shift to suburban and secondary/tertiary markets, which could create a backlog to fill many of the high-cost urban properties in the pipeline.

How quickly urban neighborhoods rebound hinges on many unknown factors, including when vaccine implementation provides enough confidence for people to congregate in urban environments, when and how corporations handle returning to the office once the pandemic is under control, and whether walkable "24-hour" cities have permanently lost their luster with some segments of the population.

Individual properties also face challenges, including rent collection, loan servicing and sponsorship. Some renters remain in place despite falling behind on rent payments owing to lost income and unemployment. Many landlords have worked out payment plans with such tenants, while eviction moratoriums via some lenders and jurisdictions make that more difficult. The roughly $46.6 billion of renter aid payments allocated in the last two stimulus bills will help make up some of this shortfall, but it will take time to get the funds to the right places. Owners that are well-capitalized can get through a temporary dip in income. Those that fall behind on mortgage payments may renegotiate terms with lenders that want to avoid foreclosures.

The upshot is that the pandemic has created a list of challenges and changes that the industry will wrestle with for some time. Our review of property-level performance indicates that potential distress might not be as widespread as first imagined, and that it might be an urban phenomenon.

—Paul Fiorilla, Director of Research, and
Justin Dean, Senior Analyst

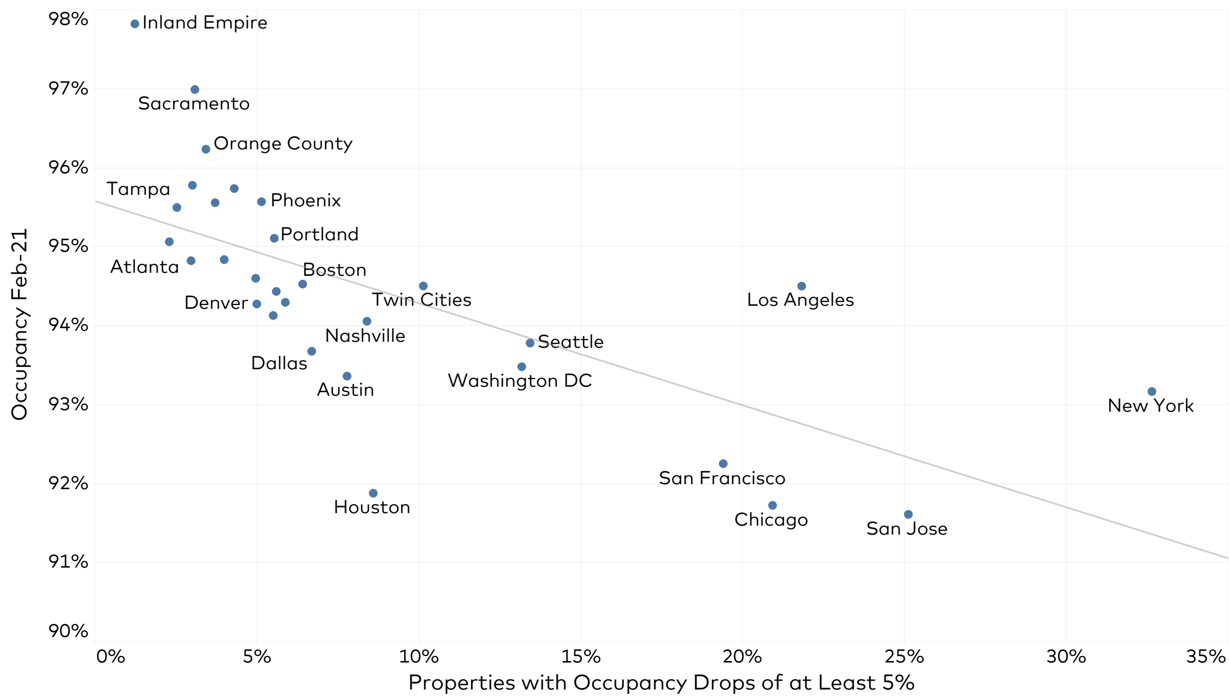
Appendix

Property-Level Occupancy Drops, Rent and Occupancy Change by Metro Urban/Suburban

Market	Rent 1Q20	Rent Recovery Quarter	Rent Growth 2021-2023	Cumulative Rent Growth 2021-2025	Occupancy 1Q20	Occ Recovery Quarter
Atlanta						
Atlanta–Suburban	$1,236	Recovered	9.5%	16.6%	94.1%	Recovered
Atlanta–Urban	$1,433	Recovered	9.2%	16.1%	93.9%	Recovered
Chicago						
Chicago–Suburban	$1,276	Recovered	6.6%	11.5%	94.5%	> 3 Years
Chicago–Urban	$1,935	4Q23	6.7%	11.1%	94.3%	> 3 Years
Dallas						
Dallas–North	$1,326	2Q21	10.0%	17.0%	93.9%	3Q21
Dallas–Suburban	$1,172	Recovered	8.4%	14.4%	94.6%	2Q21
Fort Worth	$1,144	Recovered	7.1%	12.5%	94.0%	Recovered
Houston						
Houston–East	$1,001	Recovered	8.7%	14.5%	92.5%	> 3 Years
Houston–West	$1,200	3Q21	11.2%	18.9%	92.8%	3Q21
Los Angeles						
Los Angeles–Eastern County	$1,930	Recovered	7.4%	13.9%	96.4%	> 3 Years
Los Angeles–Metro	$2,583	> 3 Years	5.3%	10.0%	95.9%	> 3 Years
Miami						
Fort Lauderdale	$1,706	Recovered	12.1%	18.8%	94.8%	> 3 Years
Miami	$1,729	2Q21	6.5%	11.9%	95.8%	> 3 Years
West Palm Beach–Boca Raton	$1,747	Recovered	8.9%	16.4%	94.2%	> 3 Years
New York						
Brooklyn	$2,943	> 3 Years	10.9%	18.1%	98.9%	> 3 Years
Manhattan	$4,215	> 3 Years	9.2%	14.5%	98.3%	> 3 Years
Queens	$2,624	3Q23	8.5%	13.6%	99.0%	> 3 Years
Philadelphia						
Philadelphia–Suburban	$1,331	Recovered	7.7%	13.3%	95.7%	Recovered
Philadelphia–Urban	$1,550	Recovered	4.9%	8.6%	95.5%	> 3 Years
San Francisco						
Bay Area–East Bay	$2,379	1Q23	6.9%	13.2%	95.6%	> 3 Years
San Francisco–Peninsula	$3,153	> 3 Years	5.6%	14.0%	95.4%	> 3 Years
Twin Cities						
Twin Cities–Suburban	$1,267	Recovered	7.9%	13.5%	96.9%	> 3 Years
Twin Cities–Urban	$1,423	3Q23	7.0%	11.6%	96.3%	> 3 Years
Washington DC						
Northern Virginia	$1,895	1Q23	9.0%	14.6%	95.6%	> 3 Years
Washington DC–Suburban Maryland	$1,844	2Q22	7.7%	12.2%	95.3%	4Q23

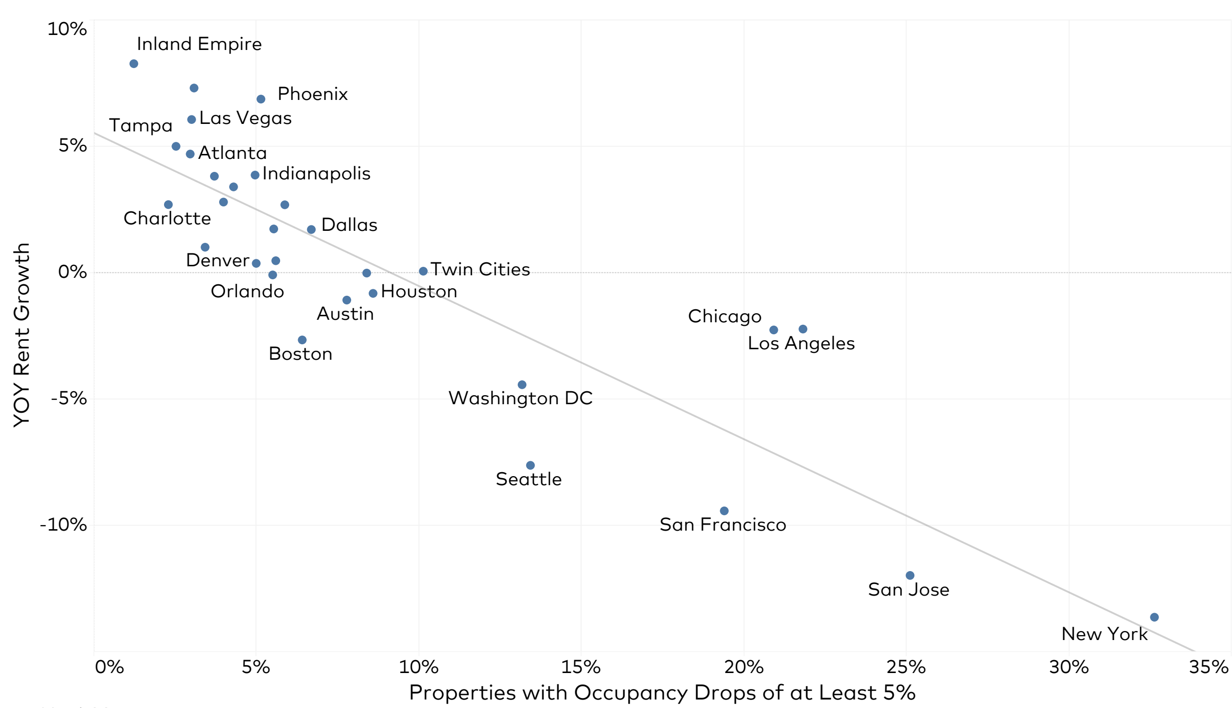
Source: Yardi Matrix

Occupancy Drops vs Occupancy, by Metro

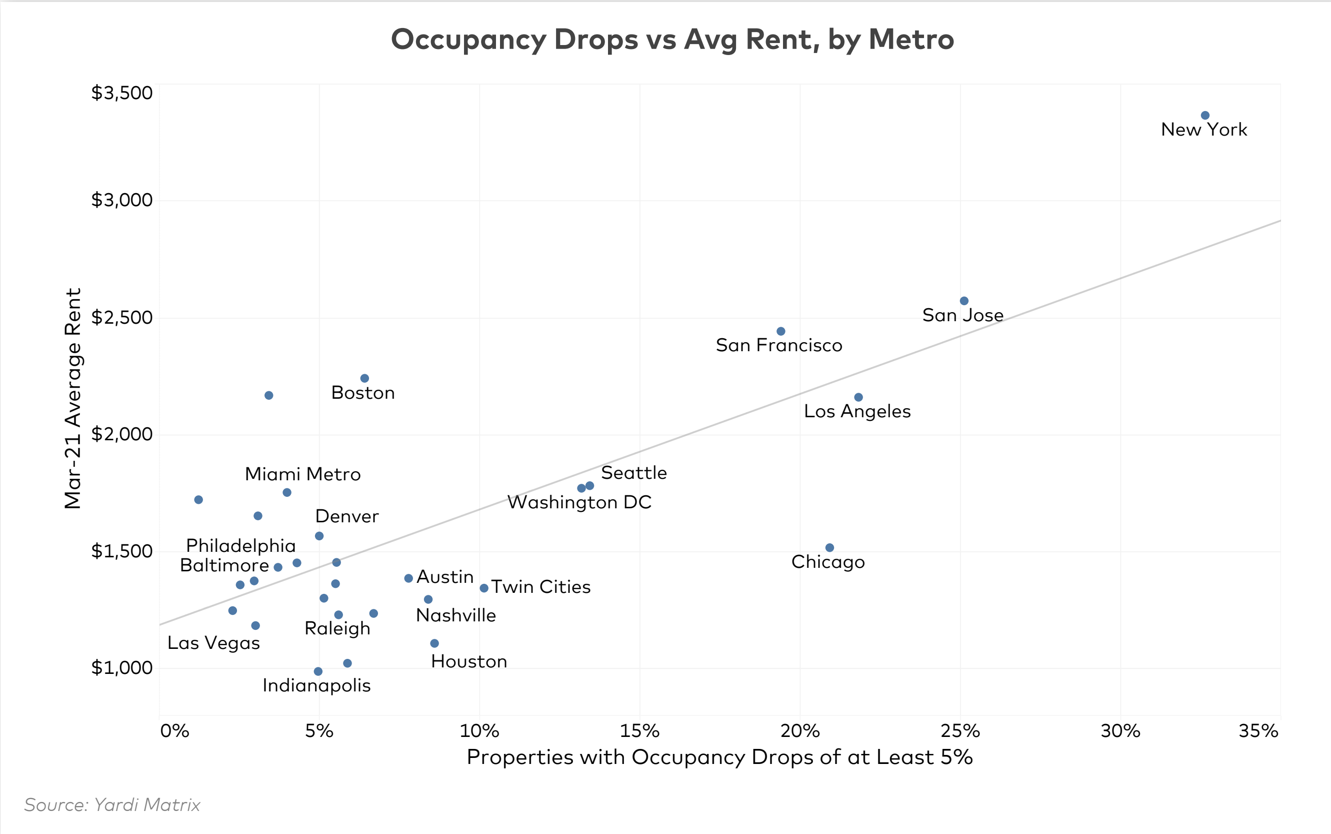


Source: Yardi Matrix

Occupancy Drops vs Rent Growth, by Metro



Source: Yardi Matrix



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