2Q20

UNITED STATES MULTIFAMILY
CAPITAL MARKETS REPORT

Newmark Knight Frank

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KEY TAKEAWAYS

SALES VOLUME

Sales volume totaled $13.9 billion in 2Q20, representing a 70.4% year-over-year decline compared with 2Q19. While transactions slowed considerably as a result of the COVID-19 pandemic, multifamily has been the top recipient of capital year-to-date. Sales volume averaged $4.6 billion per month in 2Q20, the lowest monthly average since 2Q11.

RENT COLLECTIONS

Multifamily has been the top performing property type for rent collections since the onset of COVID-19 and the only property type to exceed 90% rent collections each month since April. Rent collections fared best in 2Q20 in lower-cost, higher growth non-major markets such as Austin, Denver, Sacramento, Salt Lake City and San Diego.

TOTAL RETURNS

Annual total returns for multifamily decreased to 2.98% in 2Q20 as appreciation was negative for the first time since 2009. The income component of total returns remains durable at 4.23%, just 6 basis points below 2019 levels. Performance in the Southeast has outpaced the broader US multifamily total returns index on a short and long-term basis.

RENT GROWTH

Over the past 12 months, annual effective rent growth fell to 2.1%, caused by a 150 basis point drop in 2Q20 compared with 1Q20. On a quarterly basis, rent growth dropped to -1.0% due to COVID-19. Rental growth over the past 12 months remains strongest in Sunbelt markets lead by Phoenix at 6.7%.

SUPPLY AND DEMAND

Over the past 12 months, 303,650 units were delivered nationally compared to 177,007 units absorbed. The largest markets in Texas (Austin, Dallas, Houston and San Antonio) account for 17.9% of deliveries nationally over the past year.

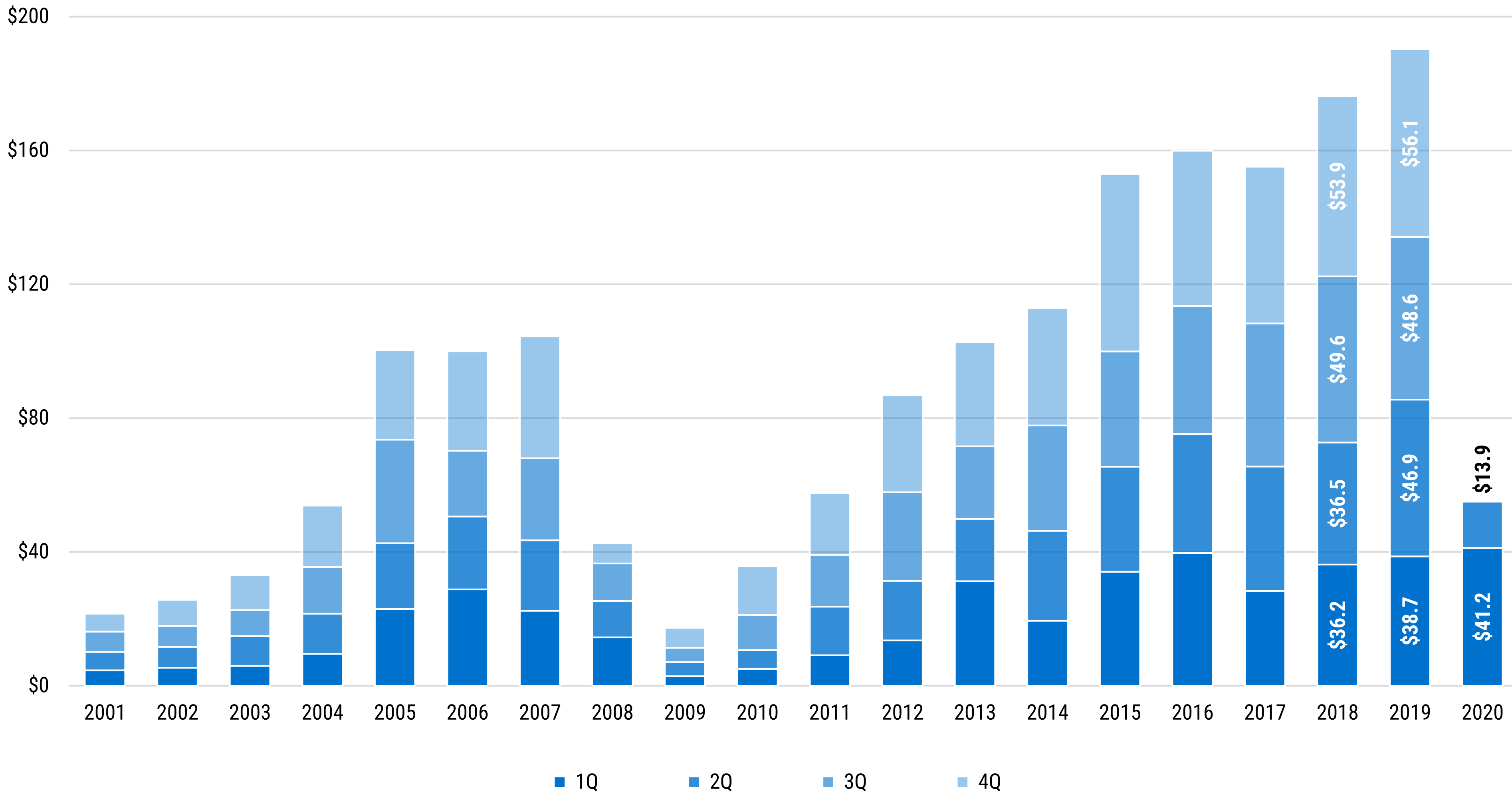
DEBT MARKETS

Total mortgage debt outstanding for the multifamily sector rose to $1.6 billion for the quarter, an increase of 1.8% quarter-over-quarter. Total originations by Fannie Mae and Freddie Mac rose to $39.8 billion in 2Q20 as the market stabilized in part due to Federal Reserve policy.

HISTORICAL SALES VOLUME

UNITED STATES; DOLLARS IN BILLIONS

Sales volume totaled $13.9 billion in 2Q20, representing a 70.4% year-over-year decline compared with 2Q19. While transactions slowed considerably as a result of the COVID-19 pandemic, multifamily has been the top recipient of capital year-to-date and remains a preferred destination for global capital.

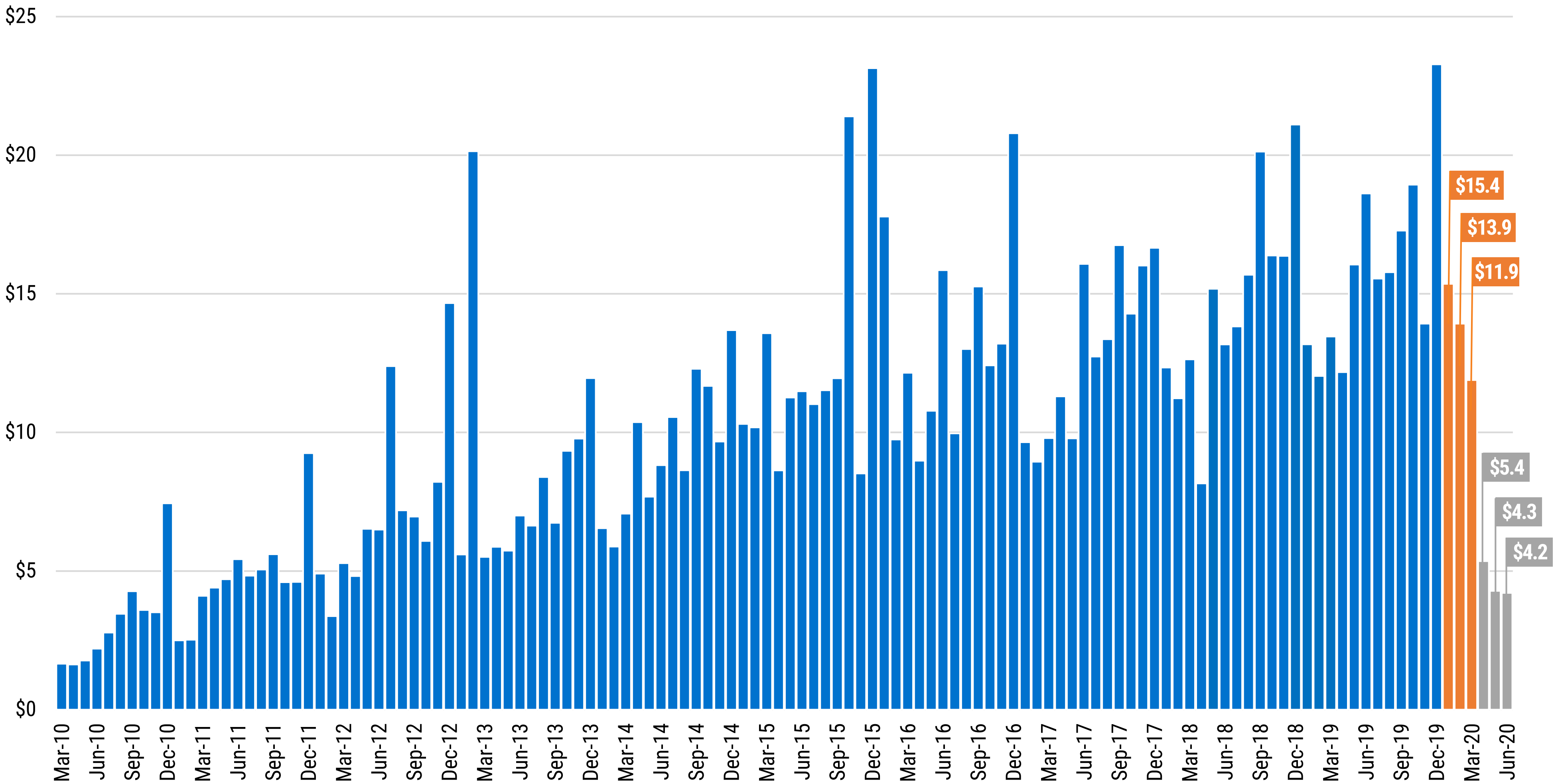


Source: NKF Research, Real Capital Analytics

MONTHLY SALES VOLUME

UNITED STATES; DOLLARS IN BILLIONS

Sales volume averaged $4.6 billion per month in 2Q20, the lowest monthly average since 2Q11 as COVID-19 had a drastic impact on liquidity and debt availability. Despite this decline, multifamily fundamentals have remained robust, and rent collections remain close to pre-COVID levels.

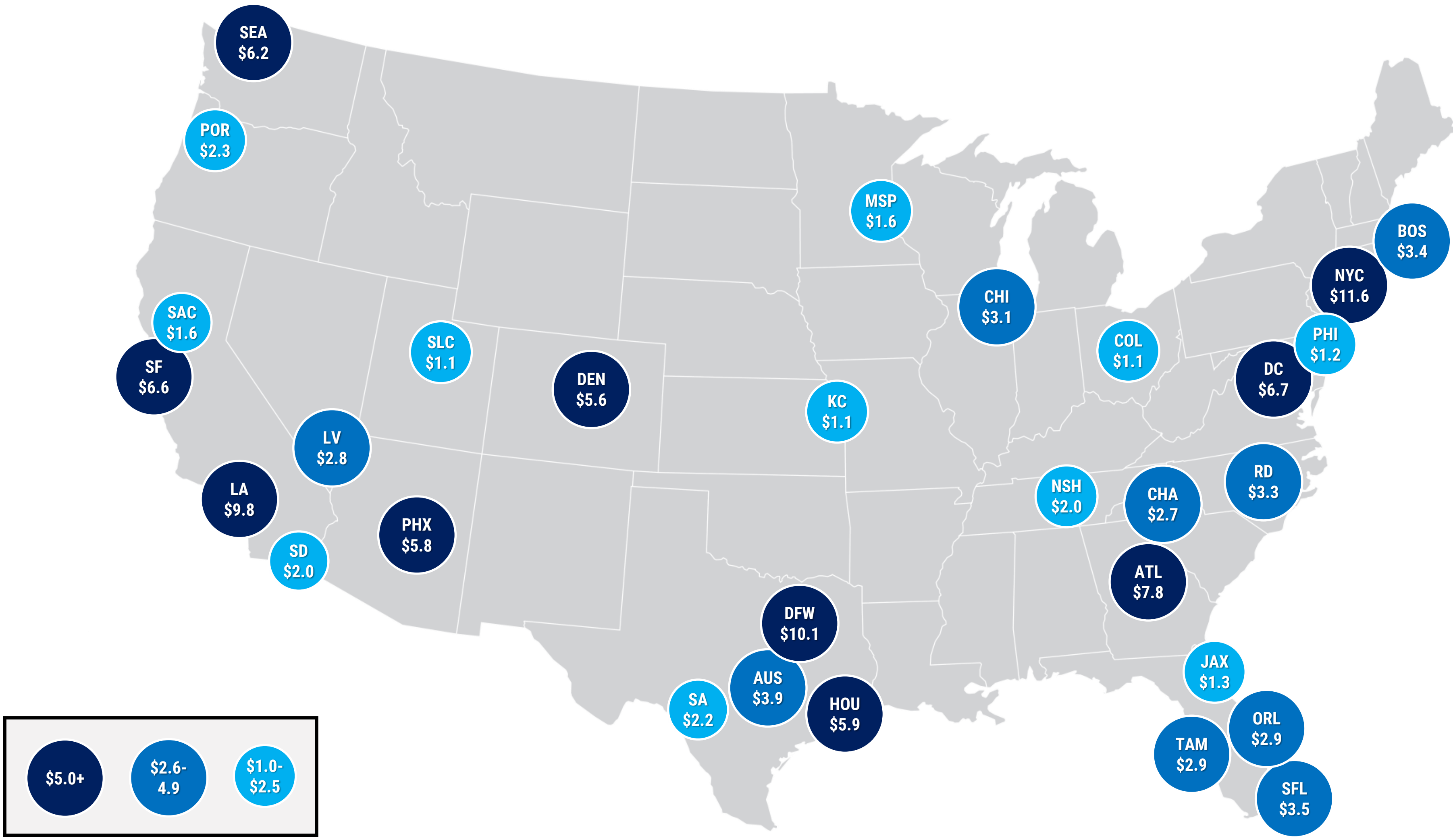


Source: NKF Research, Real Capital Analytics

SALES VOLUME BY MARKET

12-MONTH TOTALS; DOLLARS IN BILLIONS

Despite the slowdown in sales volume nationally, a combination of small, mid-size and large markets managed year-over-year increases such as Columbus (9.8%), life sciences and university focused-Raleigh-Durham (10.0%), and Seattle (7.7%), home to Amazon and major cloud providers.



* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

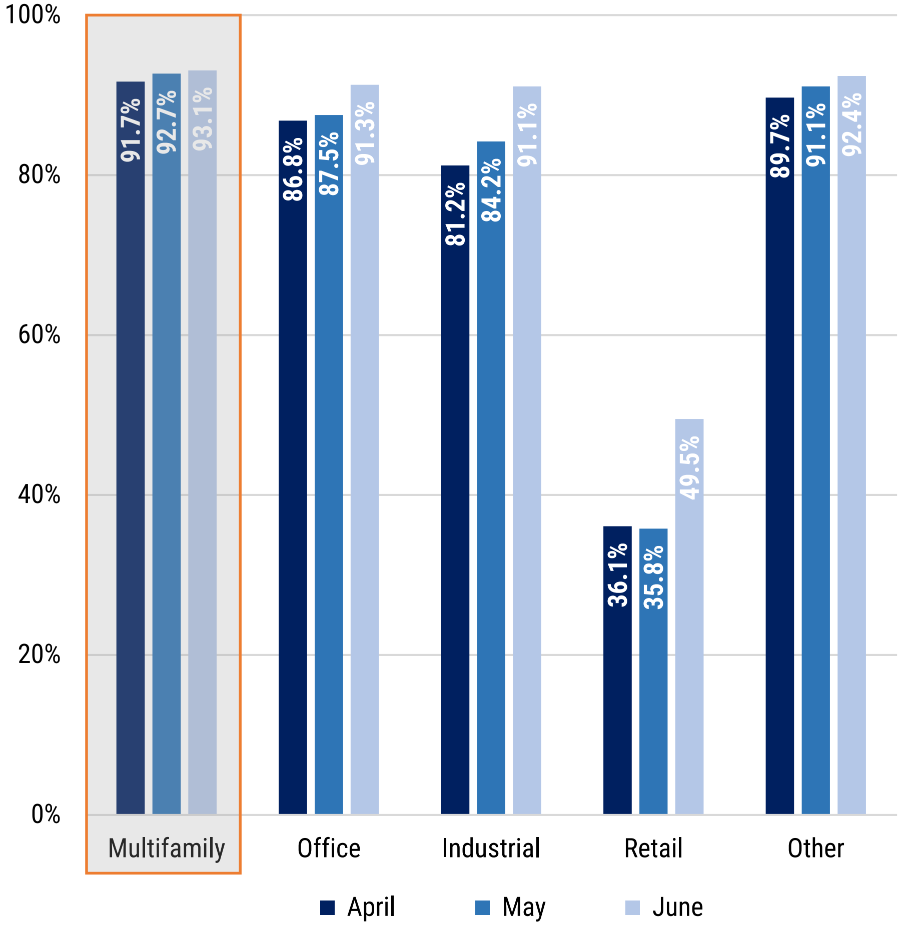
Source: NKF Research, Real Capital Analytics

RENT COLLECTIONS

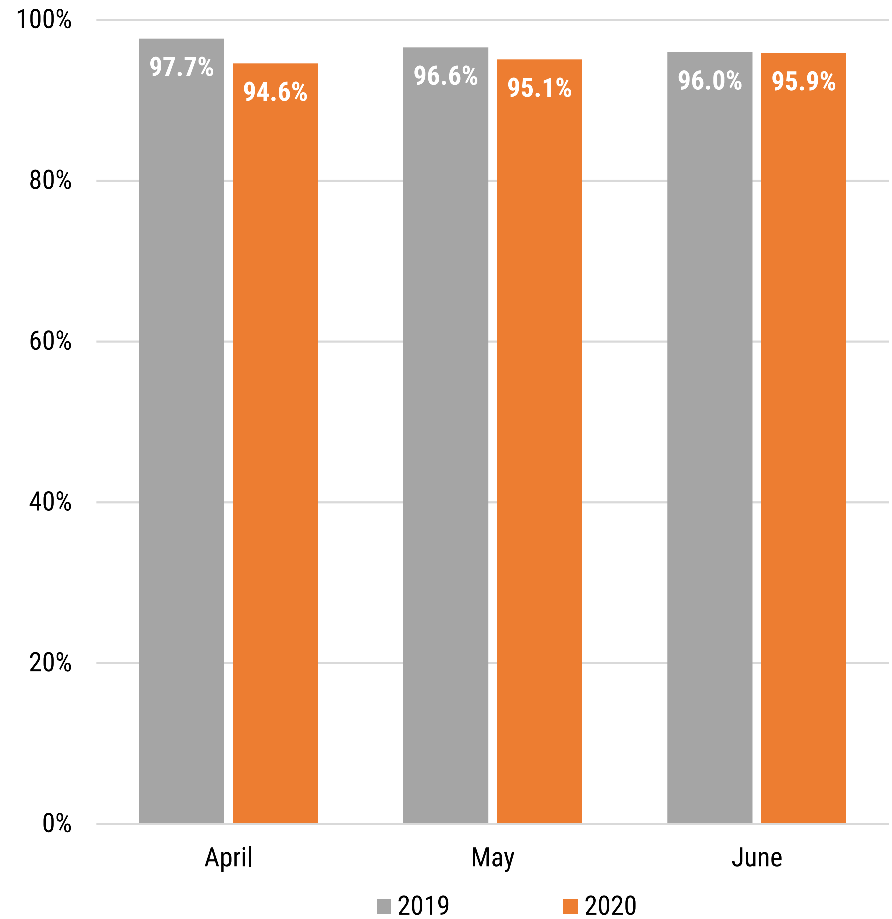
BY PROPERTY TYPE AND BY MONTH

Multifamily has been the top performing property type for rent collections since the onset of COVID-19 and the only property type to exceed 90% rent collections each month since April, per NCREIF. Rent collections are even higher for professionally managed properties tracked by NMHC, averaging 95.2% from April to June 2020.

NCREIF BY PROPERTY TYPE (VALUE-WEIGHT INDEX)



NMHC RENT PAYMENT TRACKER (FULL MONTH RESULTS)

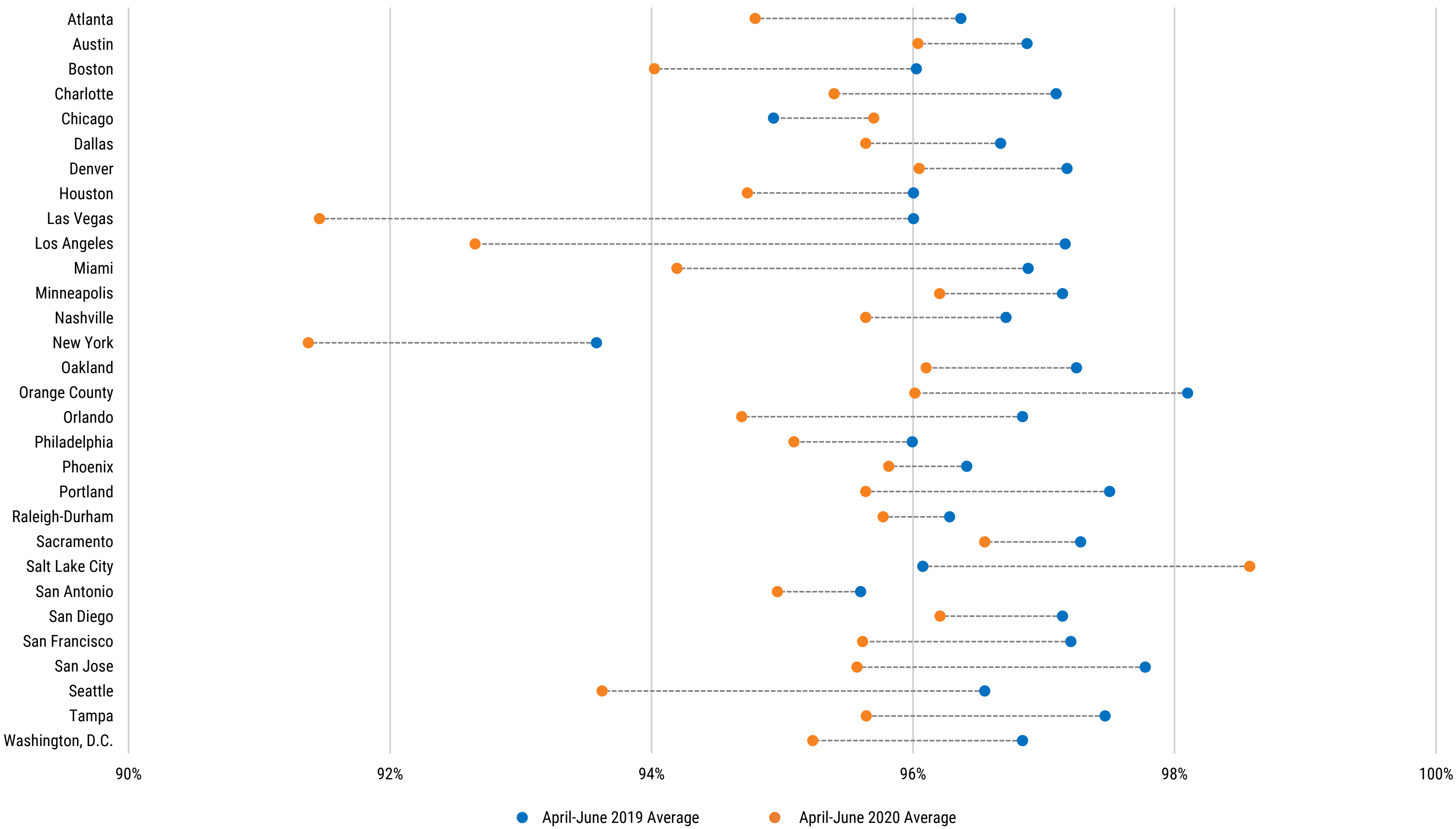


Source: NKF Research, NCREIF, National Multifamily Housing Council

RENT COLLECTIONS BY MARKET

SELECT MARKS; YEAR-OVER-YEAR

Rent collections fared best in 2Q20 in lower-cost, higher growth non-major markets such as Austin, Denver, Sacramento, Salt Lake City and San Diego. Of the 30 largest markets, just Chicago and Salt Lake City have seen higher collections in 2020 than in the year prior. On the other hand, markets such as Las Vegas which have a large hospitality and tourism industry fared worse, as did the largest and most expensive cities like New York and Los Angeles.

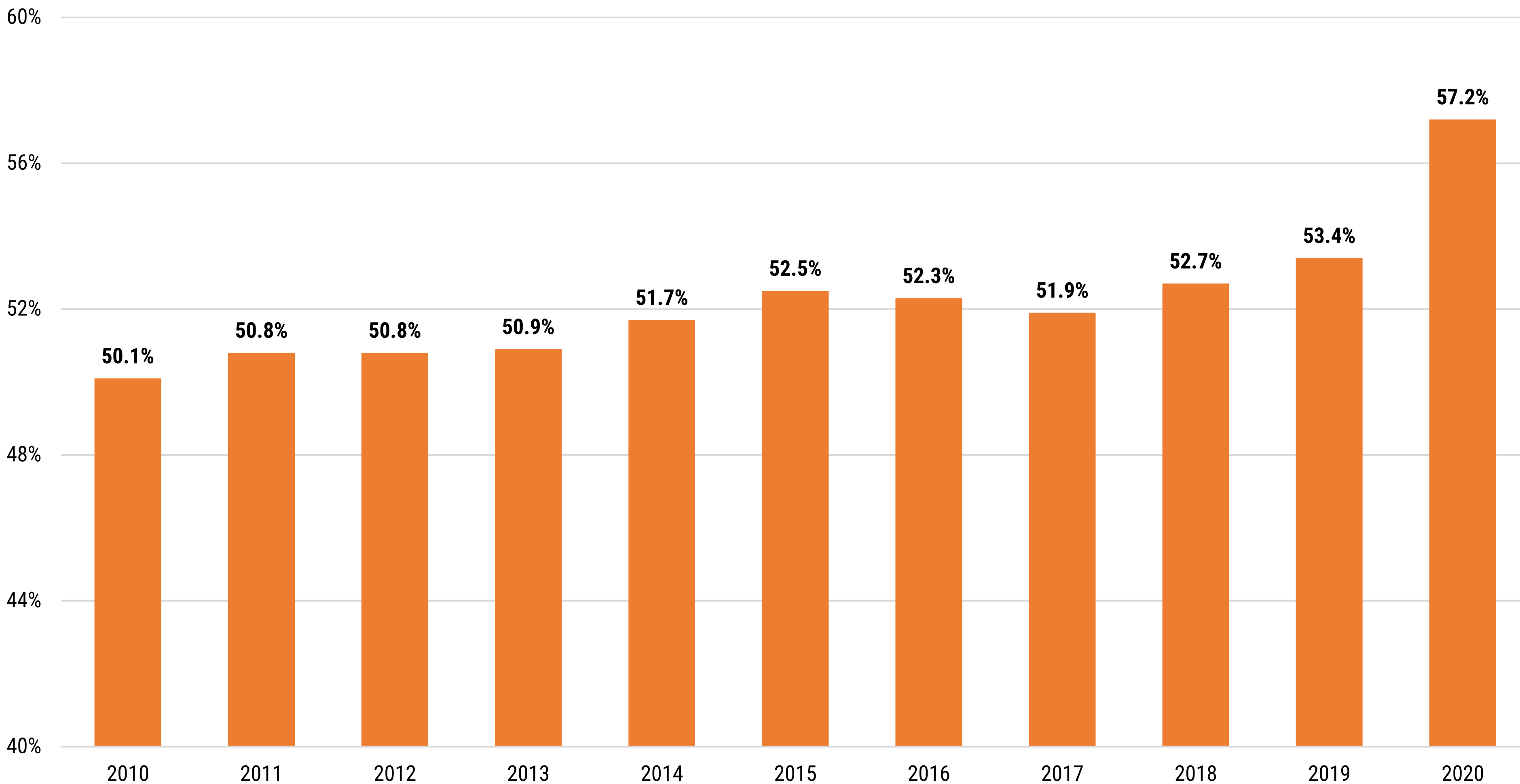


Source: NKF Research, RealPage

RESIDENT RETENTION

UNITED STATES; MULTIFAMILY RENEWALS

Multifamily resident retention rates surged to 57.2% from 53.4% in 2019 with renters renewing leases at the highest rates in recent history due to less mobility and economic challenges caused by COVID-19.

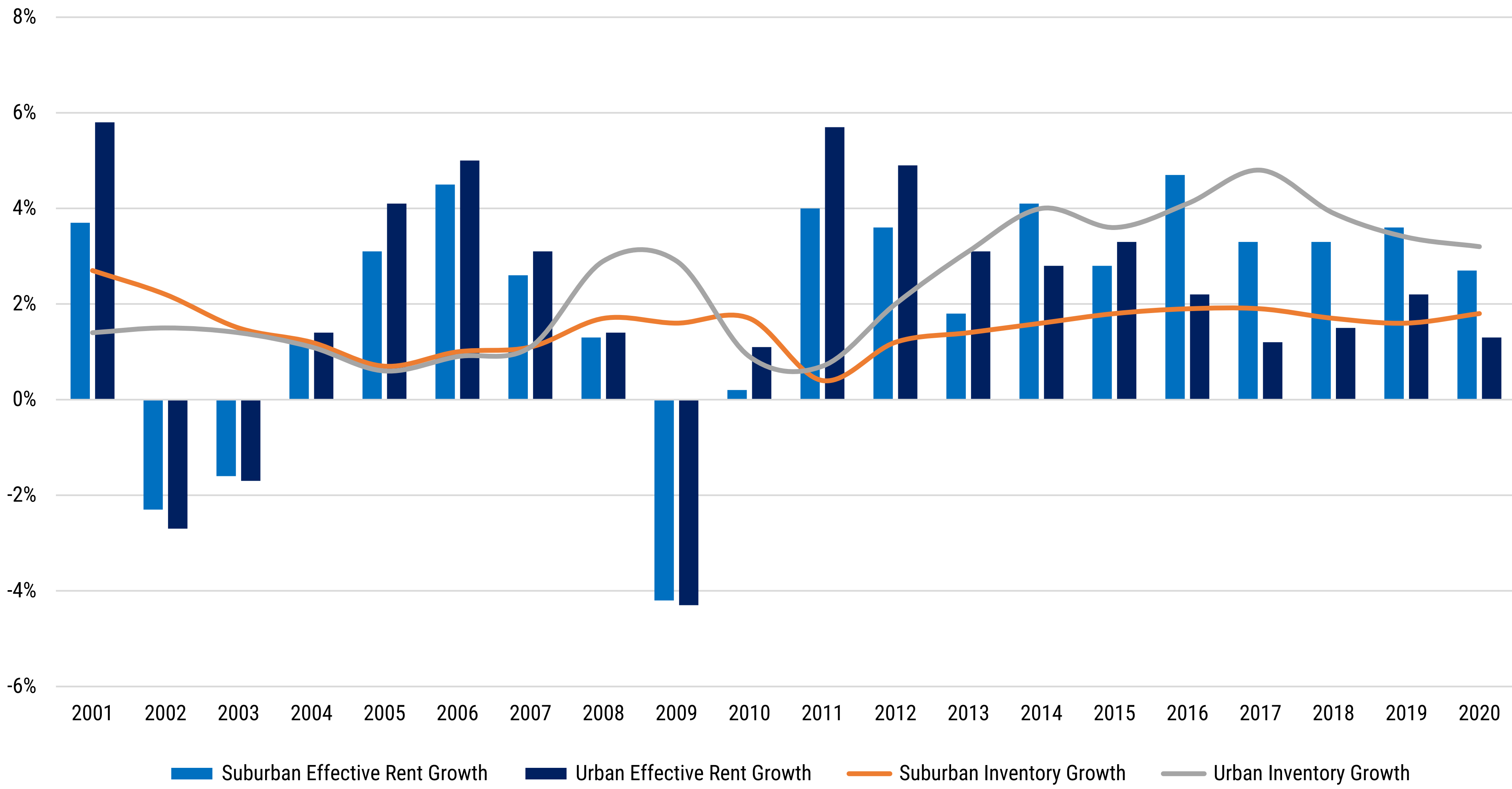


Source: NKF Research, RealPage

URBAN-SUBURBAN COMPARISON

UNITED STATES

Due to the nature of the COVID-19 pandemic, demand for suburban apartment living has picked up while urban apartment demand has slowed. In the last 12 months, inventory growth in suburban markets increased 20 basis points to 1.8% in 2020 while urban markets, fell 20 basis points following several years of substantial new supply.

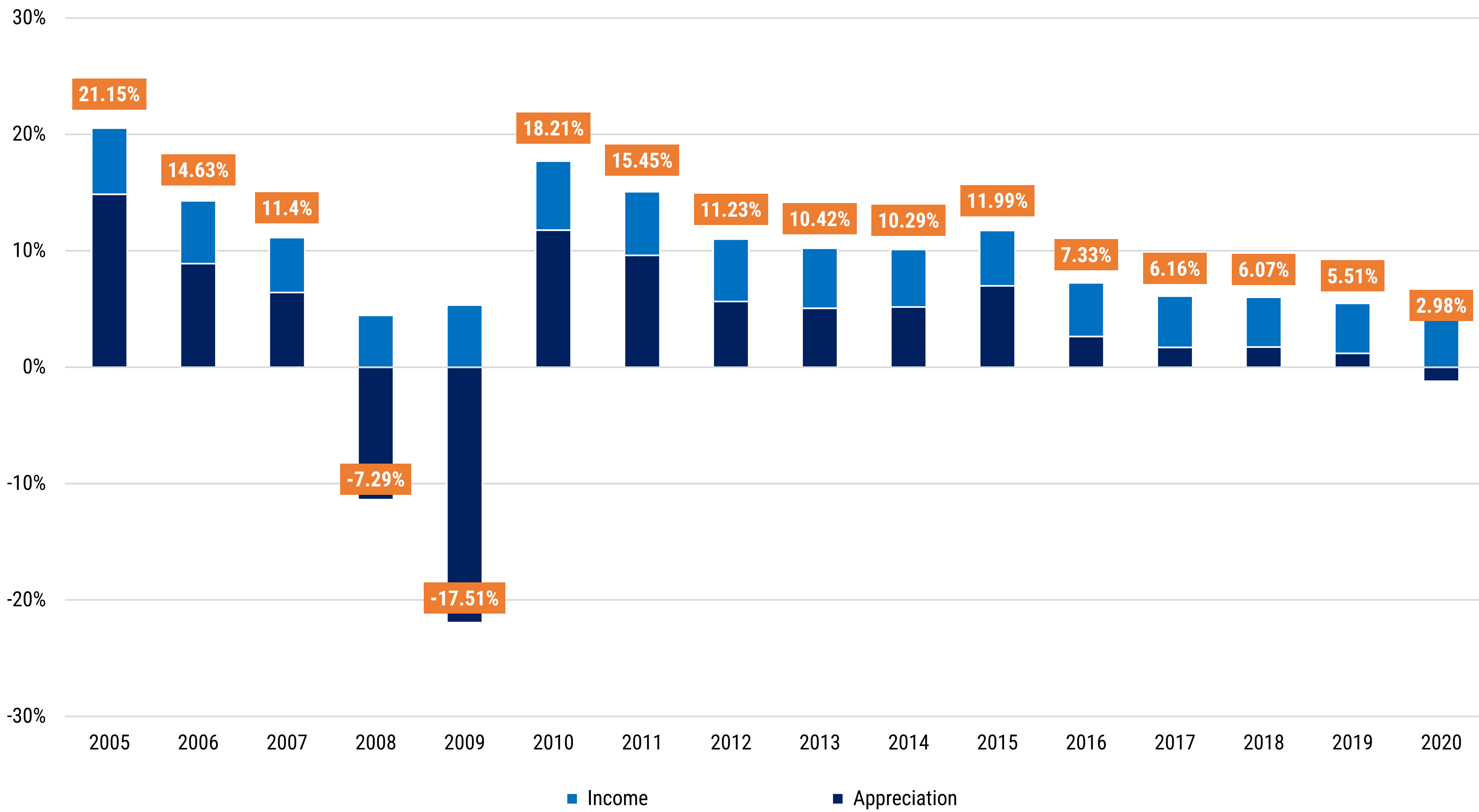


Source: NKF Research, RealPage

MULTIFAMILY TOTAL RETURNS

CALENDAR YEAR RETURNS

Annual total returns for multifamily decreased to 3.0% in 2Q20 as appreciation was negative for the first time since 2009. The income component of total returns remains durable at 4.2%, just 6 basis points below 2019 levels, as rent collection remains high.



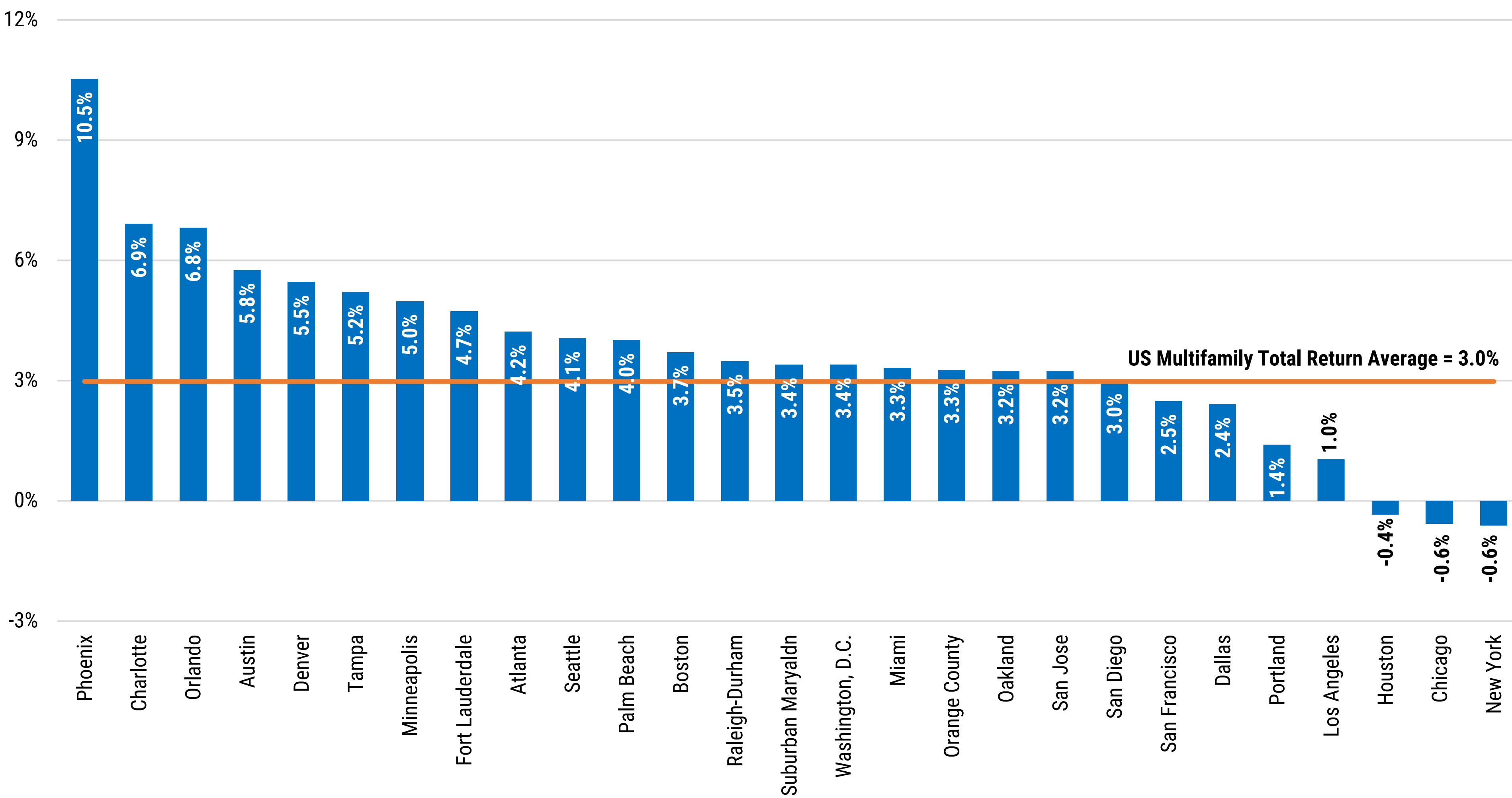
* 2020 returns are annualized.

Source: NKF Research, NCREIF

TOTAL RETURNS BY MARKET

ANNUALIZED TOTALS

High growth Sunbelt markets such as Phoenix (10.5%), Charlotte (6.9%) and Orlando (6.8%) continue to yield the greatest total returns nationally.

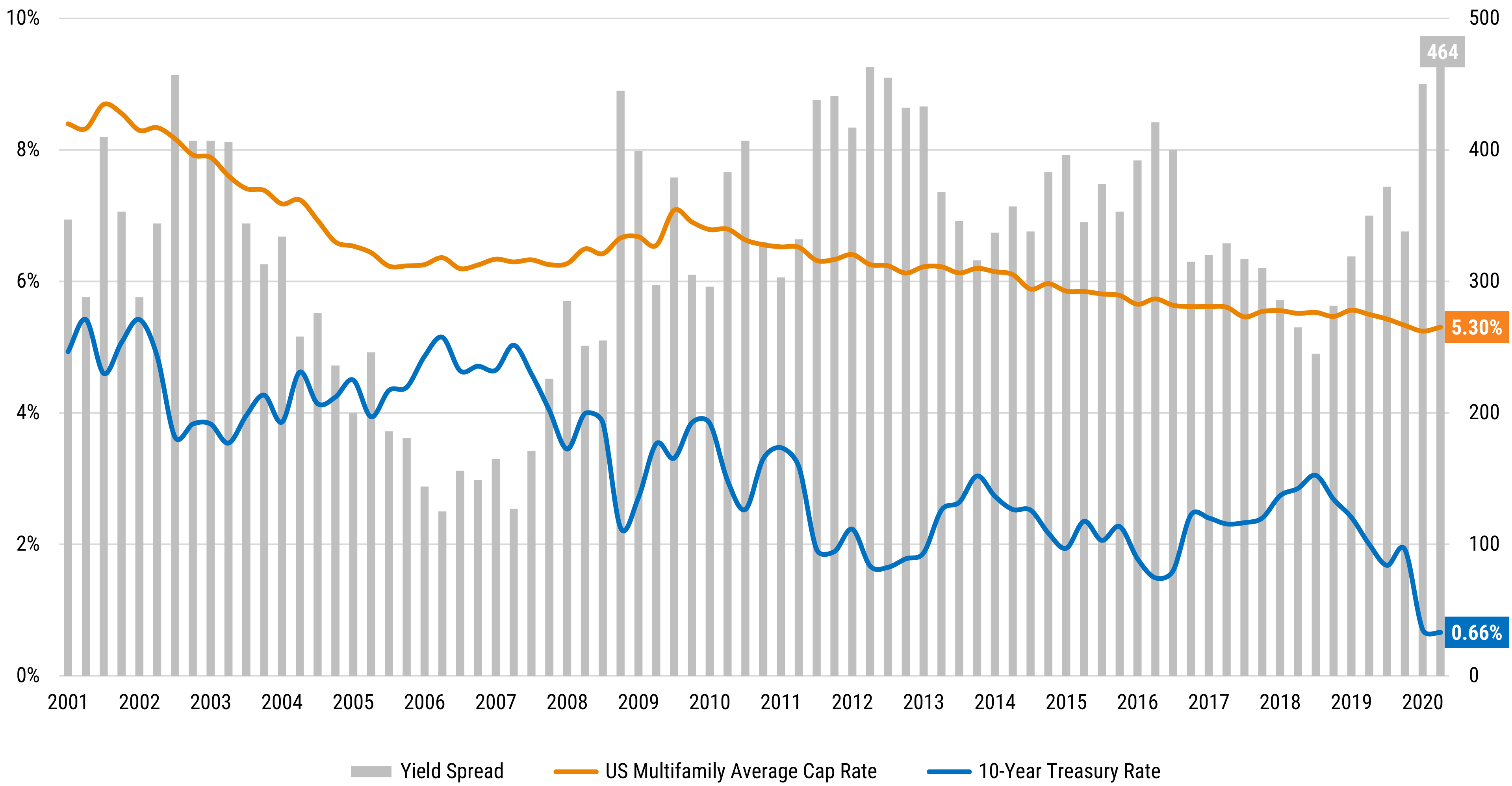


Source: NKF Research, NCREIF

YIELD SPREAD

UNITED STATES

With the 10-year treasury yield dropping to 0.66% at the end of 2Q20, the 464 basis point spread between multifamily yields and treasuries offers favorable and unprecedented opportunities for commercial real estate investors.

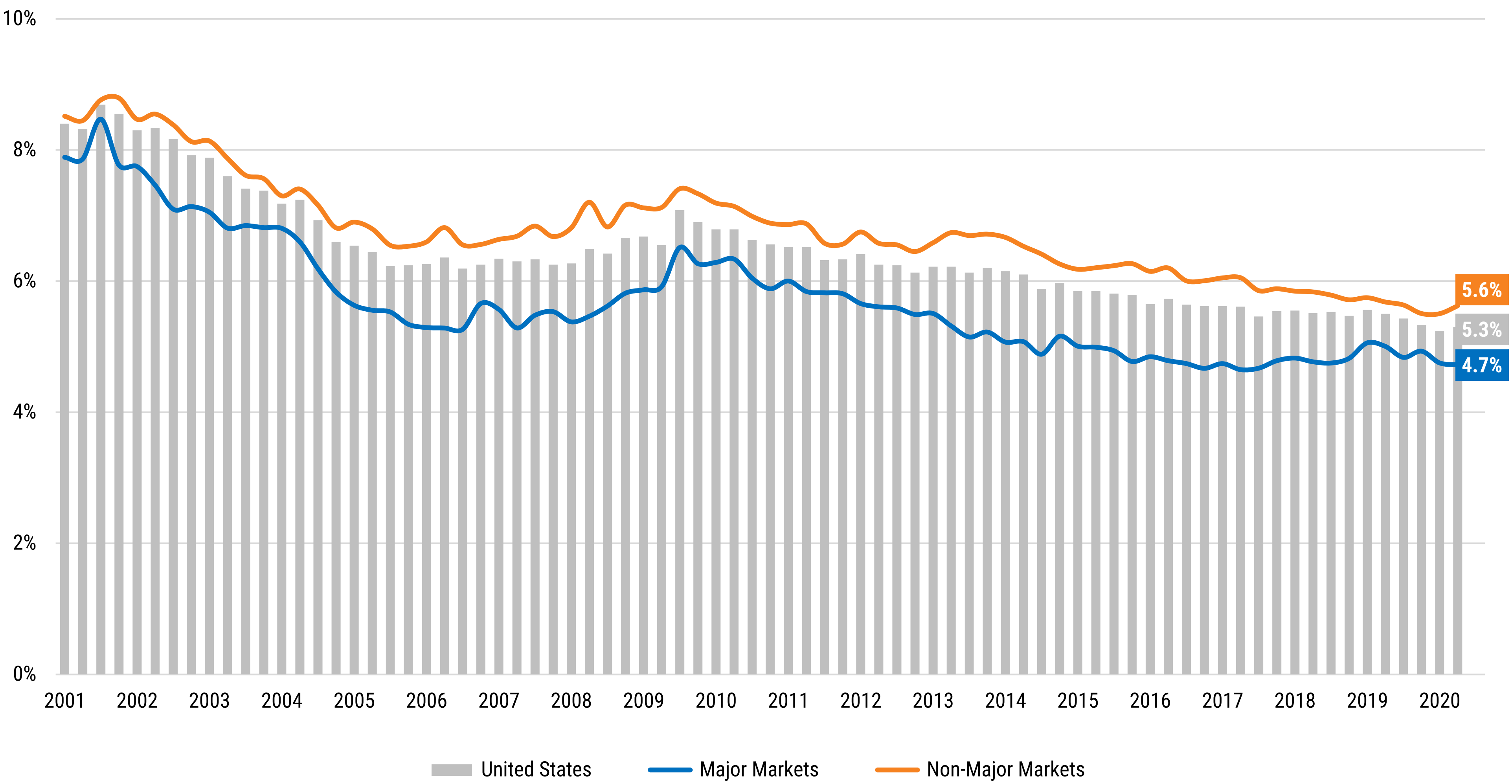


Source: NKF Research, Federal Reserve Bank of St. Louis, Real Capital Analytics

CAP RATES

UNITED STATES; QUARTERLY AVERAGE

Overall multifamily cap rates rose 6 basis points to 5.3% quarter-over-quarter, led by a 12 basis point increase in non-major markets. Non-major market cap rates are currently 90 basis points above major market cap rates, the largest spread in 7 quarters. However, price discovery remains limited due to a lack of transaction volume.



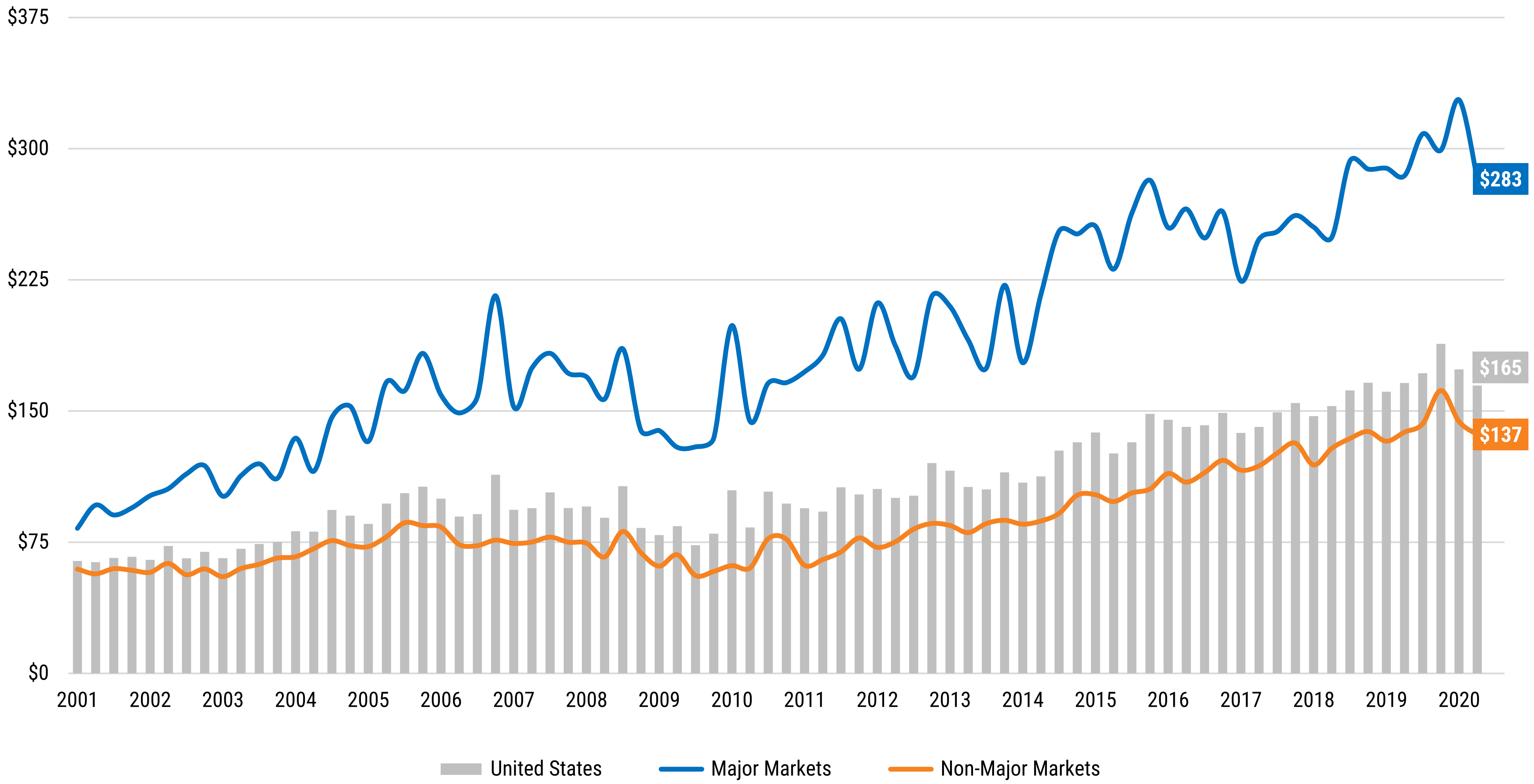
* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

Source: NKF Research, Real Capital Analytics

PRICE PER UNIT

UNITED STATES; QUARTERLY AVERAGE

The national average price per unit decreased 4.9% quarter-over-quarter to $164,000 in 2Q20. Over the same period, major market pricing fell 15.1% while non-major markets saw a more modest 4.5% decline. Many would-be sellers of multifamily product shelved their listings in 2Q20, awaiting more favorable market conditions in the future.



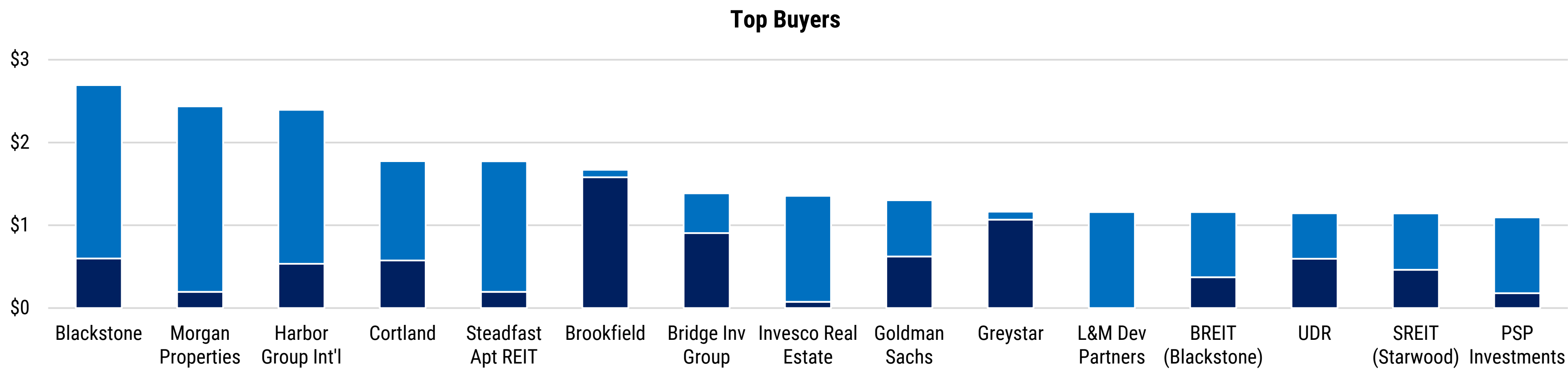
* Major markets: Boston, Chicago, Los Angeles metro, New York metro, San Francisco metro, Washington, D.C. metro. Non-major markets: all other markets.

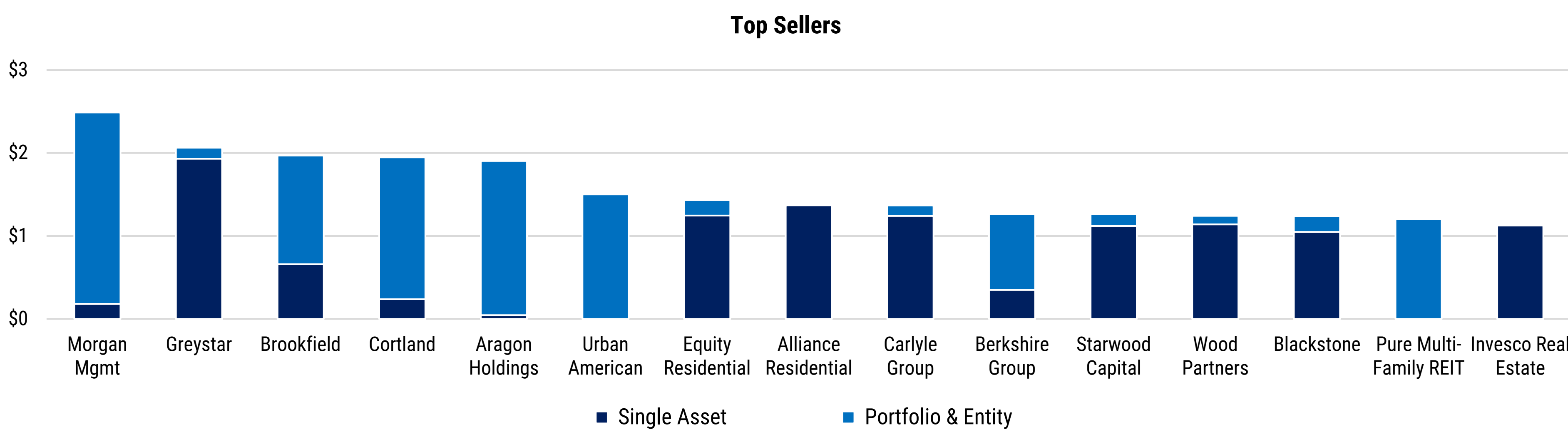
Source: NKF Research, Real Capital Analytics

TOP BUYERS AND SELLERS

UNITED STATES; 12-MONTH TOTALS; DOLLARS IN BILLIONS

Non-traded REIT entrants such as BREIT (Blackstone Real Estate Income Trust) and SREIT (Starwood Real Estate Income Trust) have emerged as significant capital sources funded by retail investors seeking strong risk-adjusted returns.





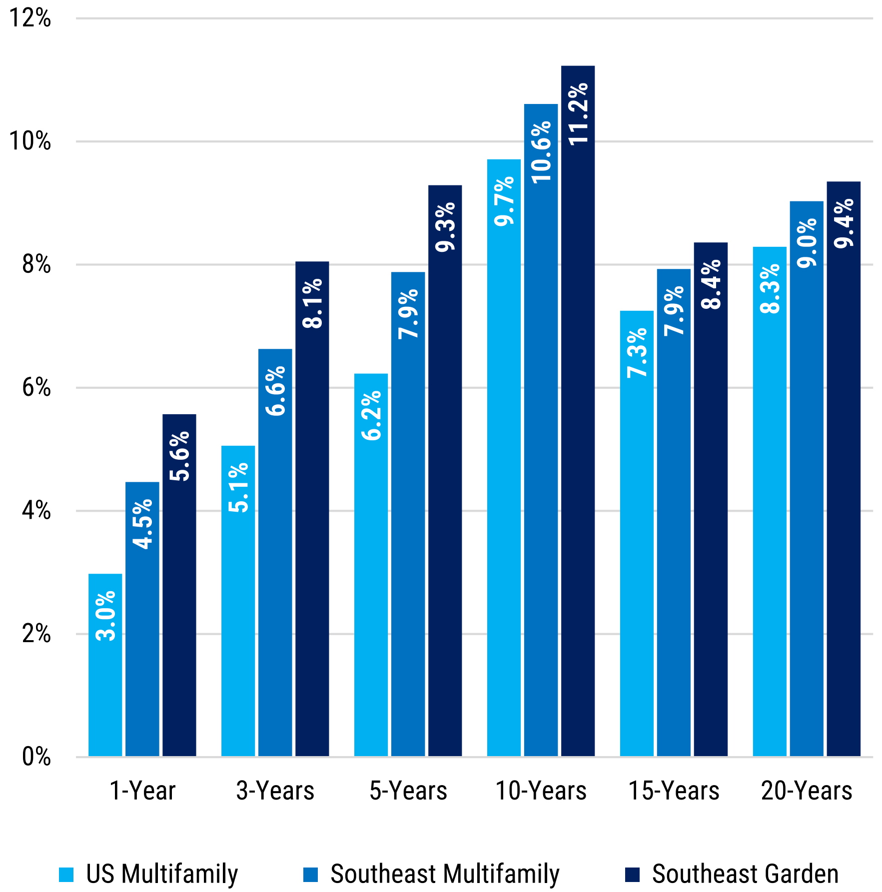
Source: NKF Research, Real Capital Analytics

REGIONAL SPOTLIGHT: SOUTHEAST

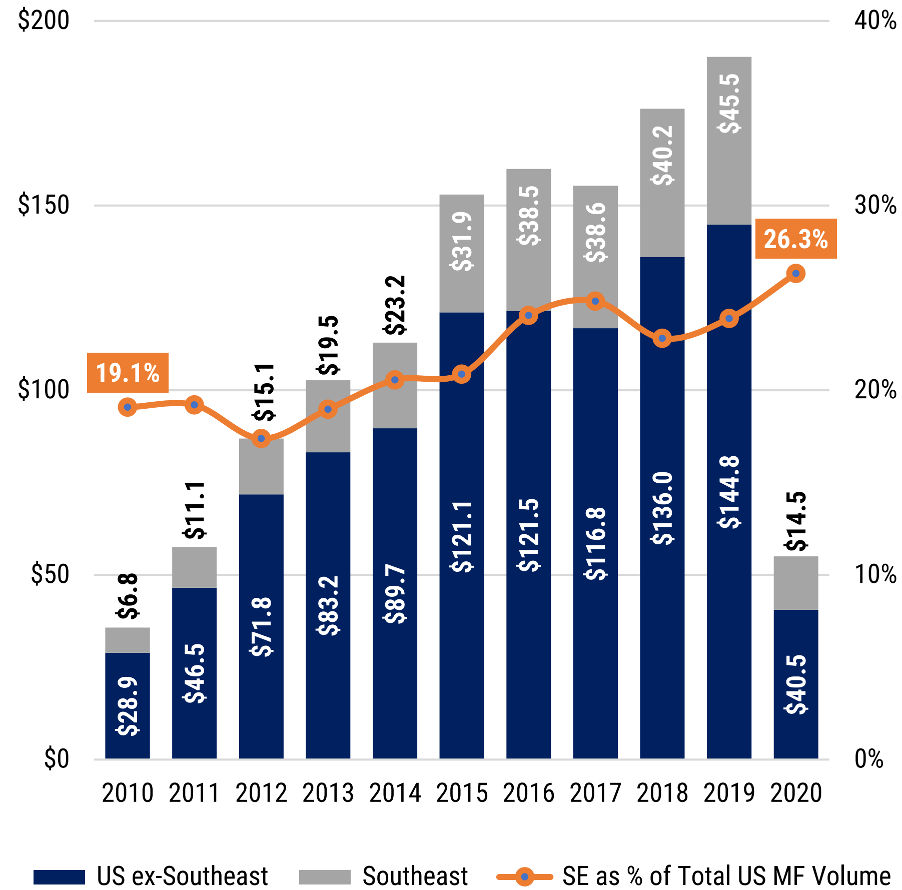
TOTAL RETURNS AND SALES VOLUME

Performance in the Southeast has outpaced the broader US multifamily total returns index on a short and long-term basis as the region exhibits strong job growth, demographic tailwinds and a favorable regulatory environment. In particular, garden-style properties throughout the Southeast have generated superior alpha as compared to the overall market.

TOTAL RETURNS



SALES VOLUME (DOLLARS IN BILLIONS)



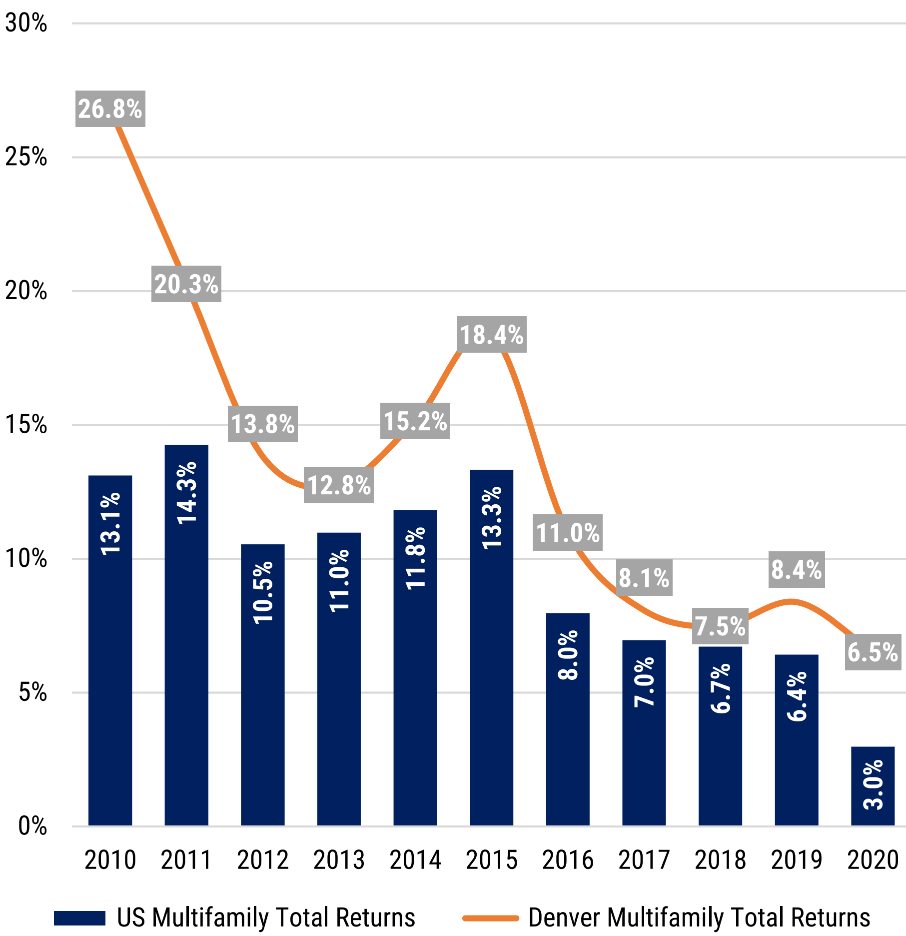
Source: NKF Research, NCREIF, Real Capital Analytics

MARKET SPOTLIGHT: DENVER

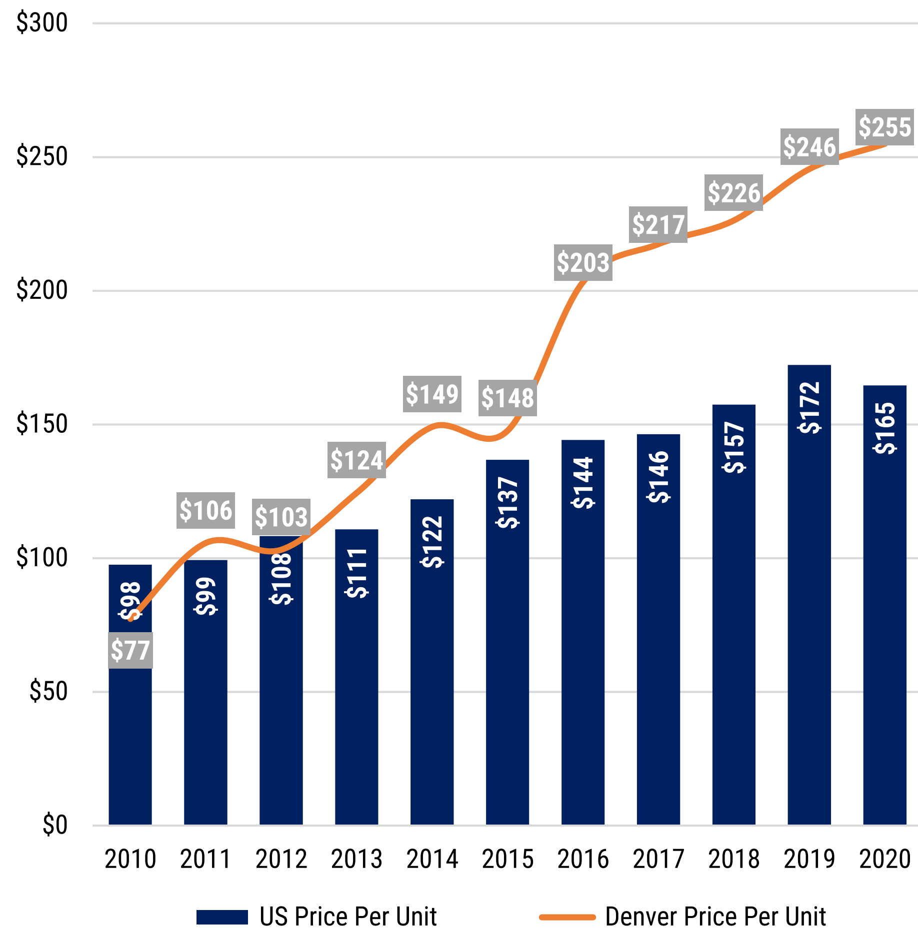
TOTAL RETURNS AND PRICE PER UNIT

Since 2010, Denver has outperformed the NCREIF apartment return index every year and the average price per unit has risen 229.9% vs the US average of 68.7%. Growth has been fueled by millennial migration, robust population growth and a diverse economy. Fundamentals are expected to improve further as permitting has slowed.

TOTAL RETURNS



PRICE PER UNIT (DOLLARS IN THOUSANDS)



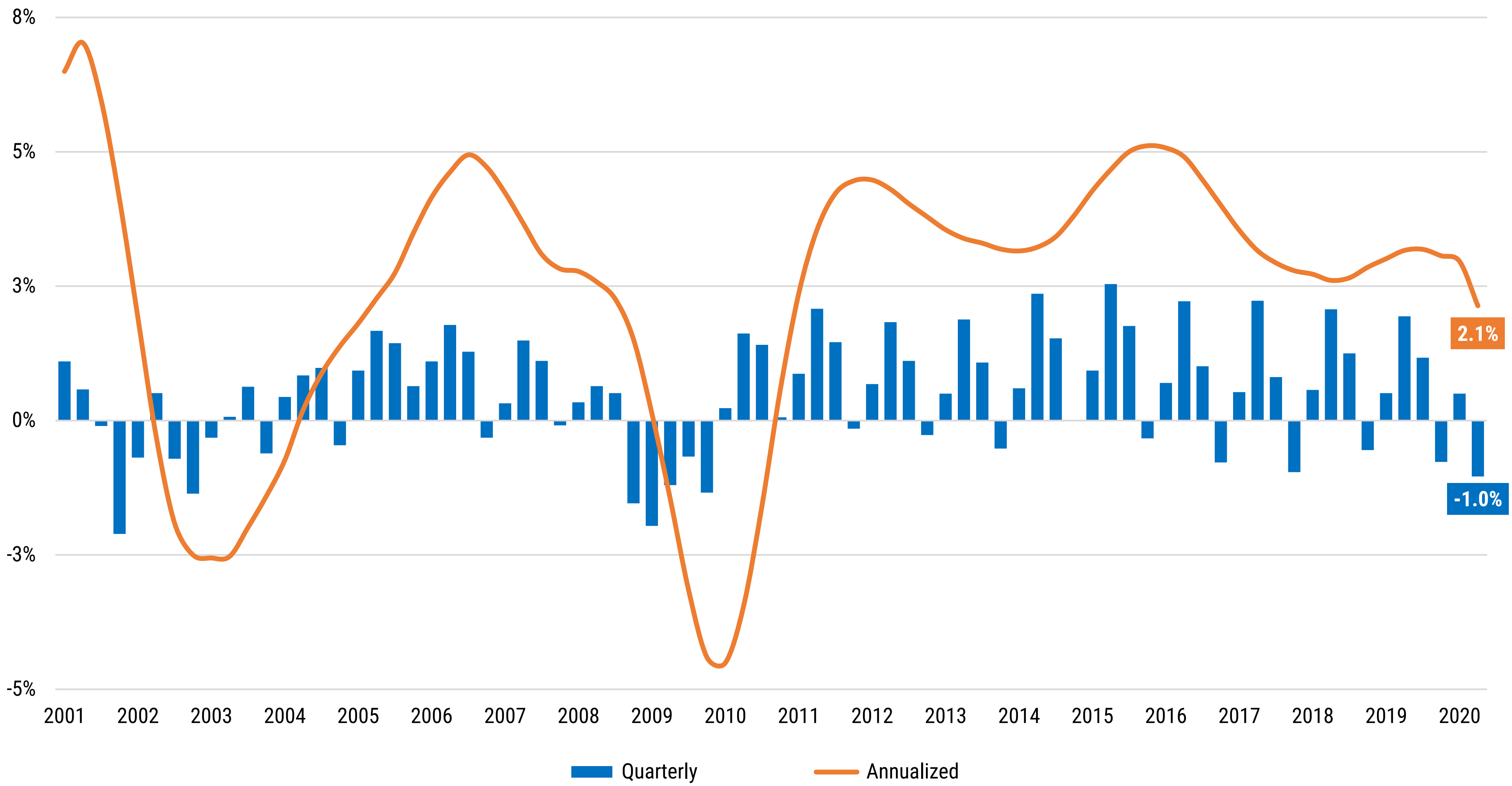
* 2020 returns are annualized. Price per unit average is as of the end of the 2Q20.

Source: NKF Research, NCREIF, Real Capital Analytics

EFFECTIVE RENT GROWTH

UNITED STATES

Over the past 12 months, annual effective rent growth fell to 2.1%, caused primarily by a 150 basis point drop in 2Q20 compared with 1Q20. On a quarterly basis, rent growth dropped to -1.0% due to COVID-19.

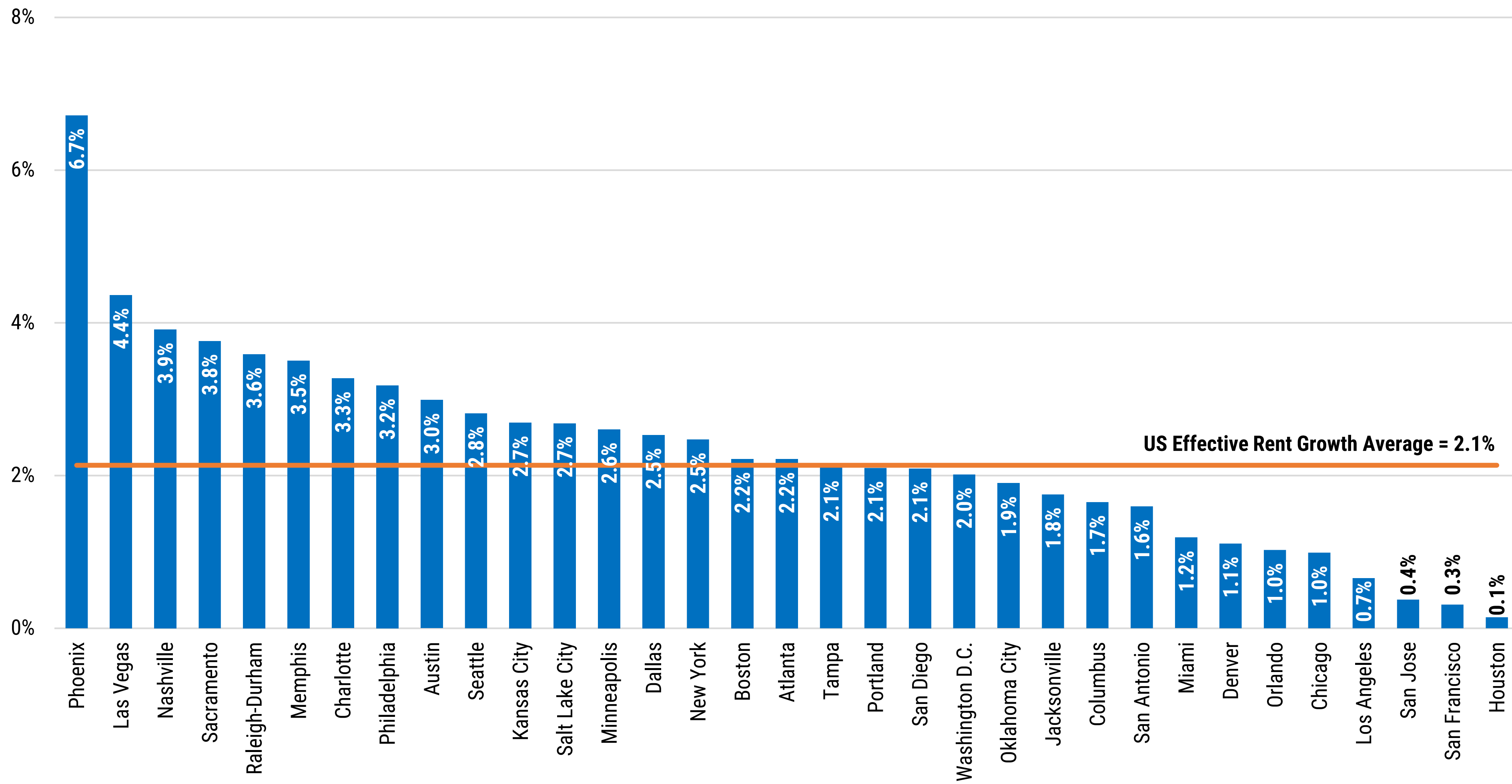


Source: NKF Research, RealPage

EFFECTIVE RENT GROWTH BY MARKET

SELECT MARKETS; ANNUALIZED

While annual effective rent growth has stagnated for the time being, rental growth over the past 12 months remains strongest in Sunbelt markets lead by Phoenix at 6.7%.

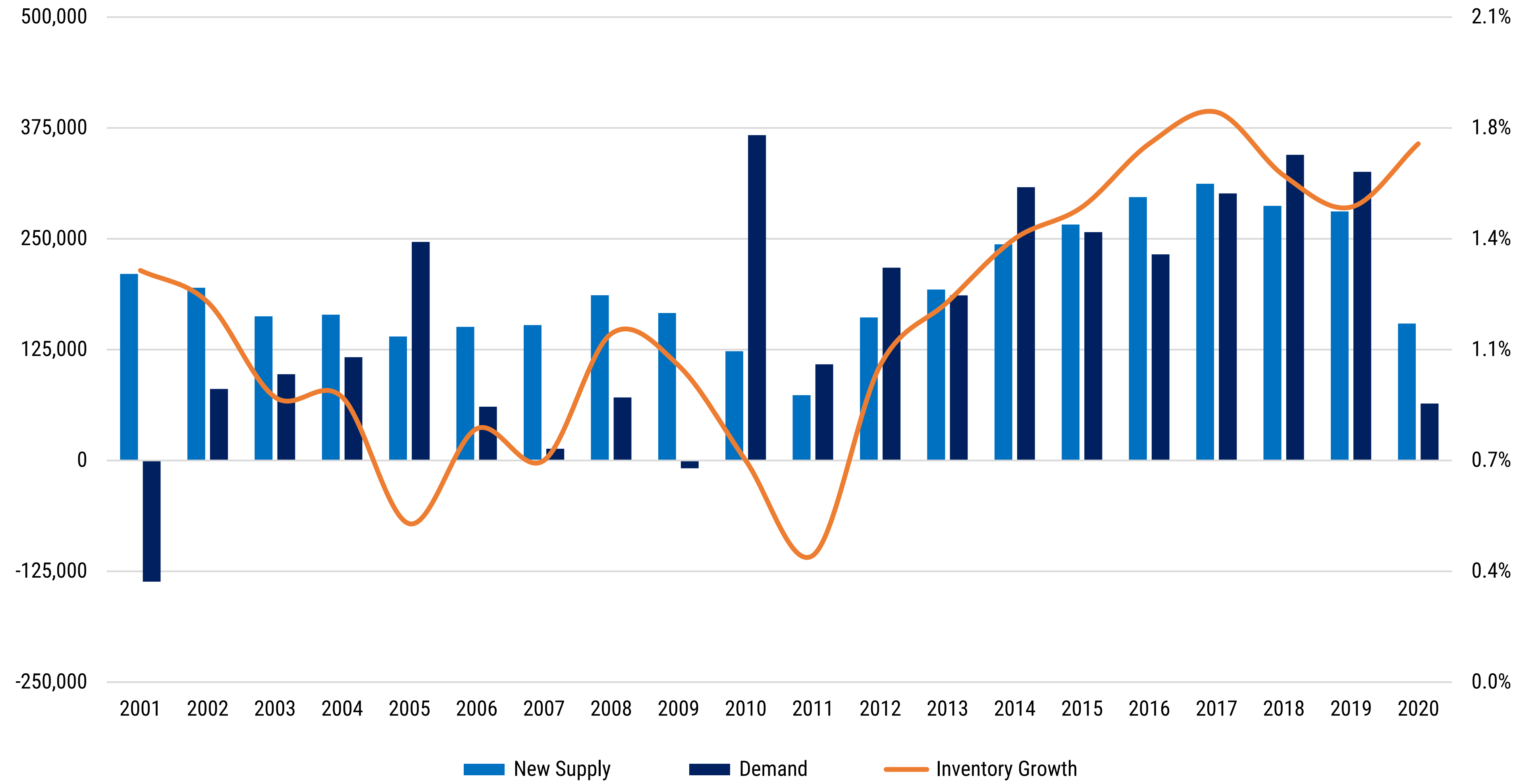


Source: NKF Research, RealPage

SUPPLY AND DEMAND

UNITED STATES

Over the past 12 months, 303,650 units were delivered nationally compared to 177,007 units absorbed. Though apartment demand has stalled temporarily, rental housing is expected to benefit from would-be home owners delaying purchases.



* Year-to-date inventory growth is annualized.

Source: NKF Research, RealPage

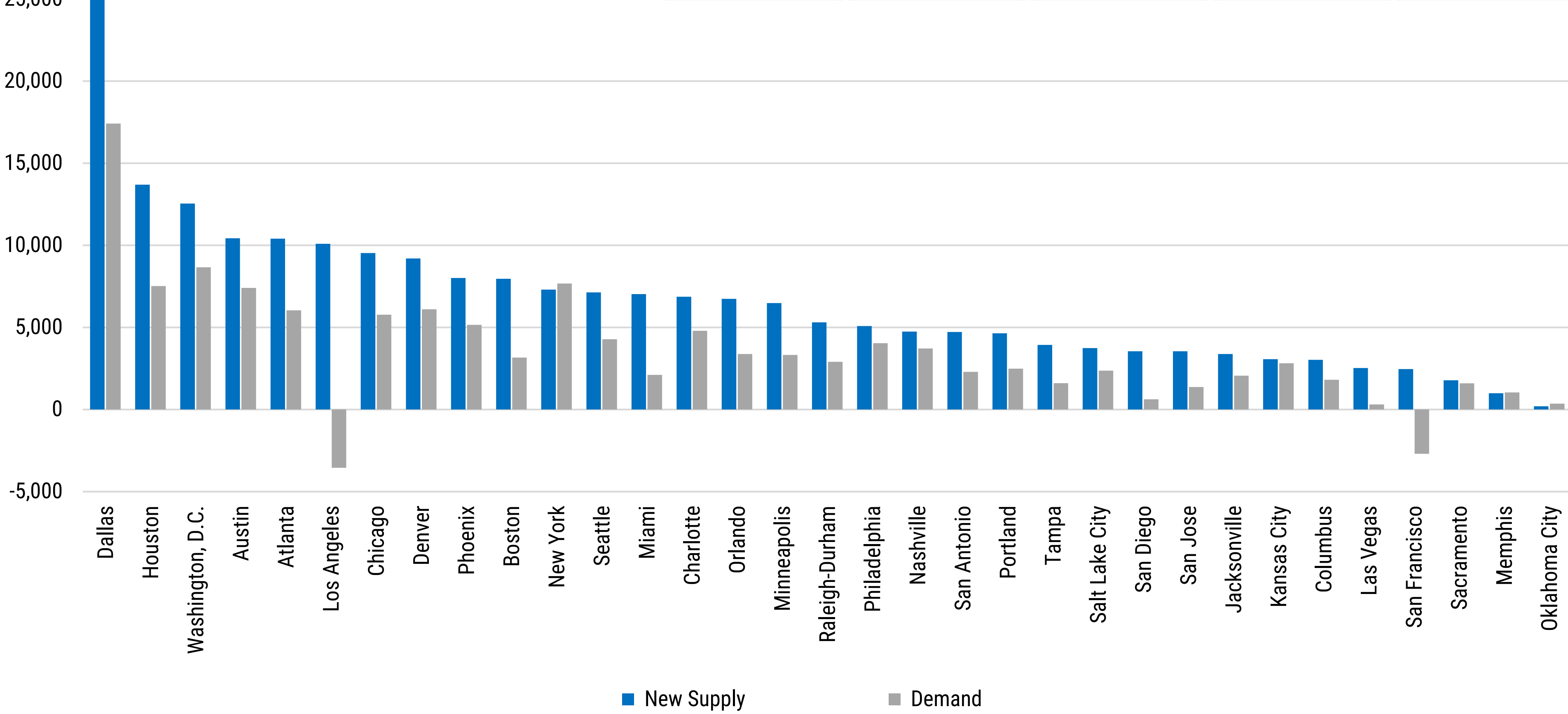
SUPPLY AND DEMAND BY MARKET

SELECT MARKETS; 12-MONTH TOTALS

While the strongest markets for inventory growth are primarily throughout the Sunbelt, the largest markets in Texas (Austin, Dallas, Houston and San Antonio) account for 17.9% of deliveries nationally over the past year.

TOP MARKETS BY INVENTORY GROWTH

AUSTIN	DALLAS	CHARLOTTE	SALT LAKE CITY	NASHVILLE
4.2%	3.5%	3.5%	3.5%	3.1%

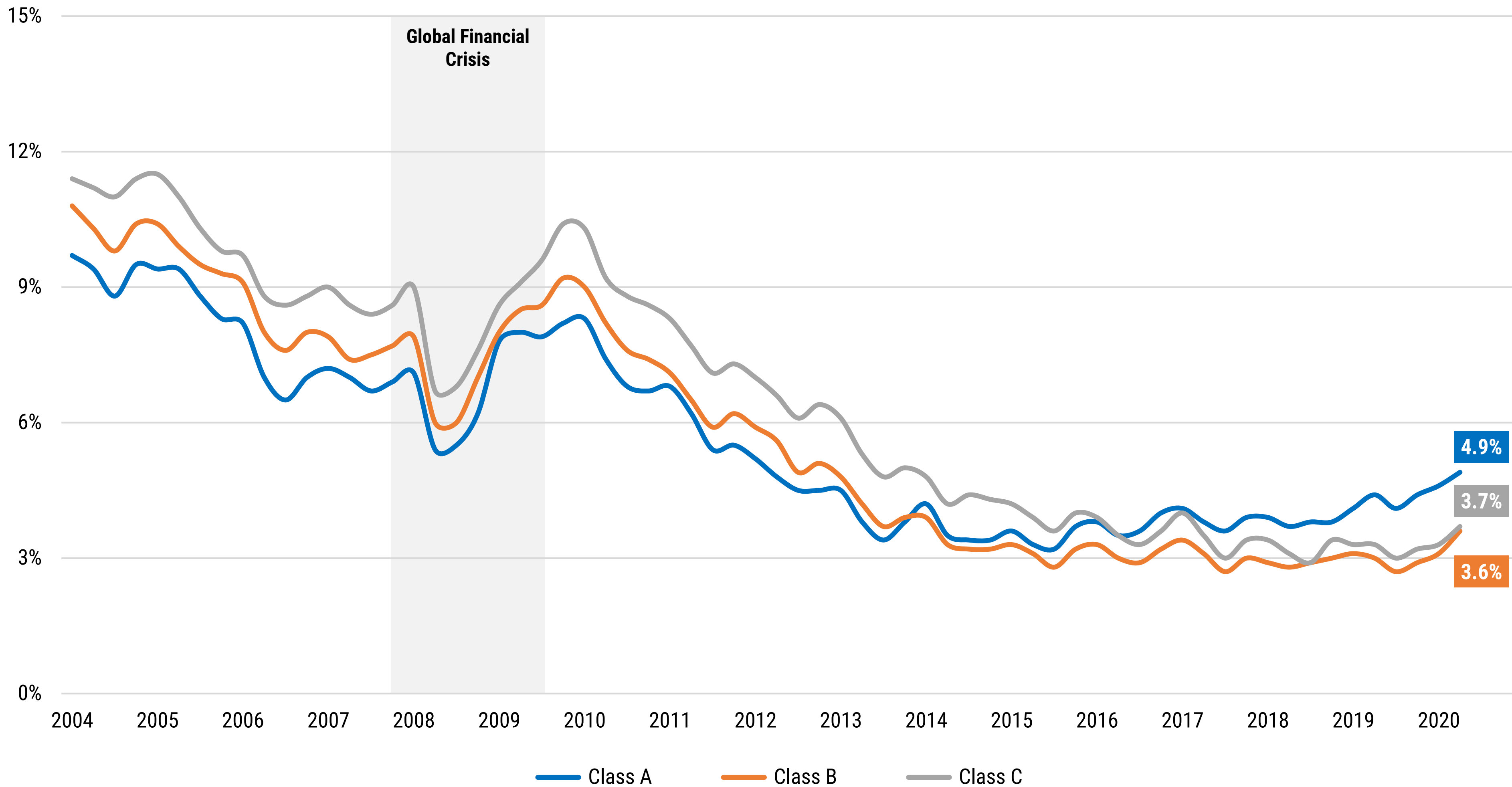


Source: NKF Research, RealPage

HISTORICAL CONCESSIONS

UNITED STATES; QUARTERLY

While concessions for all classes trended upwards in 2Q20, Class B properties saw the most pronounced increase rising 50 basis points. Class A properties have seen a dramatic year-over-year increase with concessions now at 4.9%, compared with 3.7% during 2Q19.

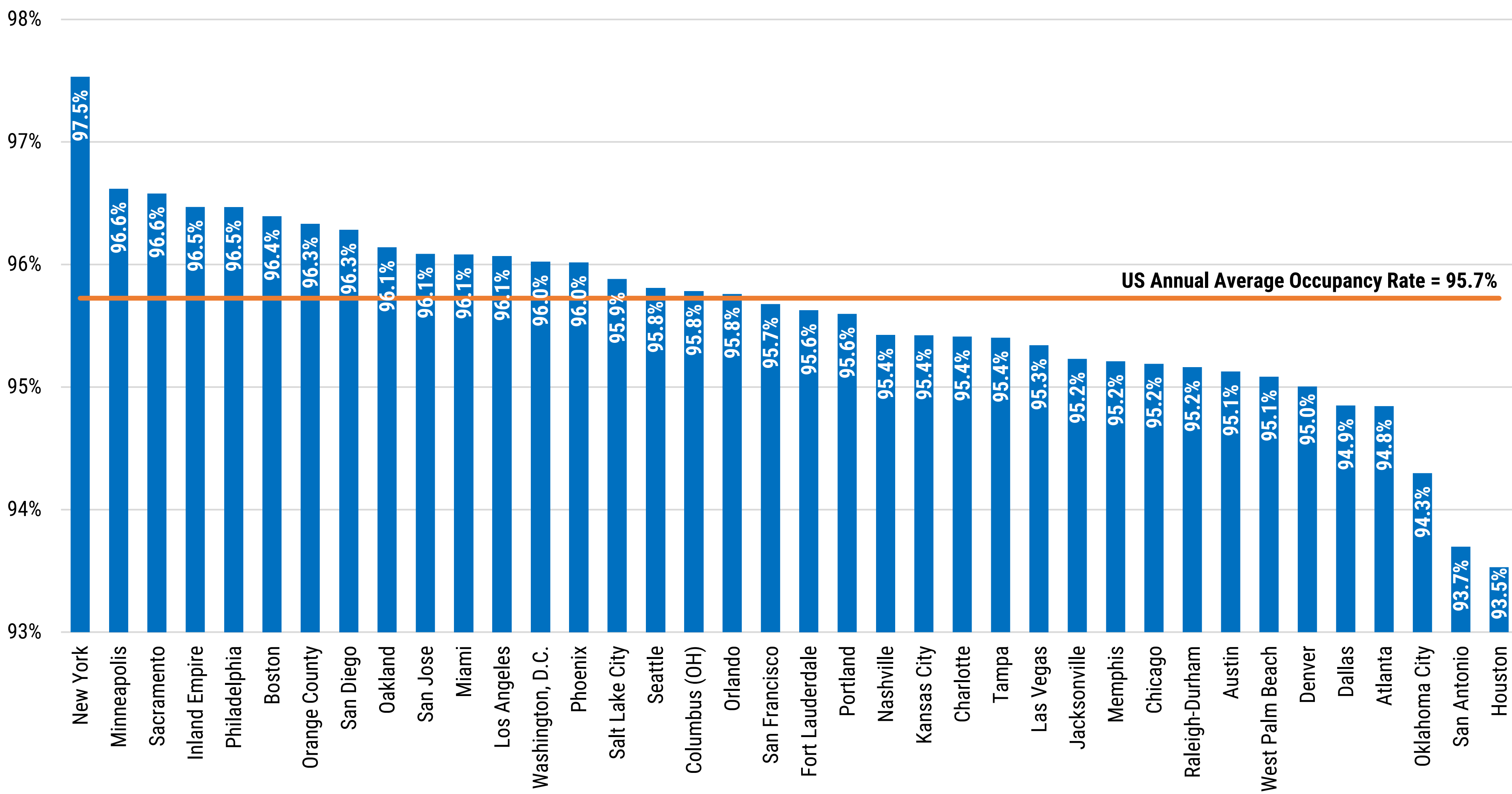


Source: NKF Research, RealPage

OCCUPANCY RATE BY MARKET

SELECT MARKETS; 12-MONTH TOTALS

Occupancy levels remain strong across the country with a national average rate of 95.7%. Even in markets hit hard by COVID-19 such as New York occupancy remains above the national average.



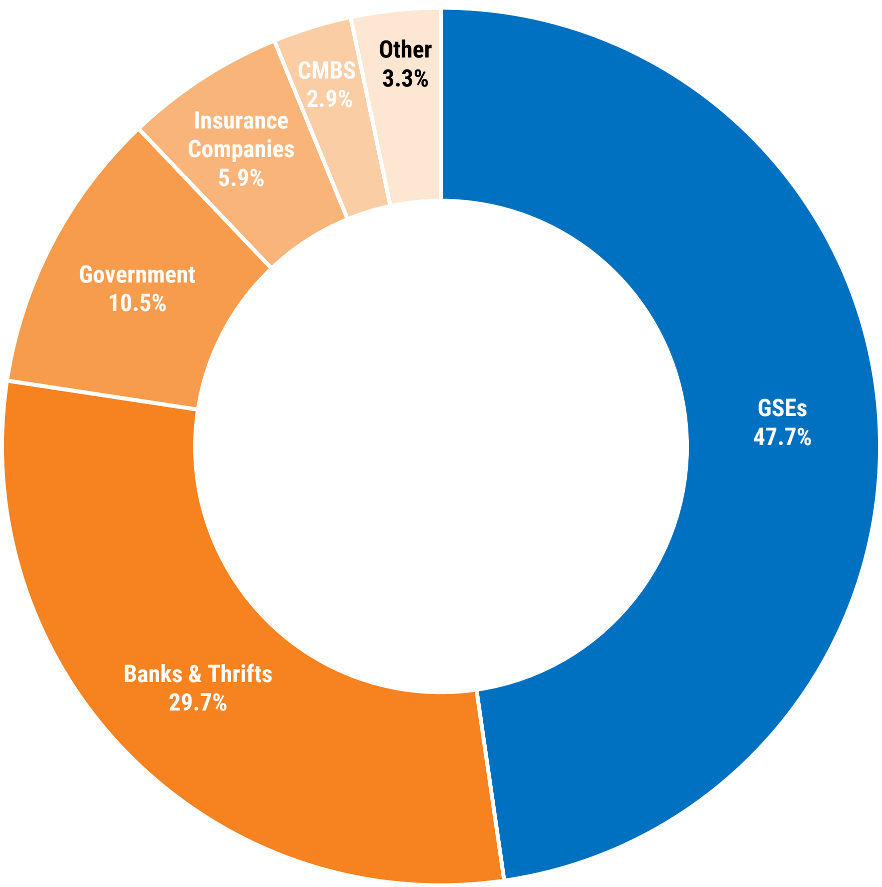
Source: NKF Research, RealPage

MORTGAGE DEBT OUTSTANDING

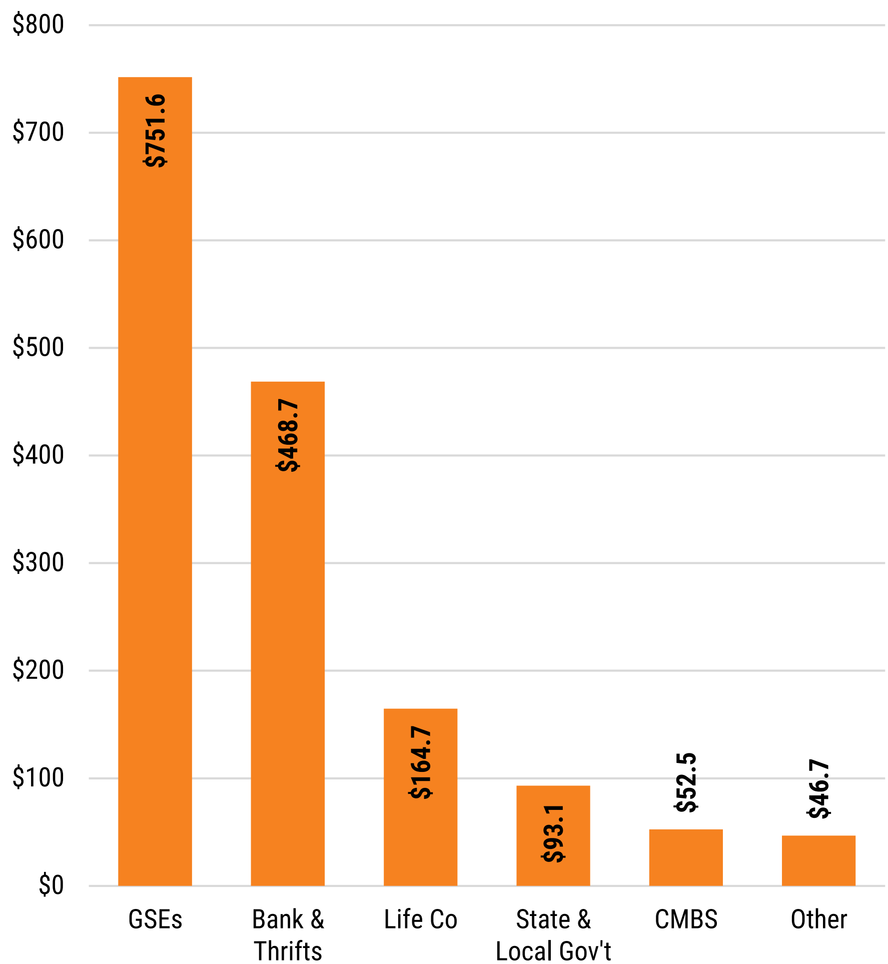
UNITED STATES

Total mortgage debt outstanding for the multifamily sector rose to $1.6 billion for the quarter, an increase of 1.8% quarter-over-quarter.

DEBT OUTSTANDING BY GROUP AS A PERCENTAGE



DEBT OUTSTANDING BY GROUP IN BILLIONS

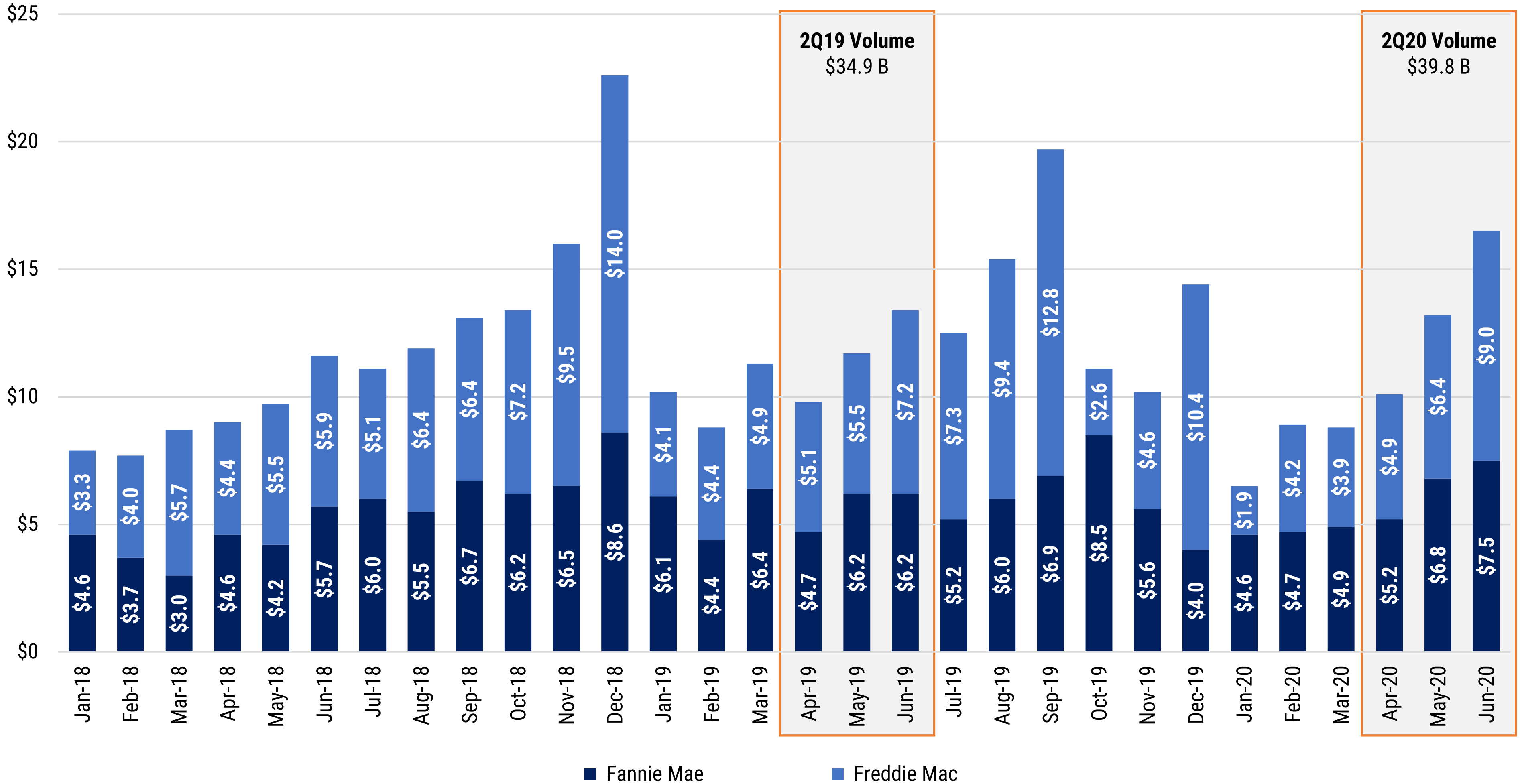


Source: NKF Research, Mortgage Bankers Association

MONTHLY GSE VOLUME

DOLLARS IN BILLIONS

Total originations by Fannie Mae and Freddie Mac rose to $39.8 billion in 2Q20 as the market stabilized in part due to Federal Reserve policy. Year-over-year originations increased 14.0%. While other lenders are constrained in their lending activity, the GSEs are structured to provide liquidity even in periods of economic decline, which has helped support capital markets activity in multifamily and prevent short-term damage.



Source: NKF Research, Fannie Mae, Freddie Mac

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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.

Newmark Knight Frank Research Reports are also available at **www.ngkf.com/research**