BEYOND THE GLOBAL HEALTH CRISIS

Marcus & Millichap

SPECIAL REPORT MULTIFAMILY CLASS A OVERVIEW SUMMER 2020

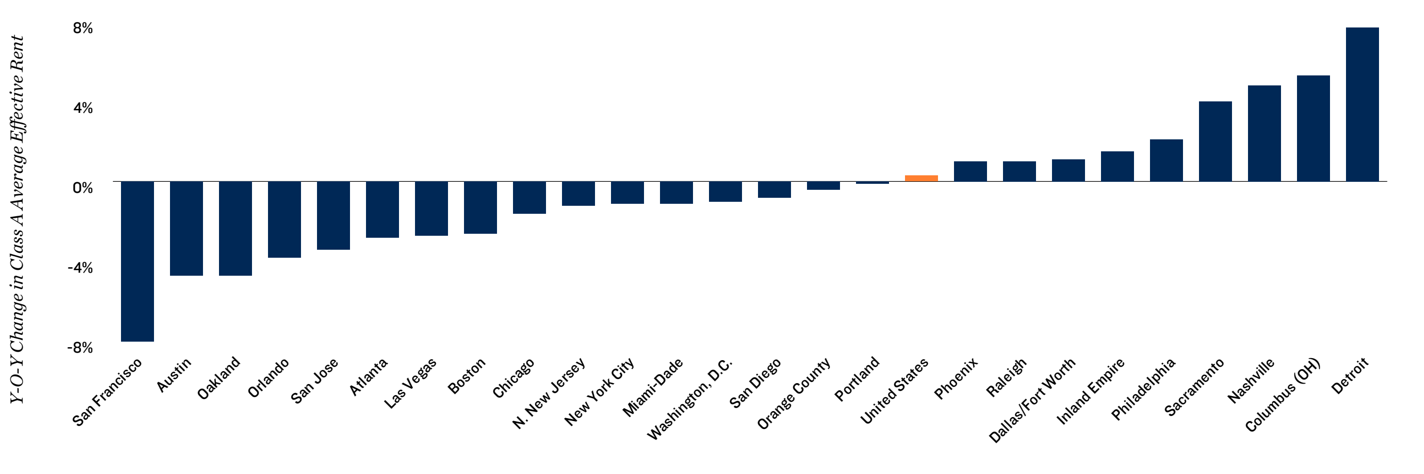
Health Crisis Weighs on Class A Rentals as New Properties Continue to Open; High-Cost Tech and Travel-Oriented Markets Facing the Most Hurdles

Coronavirus disruptions stall Class A rent growth. The health crisis is altering apartment demand and interfering with leasing as some renters relocate to other areas out of financial need or desire. Class A rentals prevalent in dense, high-cost urban zones are more exposed to these trends. The average effective rent for Class A units fell 1.5 percent nationally between the first and second quarter of this year, 60 basis points more than for the overall average. Tenants seeking lower-cost or more spacious residences helped push Class A vacancy up 80 basis points in that span, while eviction moratoriums helped keep Class B and C rates more stable. Construction also contributed to greater Class A availability. About 23,000 more apartments opened in the first half of 2020 than in the same period last year, with net absorption down 75 percent. New deliveries are taking longer to lease amid a variety of health risks, dampening short-term performance.

Bay Area records sharp rent declines but has history of large swings. High-end rentals in the Bay Area are facing the largest correction at this stage of the health crisis. The average Class A rent in San Francisco has fallen 6.2 percent since March, and by just under 3.5 percent in San Jose and Oakland. In the previous quarter only San Francisco reported a drop in Class A rates at a modest dip of 0.5 percent. Short-term Class A performance in the Bay Area also tends to be more volatile. During the 2008-09 financial crisis, Class A rents in the region decreased by many times that of the U.S. until the onset of the recovery that ultimately pushed rents to new record levels. Despite today's health and economic hurdles, as a hub of enterprise with limited land availability, the Bay Area's long-term housing dynamics remain intact. While some renters are relocating out of the market, leveraging new remote-working policies, not all organizations will support such behavior indefinitely. Major technology companies such as Google have announced specific return dates. Other metros facing steep short-term challenges include those with high costs of living like New York City as well as tourism destinations such as Orlando and Las Vegas.

Class A rentals in secondary and tertiary cities faring better. While many markets are reporting Class A rent declines, others registered growth in June. Less-dense and lower-cost metros near larger gateway hubs are showing more positive multifamily performance, likely driven by in-migration. A microcosm of this national trend is manifesting in California, where movement away from coastal areas contributed to annual rent gains and minimal vacancy change among Class A units in Sacramento and Riverside-San Bernardino (Inland Empire). Both cities are expected to welcome more transplants in the future as individuals look for lower cost housing in the same general regions. Similar factors are contributing to more favorable Class A property performance in many Southwest and Midwest metros.

Technology- & Tourism-Focused Markets See Greatest Shock to Class A Rents



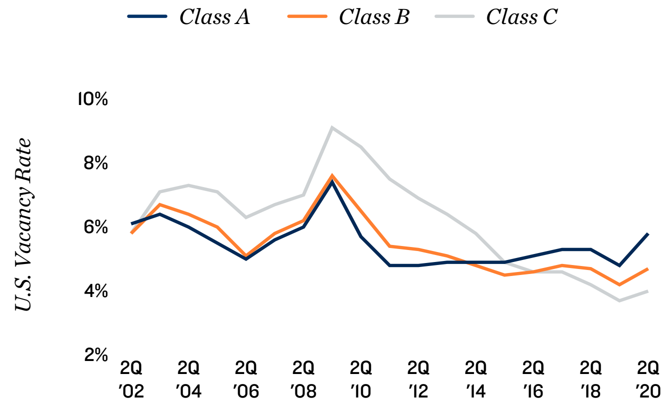
Change in average effective rent, Q2 2019 to Q2 2020
Sources: CoStar Group, Inc.; RealPage, Inc.

Multifamily Property Performance by Market and Class

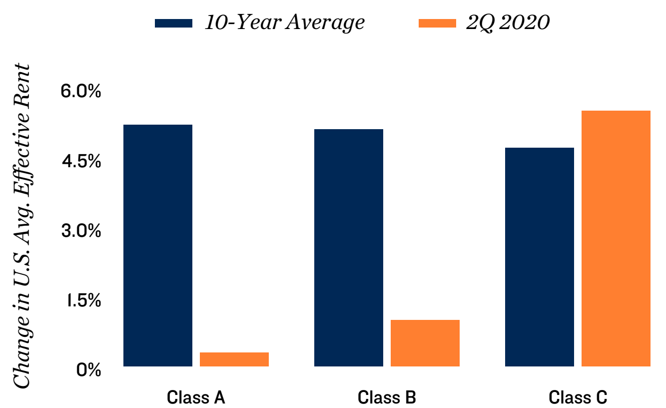
	2Q Class A Vacancy Rate			
Market	**2017**	**2018**	**2019**	**2020**
San Francisco	12.7%	8.6%	9.8%	12.9%
San Jose	4.2%	3.9%	4.0%	6.2%
Oakland	4.4%	4.9%	4.8%	5.2%
Sacramento	3.8%	3.8%	3.8%	4.0%
Orange County	4.2%	4.6%	4.2%	4.6%
San Diego	4.7%	4.2%	4.5%	5.2%
Inland Empire	4.3%	4.1%	4.0%	4.2%
Portland	6.5%	5.9%	6.1%	7.9%
Las Vegas	5.6%	5.5%	4.3%	5.0%
Phoenix	6.8%	5.7%	4.7%	5.5%
Salt Lake City	4.1%	4.9%	4.9%	5.7%
Austin	6.2%	5.7%	4.9%	6.9%
Dallas/Fort Worth	5.7%	6.1%	5.6%	6.7%
Nashville	6.3%	7.3%	5.7%	6.3%
Columbus (OH)	3.6%	3.9%	4.4%	5.0%
Chicago	5.6%	6.1%	5.0%	5.7%
Detroit	3.2%	4.1%	3.5%	4.7%
New York City	6.7%	5.9%	4.0%	4.4%
N. New Jersey	9.2%	8.1%	7.5%	9.6%
Boston	4.7%	4.6%	4.0%	5.1%
Philadelphia	5.3%	5.7%	4.6%	5.5%
Washington, D.C.	5.1%	4.7%	4.1%	5.3%
Raleigh	7.4%	6.5%	5.5%	6.6%
Atlanta	6.0%	6.5%	5.9%	6.9%
Orlando	4.7%	4.5%	4.7%	6.7%
Miami-Dade	5.9%	5.4%	5.5%	6.9%
United States	**5.2%**	**5.2%**	**4.7%**	**5.7%**

Table values all from second quarter of specified year
Sources: CoStar Group, Inc.; RealPage, Inc.

Class A Vacancy Climbs the Most in 2Q



Higher-End Units Post Slower Rent Growth



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Price: $1,000

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc; RealPage, Inc.