OVERCOMING COVID-19
How Multifamily Moves Forward

COVID-19 continues to affect communities nationwide, putting pressure on federal and state governments to respond. In the meantime, members of the multifamily industry are banding together to keep renters safely in their homes and to keep the economy intact.

Berkadia has created this brief of industry responses to the coronavirus pandemic. Our hope is that this report paints an encouraging picture of the steps that multifamily trade organizations are taking to limit the impact of the virus on our industry, our clients, and our nation.

Apartment Industry Responds with Advocacy and Resources

Members of the multifamily industry have been extremely proactive in responding to the negative impacts of COVID-19. A diverse coalition, ranging from statewide apartment associations to national advocacy groups, is already pulling together to answer two dire questions:

1. How do we prevent the industry from slowing to a halt?
2. How do we protect our most vulnerable citizens, many of them renters, during this time of uncertainty?

Several major industry organizations have already begun to make resources available to members of the industry whose business has been directly affected by the coronavirus.

National Mulitfamily Housing Council
made **these resources** available to members of the apartment industry to help develop and to implement preparedness strategies for responding to the evolving coronavirus threat.

Mortgage Banking Association
has launched a **resource page** to support members of the commercial real estate industry in responding to and in preparing for the capital impacts of COVID-19.

National Apartments Association
has made an **informative webinar** available online that address how property managers can address the spread of COVID-19 and can develop policies that help to contain the coronavirus. The association also offers ongoing situational analysis and news updates.

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In addition to expanding resources for members of the apartment industry, the NMHC and the NAA have been leading advocacy voices in support of those affected financially by the coronavirus.

The two organizations recently sent a joint letter to Congress urging lawmakers to take on a series of measures to provide immediate relief to Americans nationwide. The following are a few of the key policy proposals supported by the NMHC and NAA:

Direct Individual Assistance

Both the NMHC and NAA support "providing direct federal rental assistance to families and individuals who suffer a loss of income during the crisis."

- Develop a short-term emergency fund to support renter households
- Enact a payroll tax-cut of two percentage points to expand financial flexibility
- Expand unemployment coverage to include those affected by the coronavirus

Strategic Support for Operator and Owners

The two organizations also support government assistance for "for impacted owners and operators who provide the housing needed for families and individuals."

- Extend mortgage forbearance to provide economic relief to the industry
- Use private-public cooperation to address challenges presented by student housing
- Allow businesses affected to carry back potential losses in 2020 for an extended period
- Provide business credits to companies to allow them to continue paying employees

Direct Impacts of COVID-19 on Apartment Fundamentals

While there are no doubts that COVID-19 will impact the apartment market, initial data on the short-term effects are unclear. As multifamily data is reported on a quarterly cadence, a clearer understanding of apartment leasing activity will emerge next month.

53%

Initial lease renewal rate in 2019

CONTRIBUTING FACTORS

Harsh weather
(Northeast & Rust Belt)

Older / less transient population
(Milwaukee)

An underlying trend that could sustain apartment demand during this crisis is the trend of renters remaining in their apartments more than ever, with initial lease renewal rates exceeding 53% in 2019. This is especially true among mature economies in the Northeast and in the Rust Belt where potentially harsh weather creates a deterrent to moving for many.

Another positive contributing factor in many of these markets is that the population is older and less transient. For example, more than 65% of expiring leases were renewed in Milwaukee last year.

Less insulated from the impacts of the coronavirus will be markets like Orlando, Anaheim, and San Diego. While these markets have a diverse mix of employment sectors and experienced real gross domestic product (GDP) growth of 3.0% or more from 2015 to 2018, the leisure and hospitality industries have an oversized presence in these economies. With layoffs and disruptions in everyone's day-to-day routines due to recommended social distancing, these industries are facing headwinds. This is especially true in the Las Vegas market, where one in four jobs is in the leisure and hospitality sector.

The slowdown in the leisure and hospitality industry is forecast to contribute to an approximate 0.2% reduction in first quarter real GDP, according to Moody's Analytics.

With a weakening in the broader economy, apartment operators will face at least a short-term demand drop during the typically robust leasing season that begins in the second quarter.

LESS INSULATED MARKETS
(large leisure and hospitality industries presence)

Las Vegas
Orlando
Anaheim
San Diego

1 in 4 jobs
in the leisure and hospitality sector

Potential Slowdown Shines Spotlight on Class B and C

The most immediate impact of the coronavirus on the multifamily industry will be felt among new Class A developments. While approximately 371,000 market-rate apartment units are scheduled to complete in 2020, deliveries over the remaining year are expected to taper due to building delays brought by supply chain disruptions of construction materials and staffing shortages.

Even though Class A new construction is expected to face a slowdown, Class B and Class C stock remains well positioned. Renters priced out of Class A product, many of them facing threats to their income streams, will remain so despite a recent trend of rising concessions. The gap between rent from Class A and Class B will remain sizable in most areas.

That said, even if operators experience moderate move-outs at Class B and Class C properties, these products will remain essentially full. Class B assets are best positioned to benefit from the slowdown in Class A properties. Class C assets may face challenges due to their renter base facing joblessness caused by COVID-19.

Berkadia Remains Dedicated to Our Partners and Clients

We know that the best way to face a daunting future is to do so head-on with focus, courage, and the best information available. We at Berkadia will continue to share data-driven, actionable insights to help our clients and the entire industry chart a steady course across uncertain futures.

Visit Berkadia's **Research and Resources** for access to additional knowledge reports and metro-level data and analysis. Check out the Berkadia blog for weekly analysis of the most important topics facing the industry, including the immediate **impacts of the coronavirus**. You can also reach out to one of our **expert advisors** directly.

PRODUCED BY

Jonathan Rappa
Senior Director, Research
jonathan.rappa@berkadia.com
602.445.1634

Aaron Royster
Senior Research Analyst
aaron.royster@berkadia.com
602.445.1694

Remy Albillar
Content Strategist and
Research Analyst
remy.albilar@berkadia.com