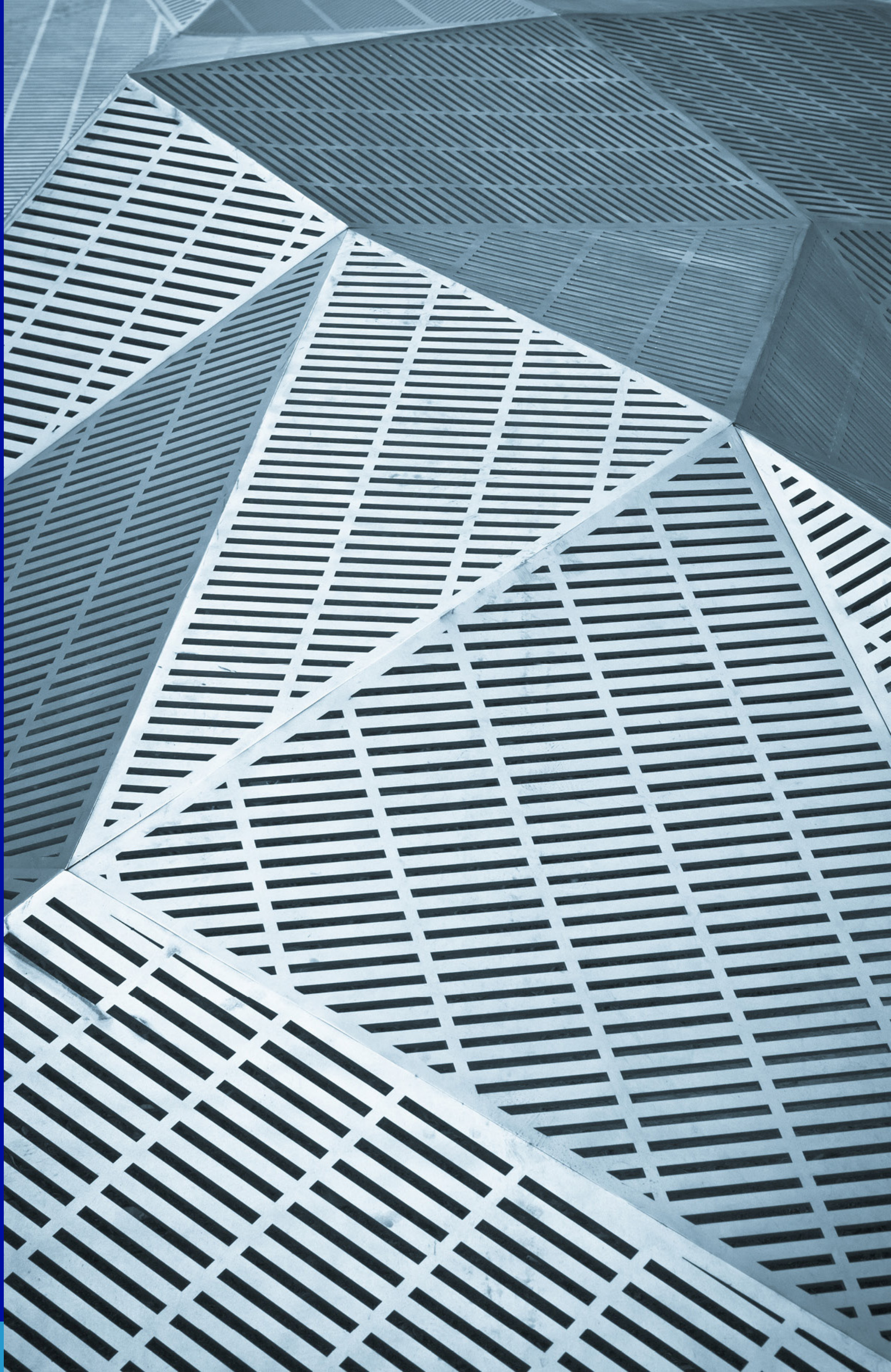
3Q20 United States Multifamily Capital Markets Report

NEWMARK



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Key Takeaways

Sales Volume

While deal activity decelerated significantly due to uncertainty at the onset of the COVID-19 outbreak, multifamily investment sales volume has been trending upward, as quarter-over-quarter transaction volume rose 55.9% in 3Q20, the strongest sequential quarter-over-quarter gain since 2011.

Rent Growth

Over the past 12 months, annual effective rent growth dropped to 1.0%, the lowest annual rate since 4Q10. Despite many markets showing muted growth because of the economic downturn, several markets continue to outperform, with six of the top ten markets for rent growth located in the Sunbelt.

Rent Collections

Rent collections for multifamily continue to outperform other major property types, with 94.4% of rent payments collected in 3Q20. Collections during the pandemic have varied geographically, with densely populated markets suffering more than others due to the nature of the virus.

Supply and Demand

250,656 units have been delivered year-to-date through 3Q20, outpacing demand by 31,569 units. Over the past 12 months, demand has been strongest in Dallas, Atlanta, and Houston, while Sacramento saw demand outpace new supply.

Total Returns

Multifamily total returns fell to 0.8% year-to-date, marking the lowest annual rate of return since 2009 during the Global Financial Crisis (GFC). Despite this drop, historical annualized returns for multifamily assets have shown the ability to rebound sharply following an economic downturn.

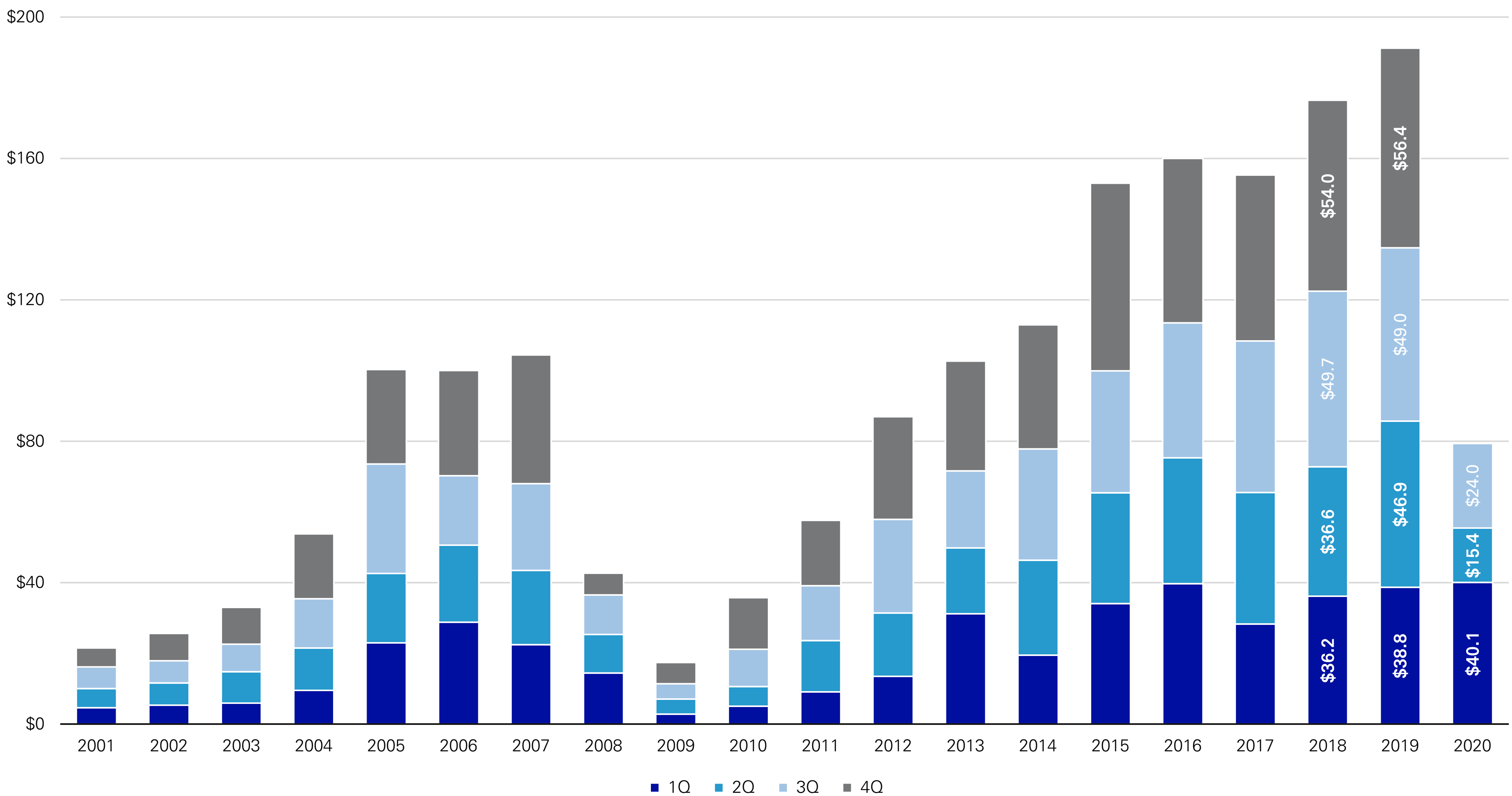
Debt Markets

Mortgage debt outstanding remained flat quarter-over-quarter at $1.6 trillion, with almost half of outstanding debt coming from the GSEs. Year-to-date, Fannie Mae and Freddie Mac have originated a combined $97.4 billion.

Sales Volume

UNITED STATES; $ IN BILLIONS

Investment sales volume totaled $24.0 billion in 3Q20, representing a 51.2% decline compared to 3Q19. Over the past 12 months, sales volume totals declined 28.0% to $135.8 billion versus 4Q18-3Q19. While volume is still markedly down, increased investor confidence in multifamily has fueled a 55.9% quarter-over-quarter increase, the strongest sequential quarterly gain since 2011. Activity is expected to continue to accelerate through year-end and into 2021.

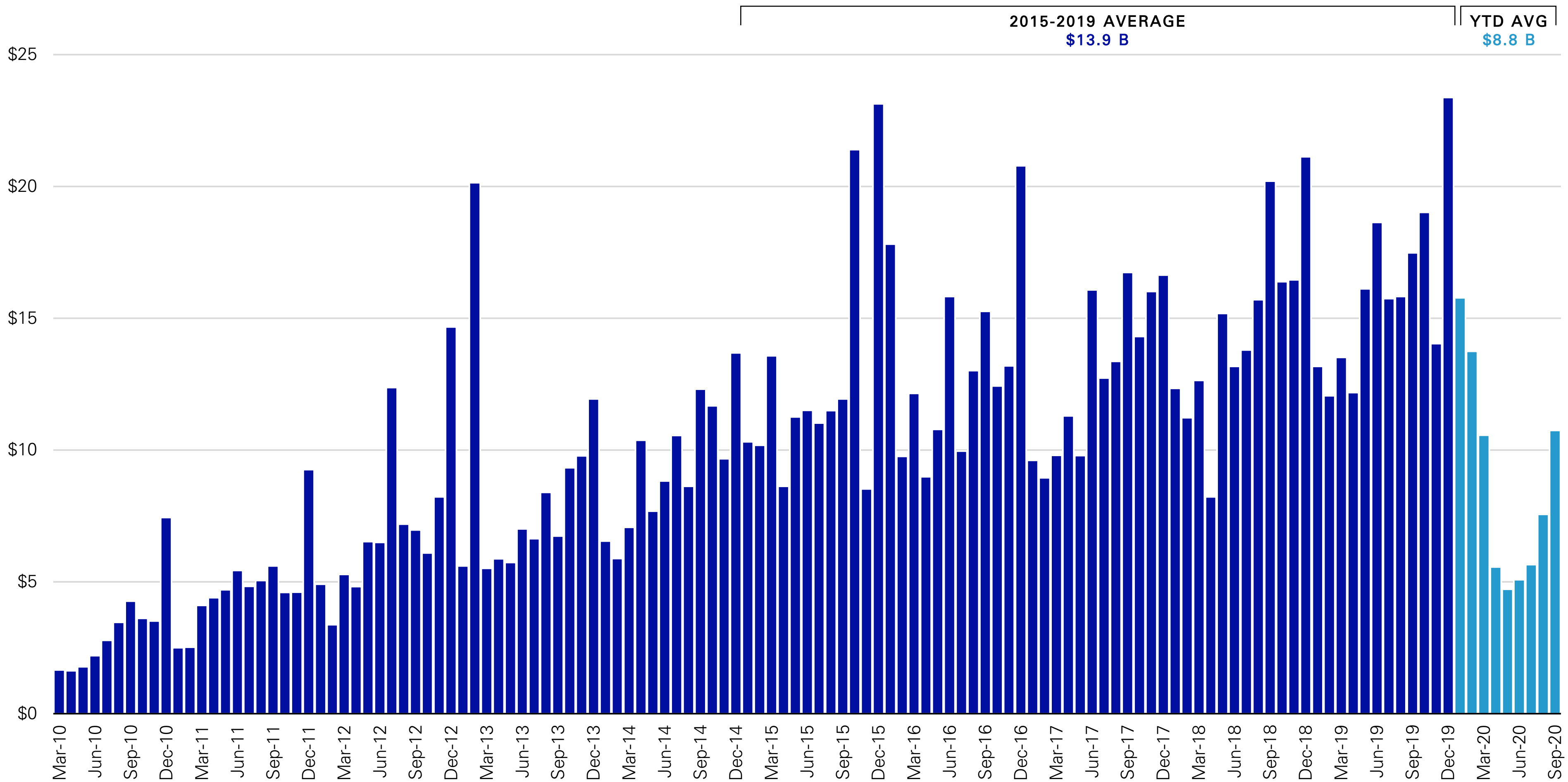


Source: Newmark Research, Real Capital Analytics

Monthly Sales Volume

UNITED STATES; $ IN BILLIONS

While monthly sales volume still trails pre-COVID levels, activity rebounded sharply in September with $10.7 billion in transactions, an increase of 127.7% compared with the May low of $4.7 billion. Multifamily remains the largest recipient of capital compared to other property types year-to-date, and appears to be experiencing a "V-shaped" recovery as it relates to sales volume.

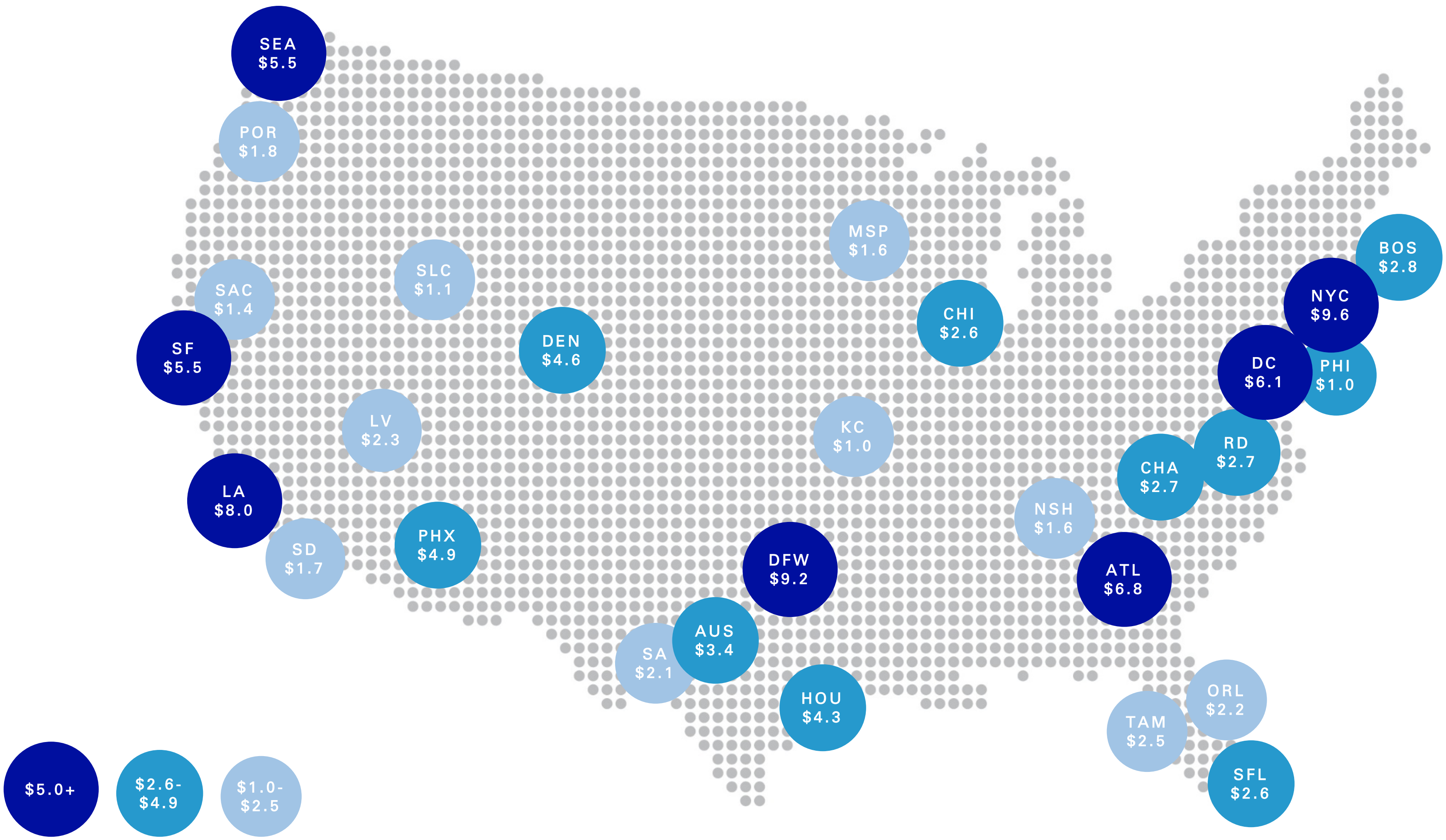


Source: Newmark Research, Real Capital Analytics

Sales Volume by Market

12-MONTH TOTALS; $ IN BILLIONS

Although major markets such as Los Angeles and New York remain the most liquid markets over the past 12 months, non-major markets like Atlanta and Dallas continue to see high-levels of investment based on strong prospects and corporate relocations. Additionally, both Atlanta and Dallas benefit from the preference to place capital in less dense markets due to COVID-19, in contrast to New York, where year-over-year sales volume has declined 45.4%.



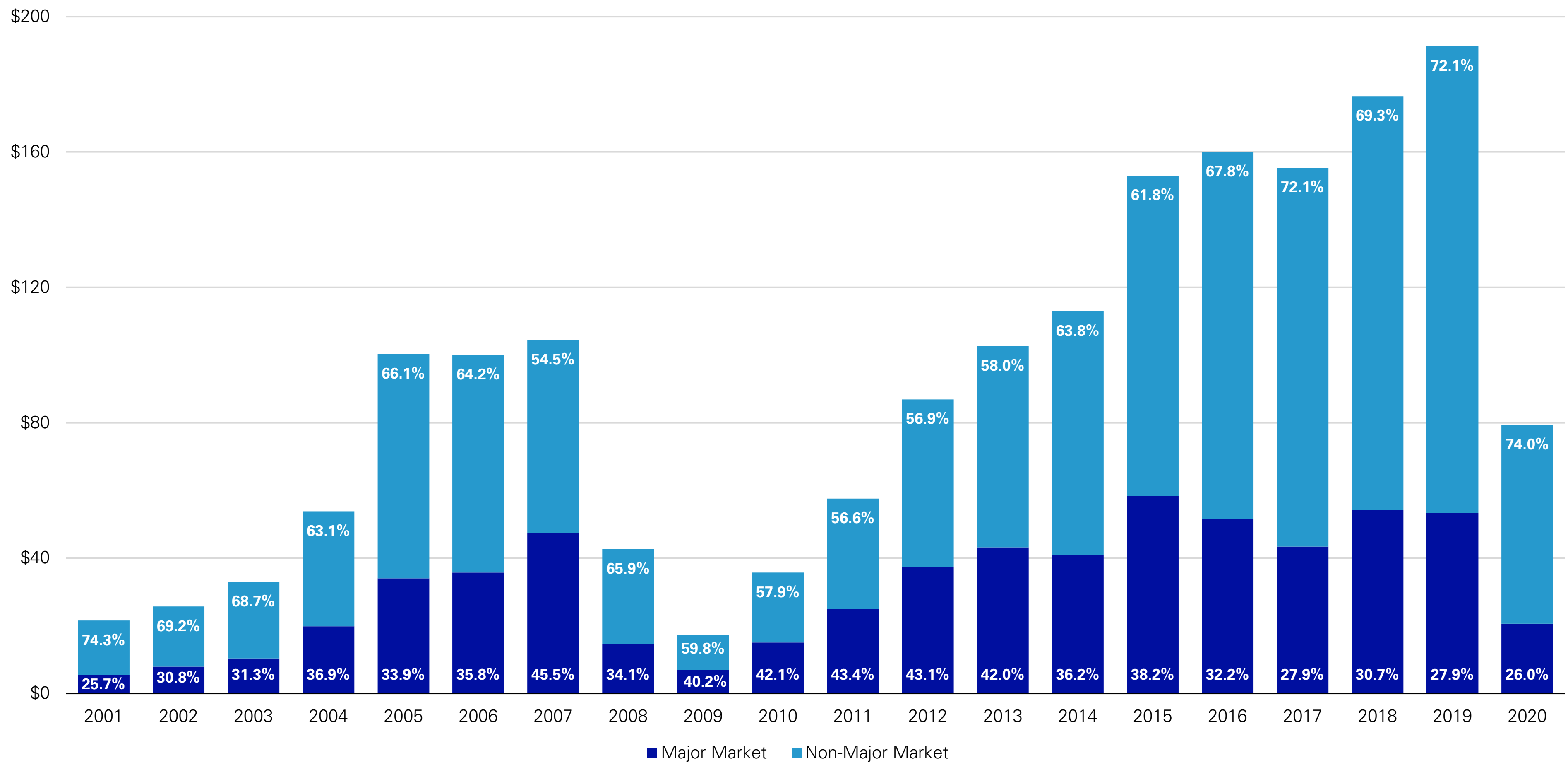
Source: Newmark Research, Real Capital Analytics

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

Capital Flow Analysis

UNITED STATES; $ IN BILLIONS

Following the Global Financial Crisis, investors sought out investments in "safe haven" major markets, while during COVID-19 the opposite has occurred. Continuing with the trend over the past 5 years, investors have allocated more capital toward faster growing, non-major markets. However, Covid-19 has strengthened this trend, as major markets have seen the largest declines in employment and most pandemic-related disruption.



Source: Newmark Research, Real Capital Analytics

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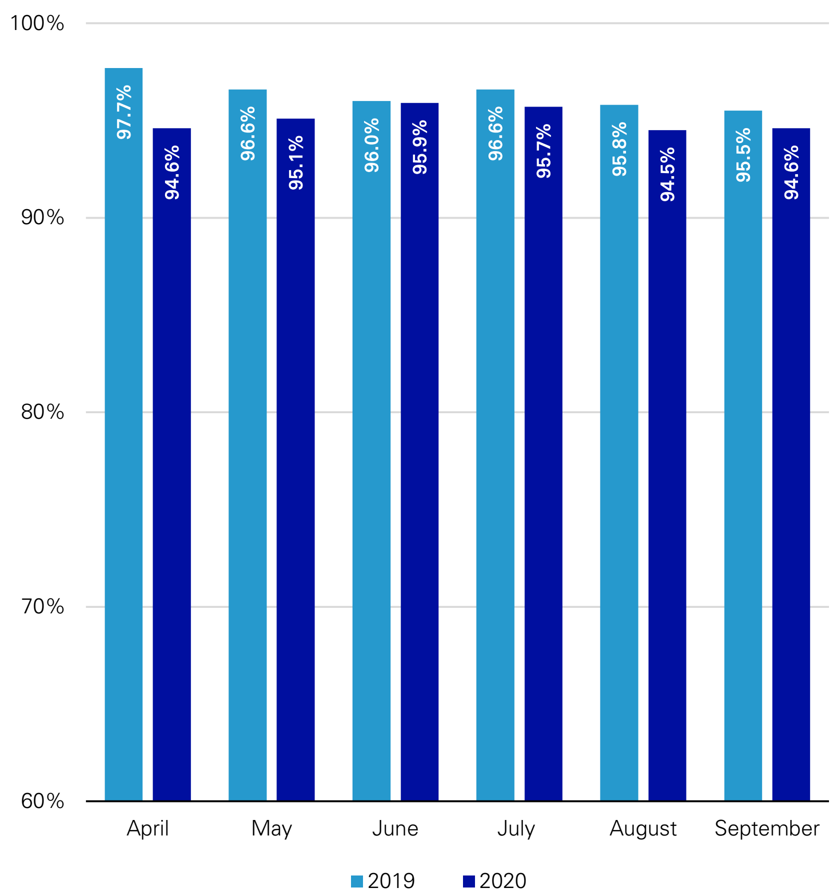
Rent Collections

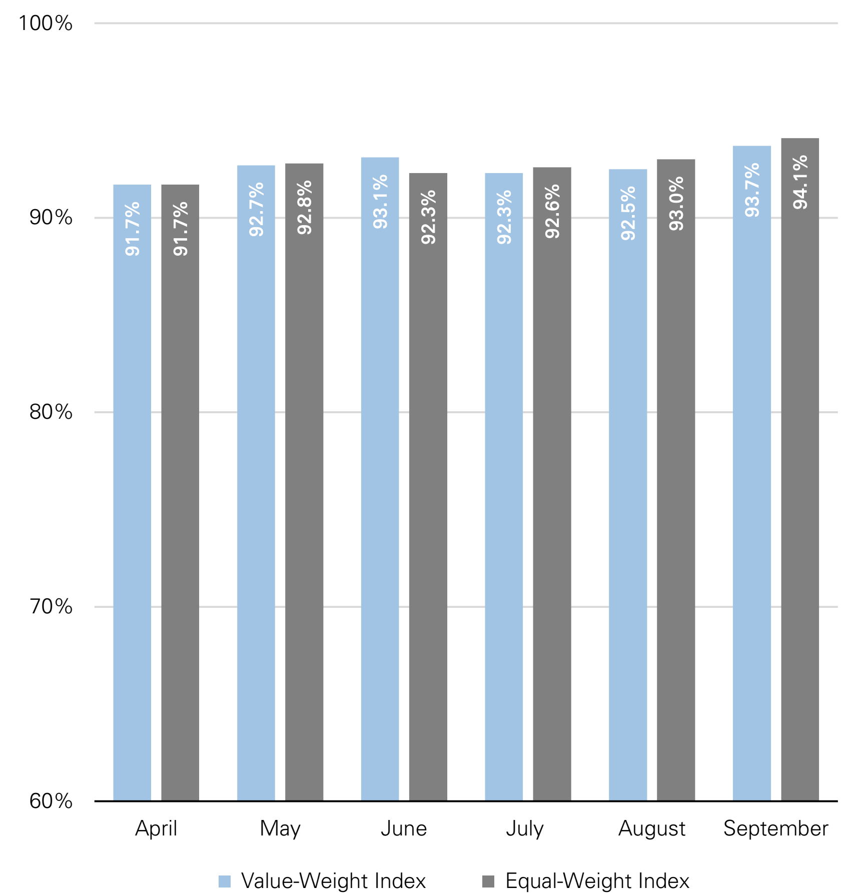
UNITED STATES

Despite a lack of recent stimulus, rent collections continue to outperform expectations. According to NMHC, professionally managed apartments averaged 94.9% full or partial rent payments in 3Q20, slightly behind the 95.2% average in 2Q20. NCREIF's open-end fund index, primarily made up of core and core-plus vehicles, showed positive momentum with rent collections accelerating in each month during 3Q20.

NMHC RENT PAYMENT TRACKER FULL MONTH RESULTS



NCREIF OPEN-END FUND RENT COLLECTION RATES

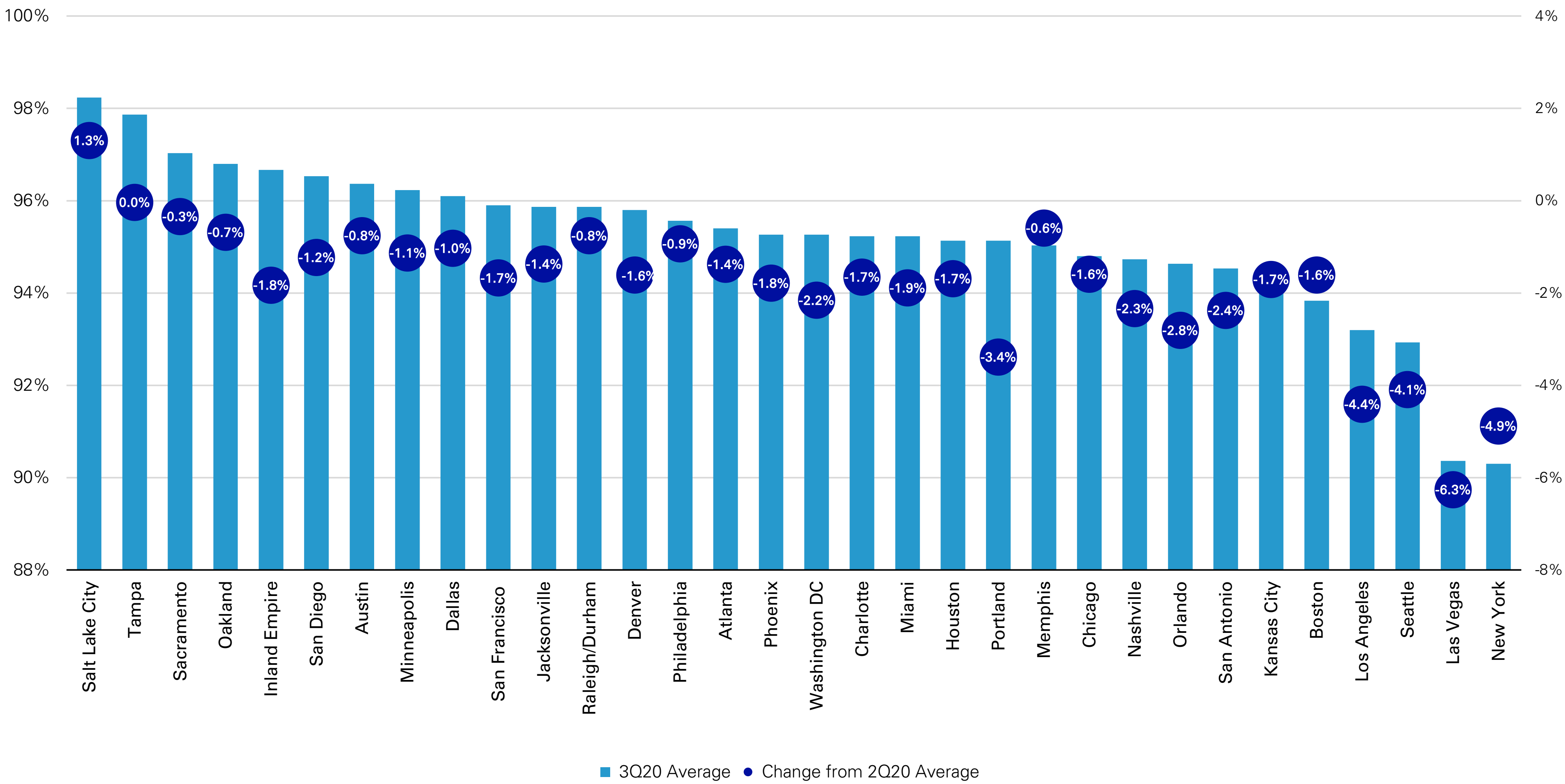


Source: Newmark Research, NMHC, NCREIF

Rent Collections by Market

YEAR-OVER-YEAR CHANGE

High traffic and tourism-reliant markets hit the hardest by the COVID-19 like New York, Las Vegas, and Orlando have understandably seen the some of the lowest rent collections in 3Q20. Conversely, markets where the virus did not spread as widely experienced minimal decreases in collections. As a whole, multifamily rent collections have weathered the downturn well, with no single market collecting less than 90% in 3Q20.



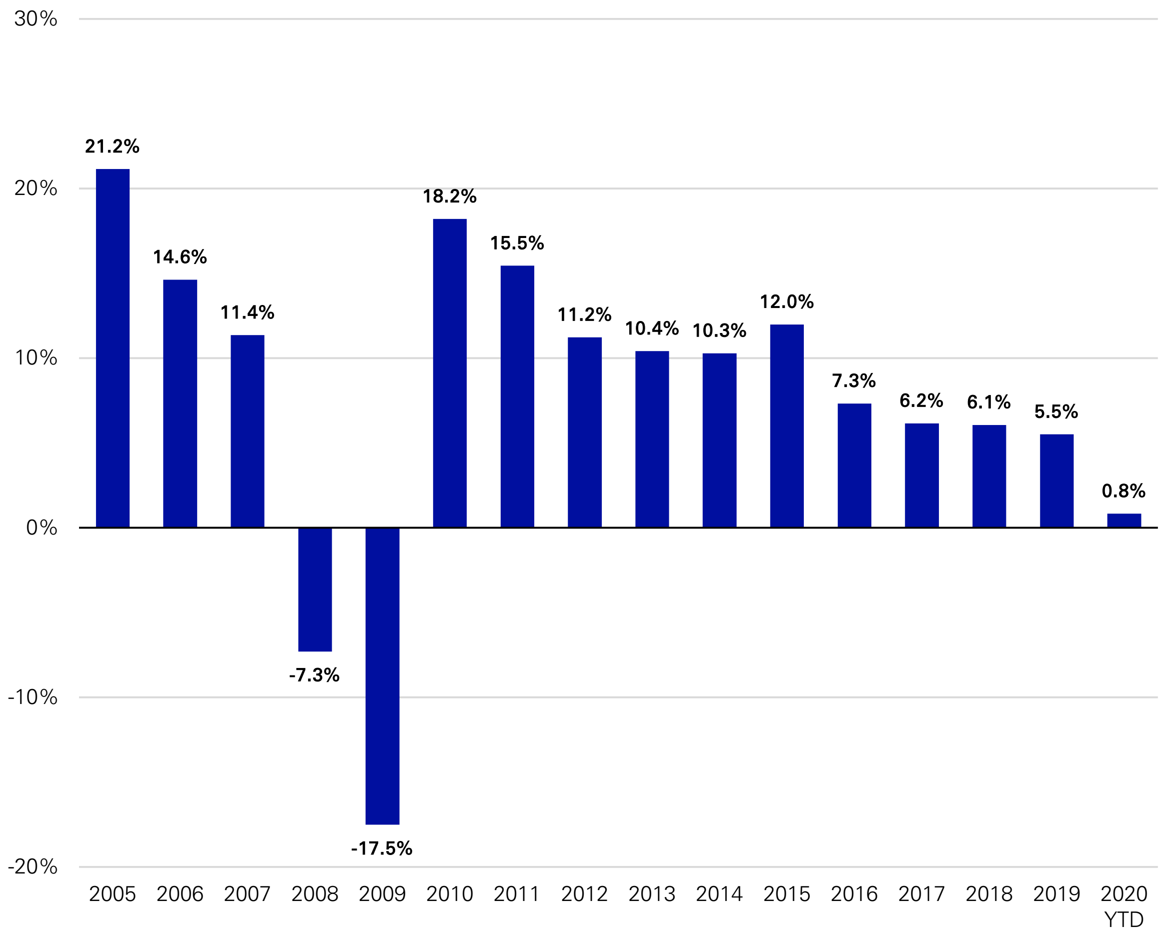
Source: Newmark Research, RealPage

Total Returns

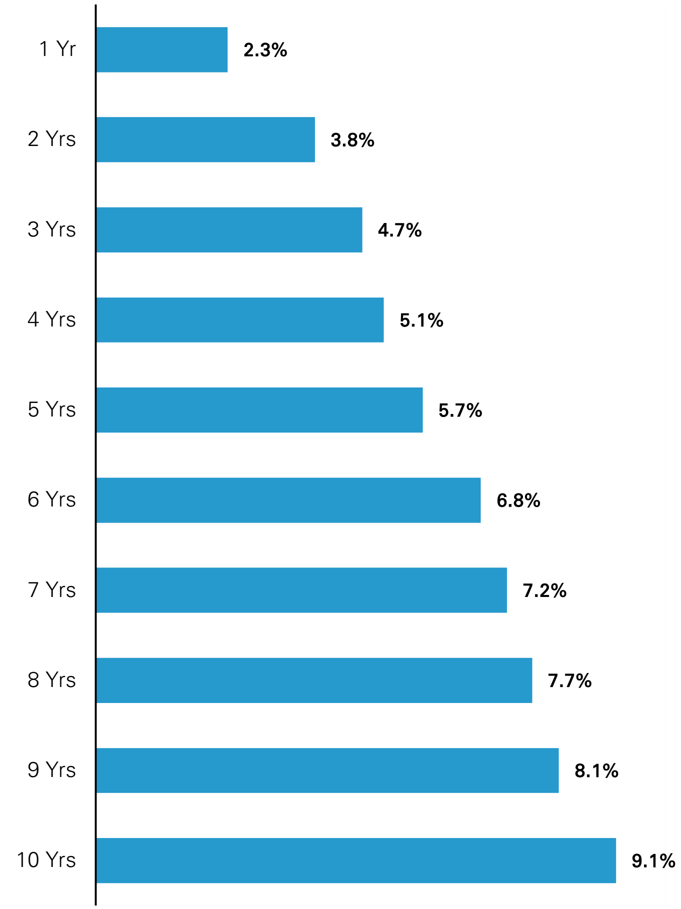
CALENDAR YEAR AND ANNUALIZED RETURNS

While strong income has kept multifamily positive in 2020, the hit to capital appreciation has dropped total returns to 0.8% year-to-date. Though returns are lower in the short term, historical annualized returns for multifamily show strong yields over time, especially after a recession. In the 10 years following the Global Financial Crisis, multifamily total returns totaled 9.1%.

CALENDAR YEAR RETURNS



ANNUALIZED RETURNS

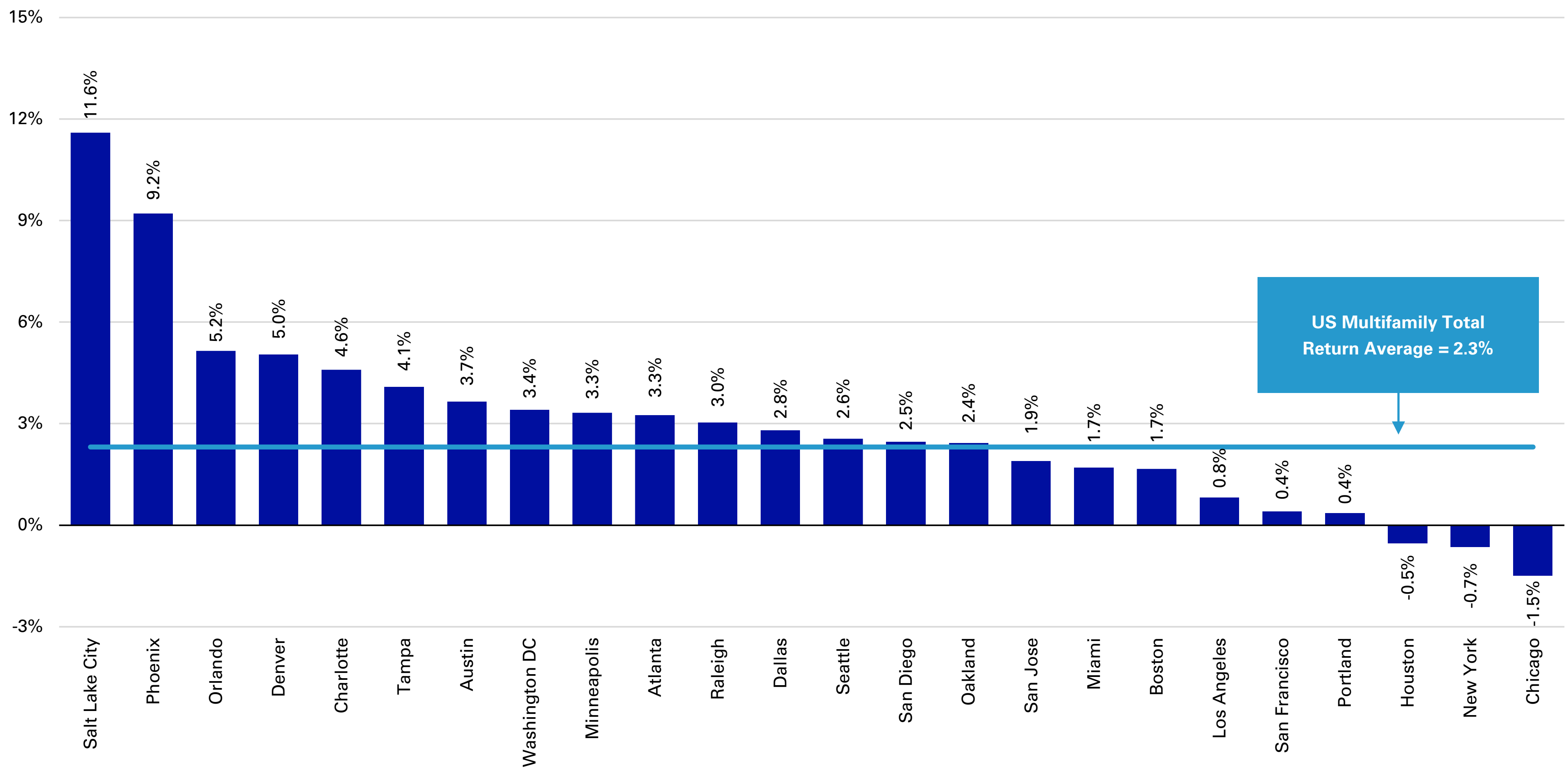


Source: Newmark Research, NCREIF

Total Returns by Market

ANNUALIZED TOTALS

Despite slowed appreciation, growing multifamily markets such as Salt Lake City and Phoenix have yielded the highest total returns over the last 12 months. Half of the top 10 markets by total returns are in the Sunbelt, a region that has achieved strong levels of population and employment growth, and has attracted record levels of institutional capital.

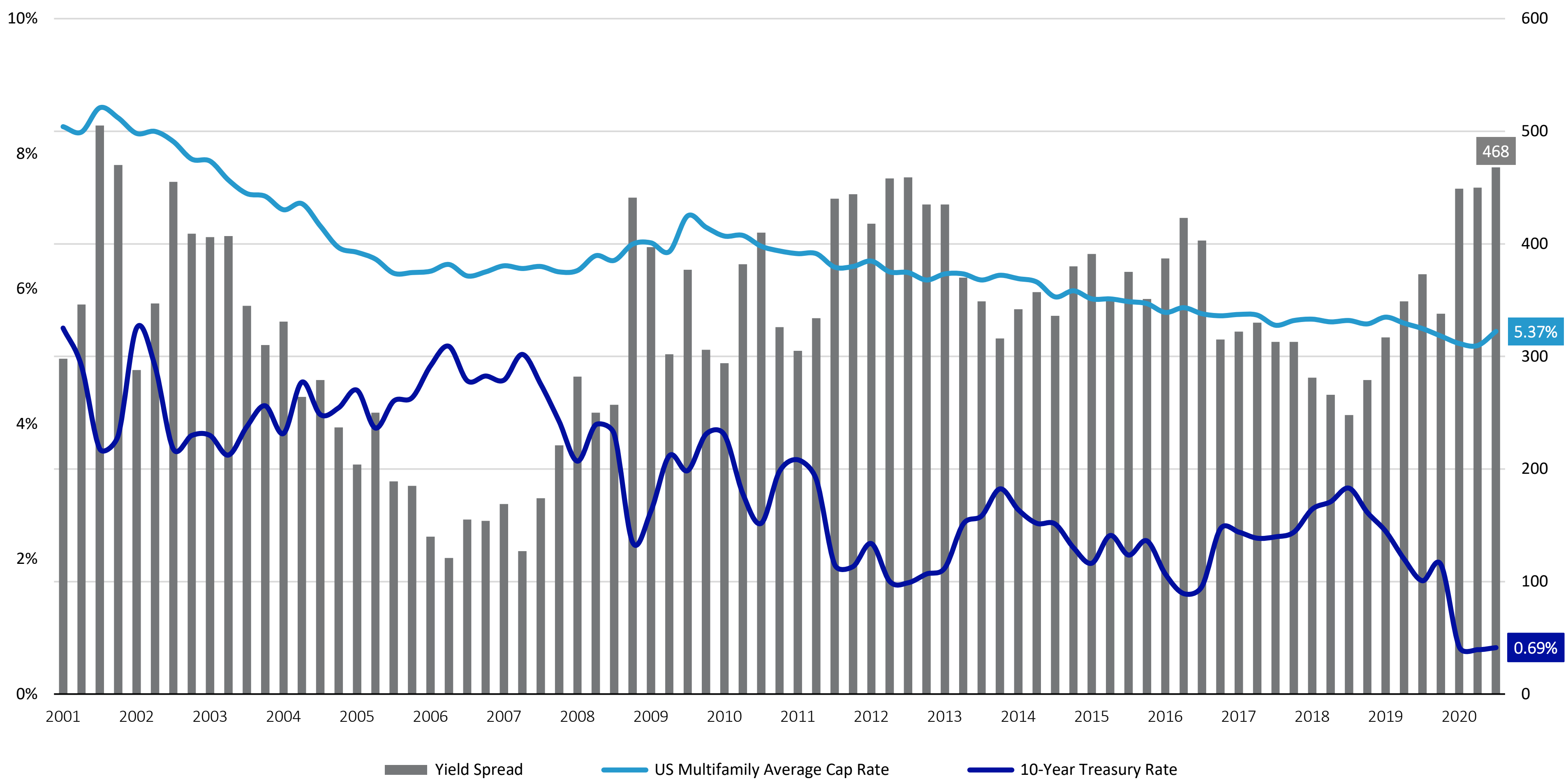


Source: Newmark Research, NCREIF

Yield Spread

UNITED STATES

The Federal Reserve's guidance to keep interest rates low for the foreseeable future has expanded the spread between multifamily yields and treasuries to 468 basis points – the highest spread since 4Q01.

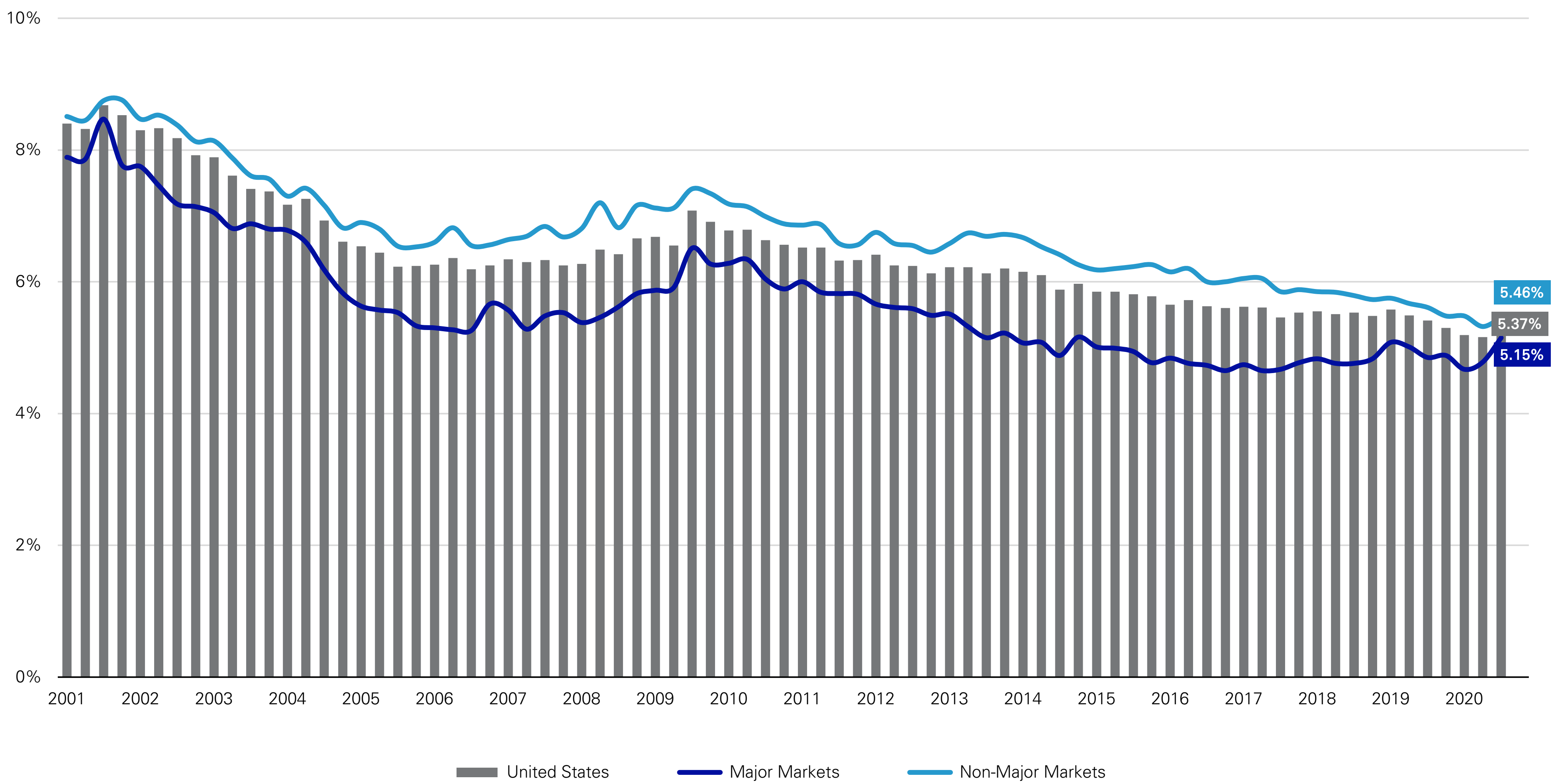


Source: Newmark Research, Federal Reserve Bank of St. Louis, Real Capital Analytics

Cap Rates

UNITED STATES; QUARTERLY AVERAGE

Cap rates nationally declined 4 basis points year-over-year due to strong demand for multifamily product despite a lack of for sale opportunities year-to-date. Non-major market yields compressed 15 basis points, while cap rates in major markets expanded 30 basis points.



Source: Newmark Research, Real Capital Analytics

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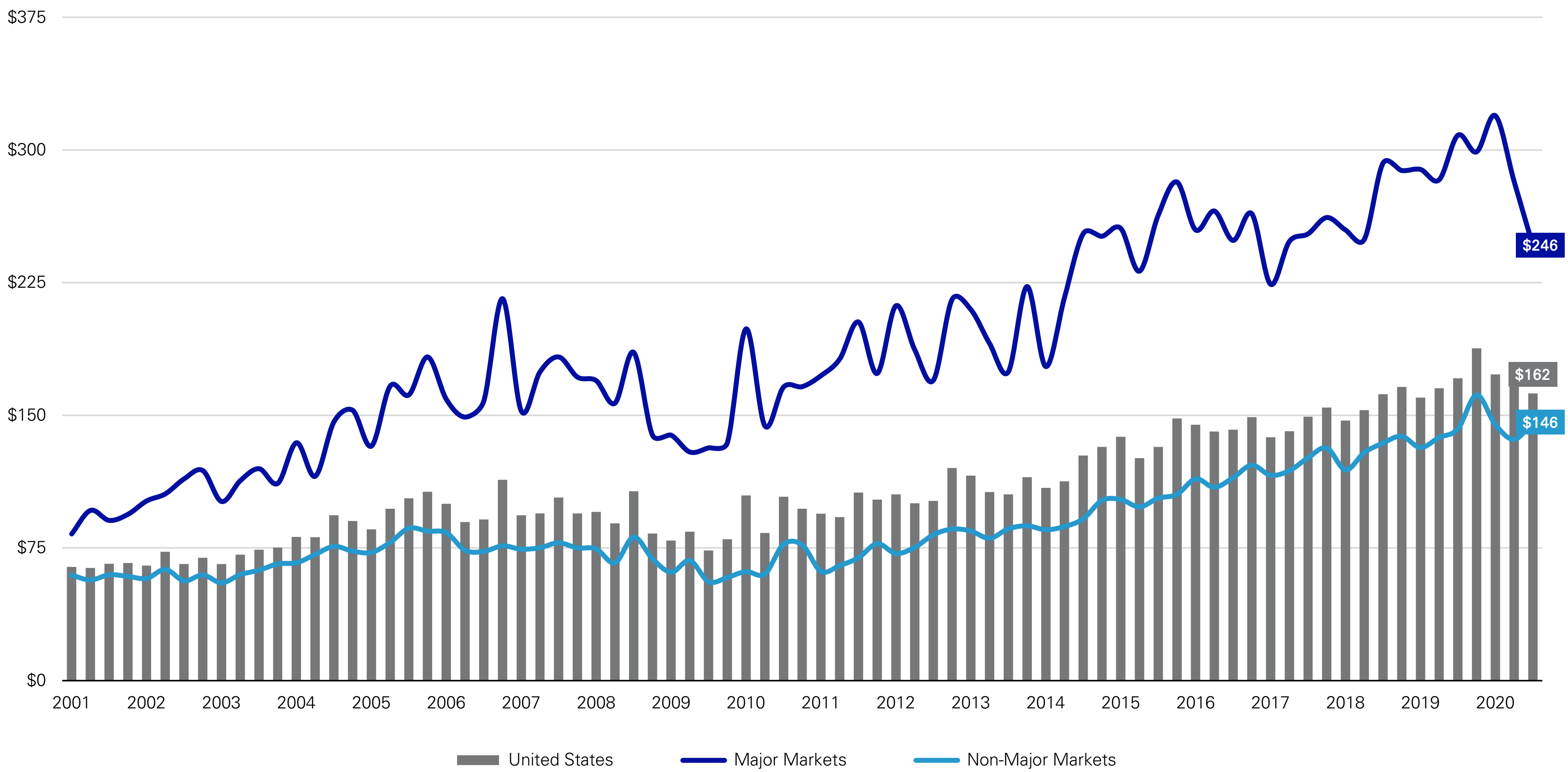
Price Per Unit

UNITED STATES; QUARTERLY AVERAGE

The impact of COVID-19 on the multifamily market has been highly regionalized, varying in severity throughout different areas of the country. Due to the nature of the virus, the denser major markets have suffered more than their non-major counterparts. Major market pricing has fallen 12.8% quarter-over-quarter and 20.2% year-over-year, while non-major market pricing has seen a swifter recovery– up 7.1% quarter-over-quarter and 2.6% year-over-year.



Source: Newmark Research, Real Capital Analytics

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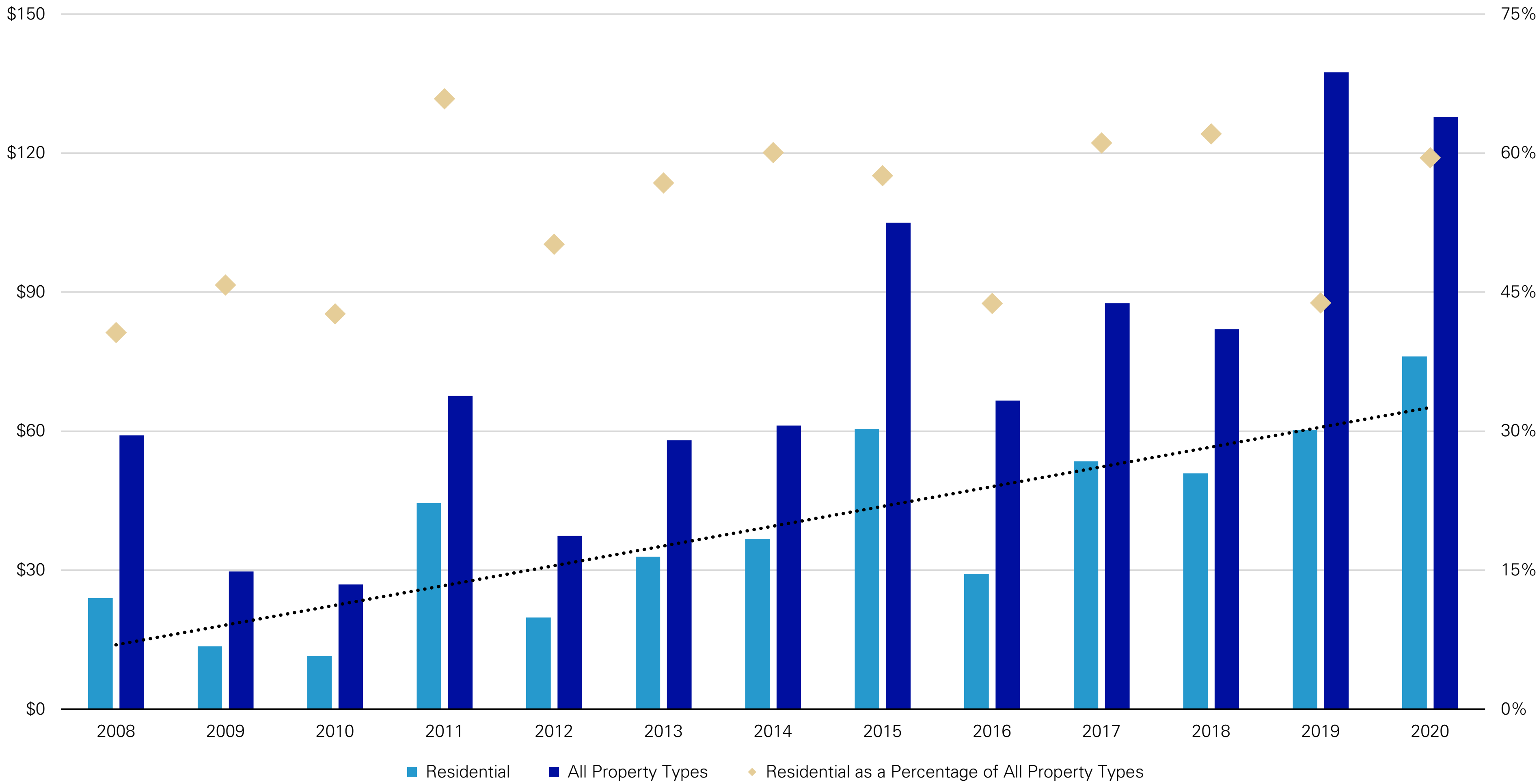
Aggregate Fund Targets

NORTH AMERICA FOCUSED STRATEGIES; $ IN BILLIONS

Multifamily has increasingly become more of a focus among real estate funds in recent history. Since 2008, the aggregate total of target funds for residential investment has grown 216.9%, greater than the 116.5% increase experienced for all property types. The $76.1 billion currently earmarked for residential funds equates to a purchasing power of $217.3 billion using a 65% LTV ratio.



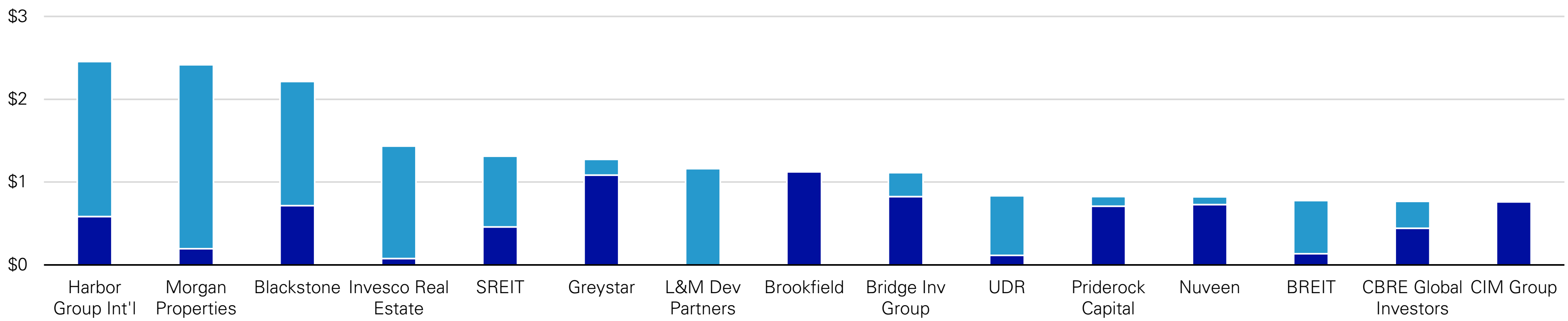
Source: Newmark Research, Preqin

Top Buyers and Sellers

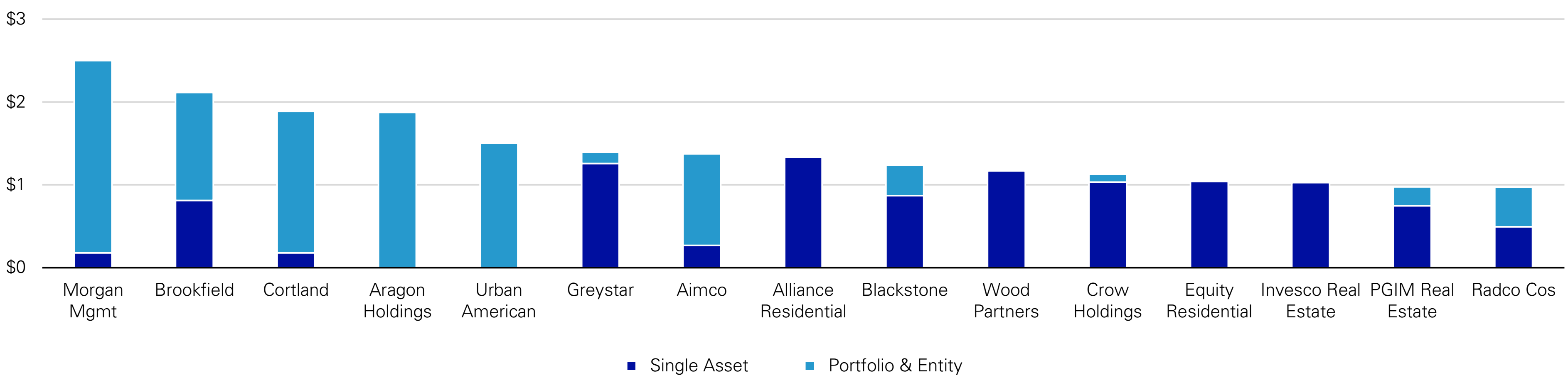
UNITED STATES; 12-MONTH TOTALS

While the majority of sales volume came from single asset transactions (77.1%) over the last 12 months, the top buyers and sellers who have transacted over this time largely did so through portfolio and entity-level deals. The largest transaction in 3Q20 was Aimco's $2.5 billion partial interest sale in 12 multifamily properties. Other than a handful of large institutional deals, most of the transactions that have occurred since the pandemic started have been private groups with more flexibility to transact through uncertainty.

TOP BUYERS ($ IN BILLIONS)



TOP SELLERS ($ IN BILLIONS)

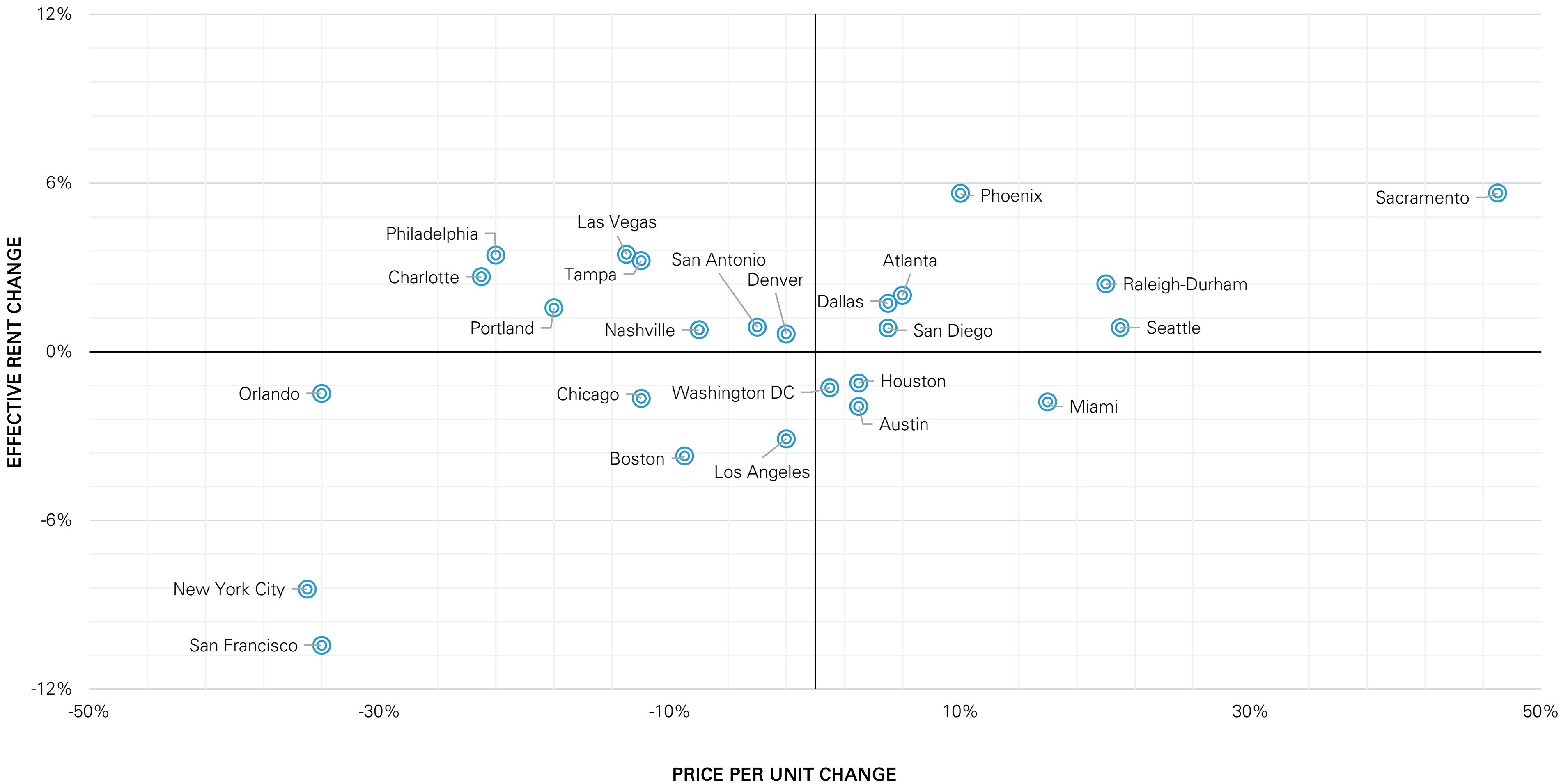


Source: Newmark Research, Real Capital Analytics

Changes in Pricing

3Q20 QUARTERLY AVERAGE VS. 2019 AVERAGE PRICING

COVID-19 has brought about substantial pricing pressure in the major markets with both New York and San Francisco experiencing considerable effective rent deceleration as well as price per unit change. On the other hand, a handful of markets including Raleigh/Durham, Sacramento and Seattle have largely defied the trend as investors have been willing to pay up for a mix of growth and migration trends.

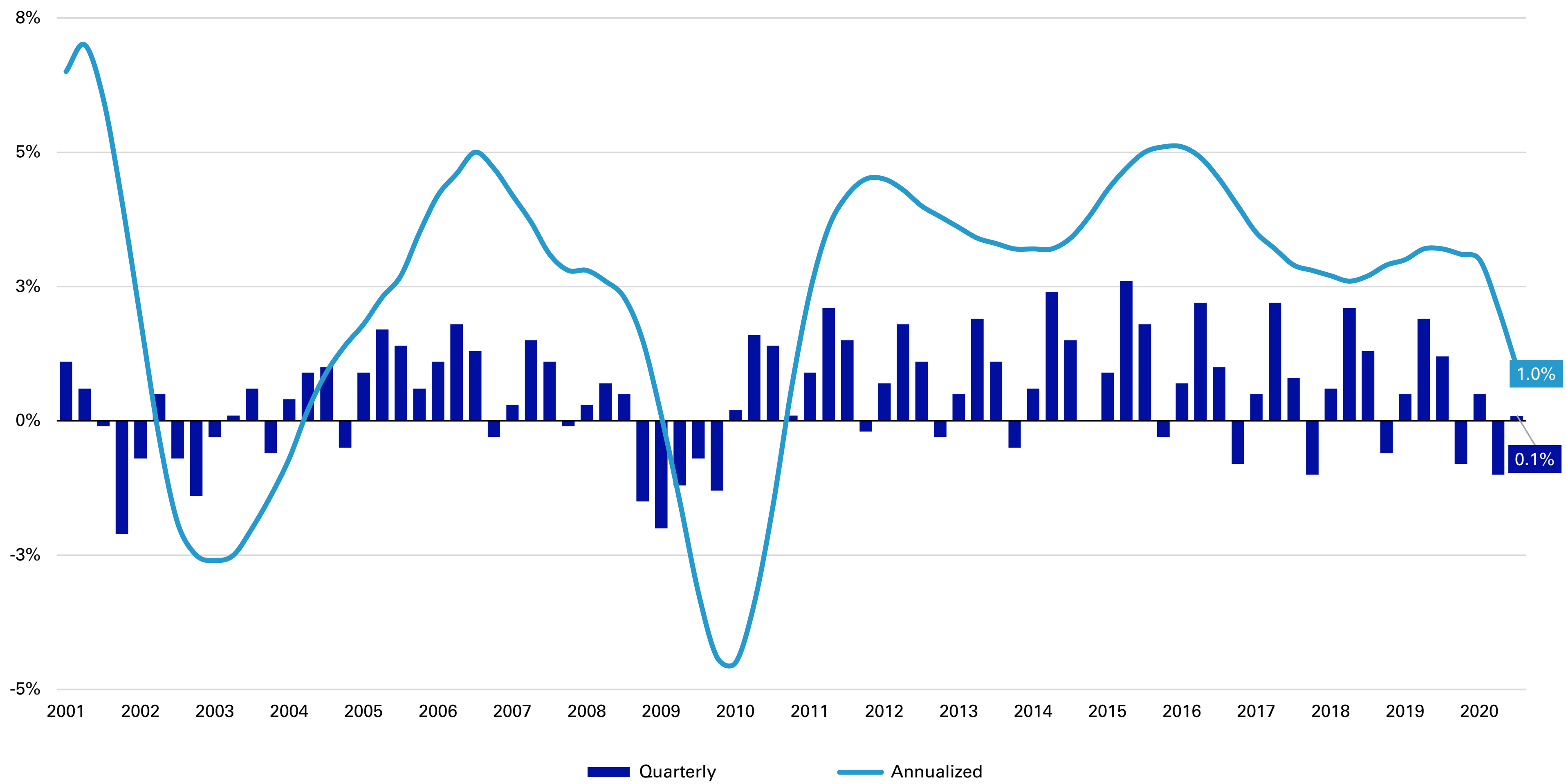


Source: Newmark Research, Real Capital Analytics, RealPage

Effective Rent Growth

UNITED STATES

Effective rent growth remains muted, with quarterly growth at 0.1% and annualized growth at 1.0%. While rent growth is dampened in the short-term, multifamily owners and operators are offering higher than usual levels of concessions to attract and retain renters during the COVID-19 pandemic with the expectation that rents rise in the future.

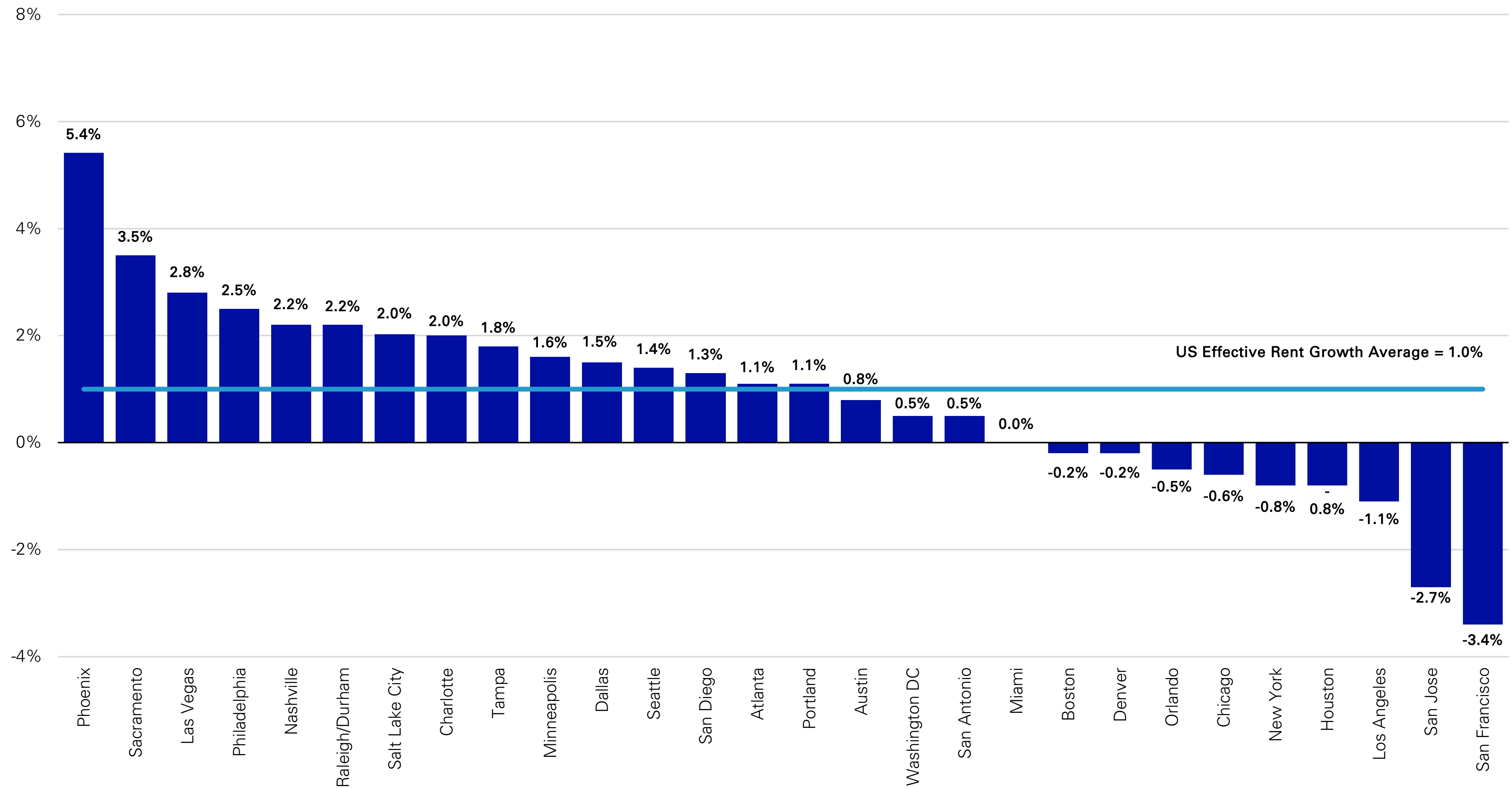


Source: Newmark Research, RealPage

Effective Rent Growth by Market

ANNUALIZED

Rent growth in the Sunbelt markets has continued to greatly outperform the national average, which fell to 1.0% over the last 12 months. Phoenix (5.4%) saw the highest percentage increase in rent growth and 6 of the top 10 markets in terms of annualized effective rent growth are all located in the Sunbelt region.

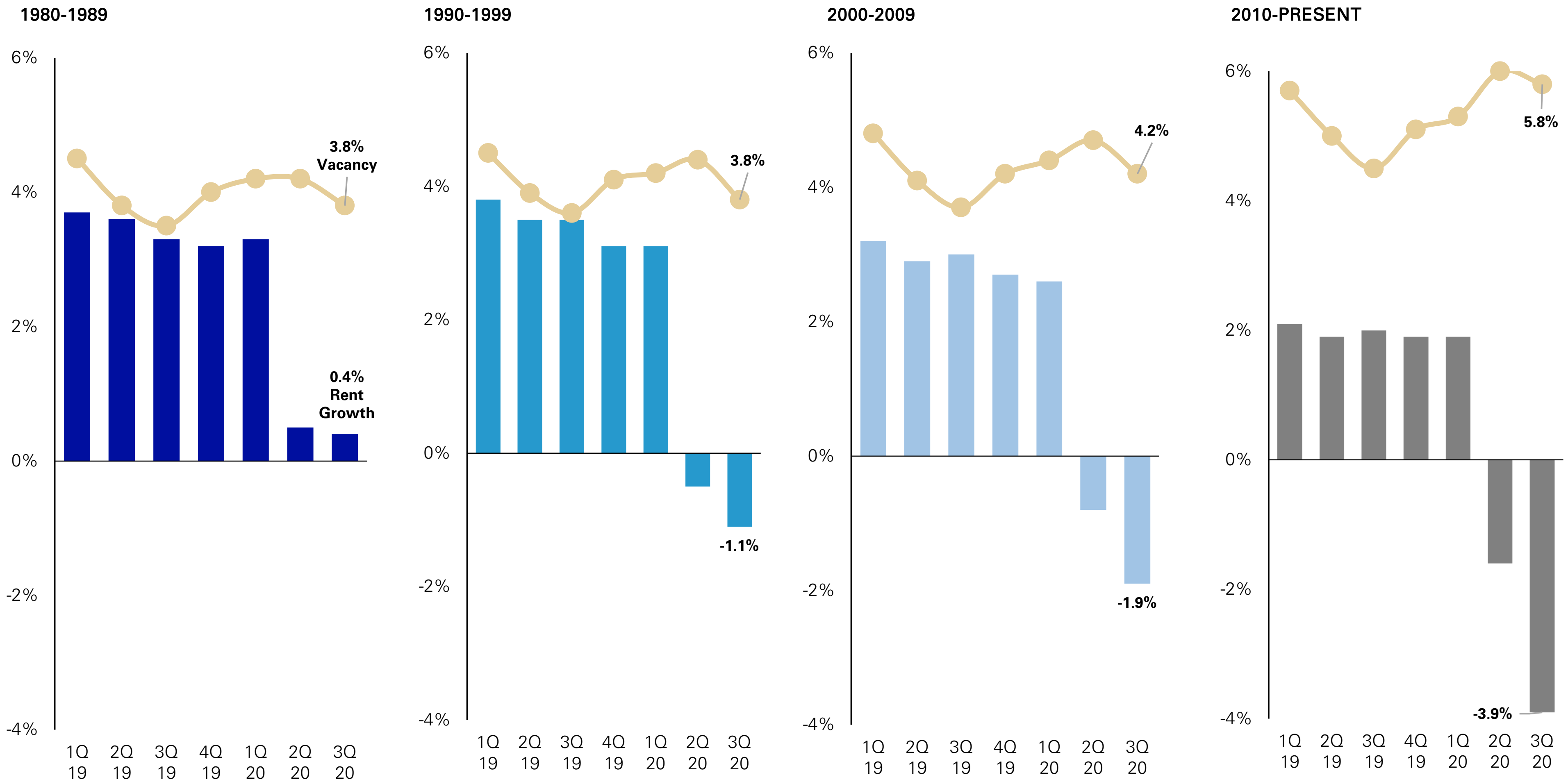


Source: Newmark Research, RealPage

Effective Rent & Vacancy by Vintage

UNITED STATES; ANNUALIZED

Effective rents declined the most in properties built in 2010-present as most of this product falls in major markets where fundamentals have suffered the most since the onset of COVID-19. On the other hand, older properties, particularly in the 1980-1989 vintage have experienced positive rental growth and among the lowest vacancy rates based on increasing renter demand for suburban and lower cost options.

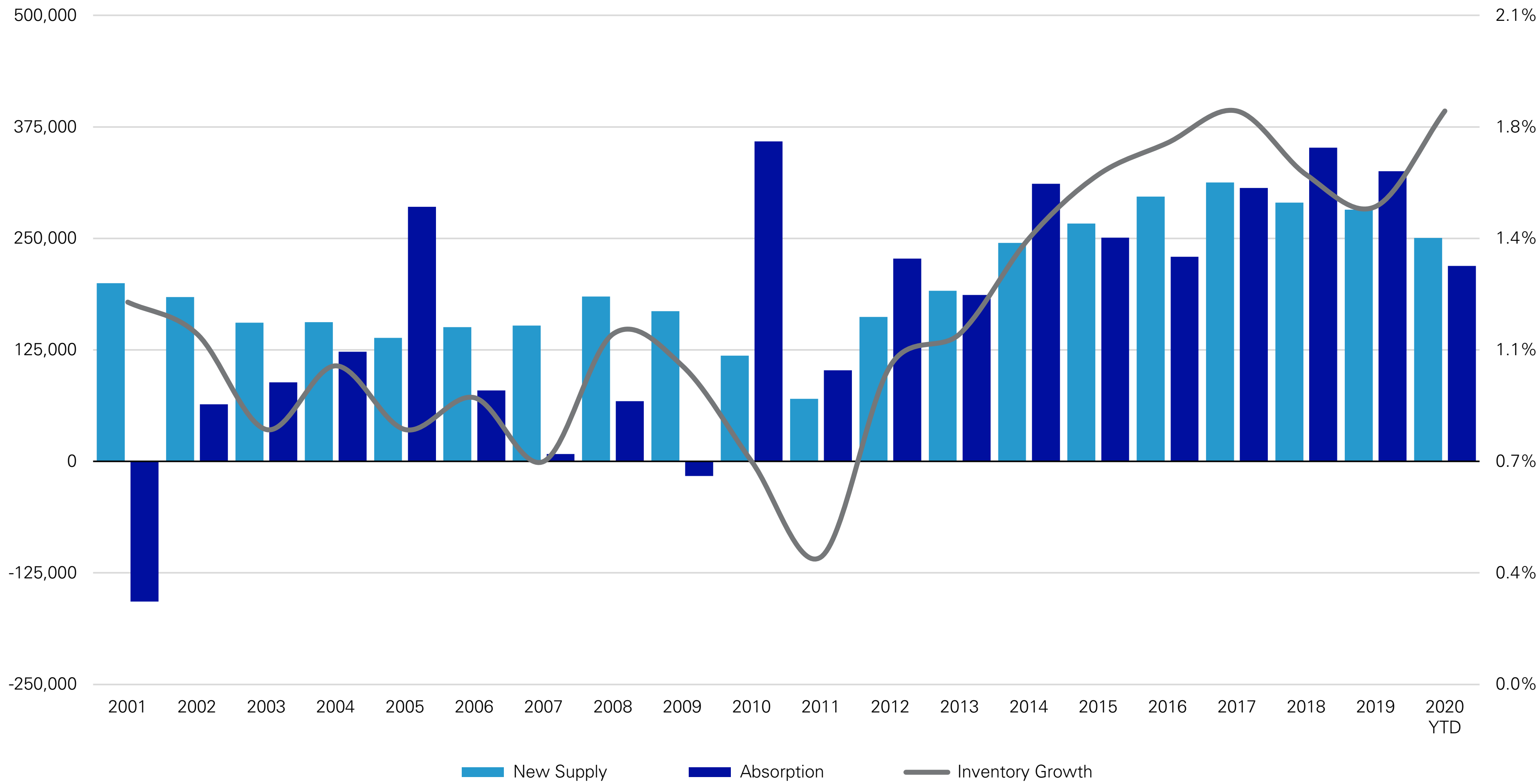


Source: Newmark Research, RealPage

Supply and Demand

UNITED STATES

Year-to-date, new supply nationally totaled 250,656 units, representing a 1.8% increase in total inventory growth. This supply was met by 219,087 units absorbed. With 103,557 new units expected to be delivered in 4Q20, landlords in high-growth markets are in position to benefit from accelerating migration trends.

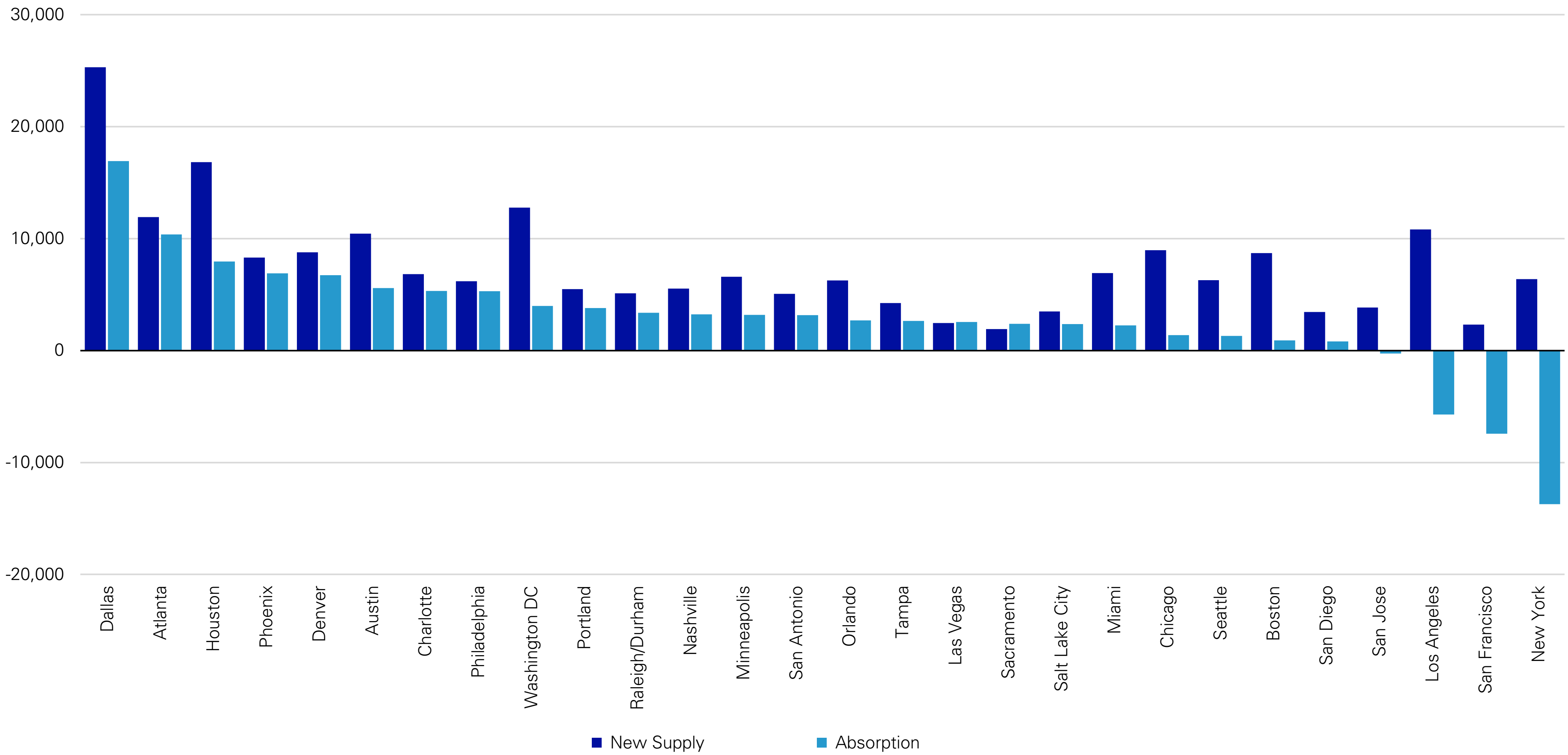


Source: Newmark Research, RealPage

Supply and Demand by Market

12-MONTH TOTALS

Sunbelt markets continue to drive the highest demand and garner the most attention from multifamily investors and developers. Over the past 12 months, demand has been strongest in Dallas (16,917 units), Atlanta (10,369 units), and Houston (7,957 units), while Sacramento has seen demand outpace new supply.

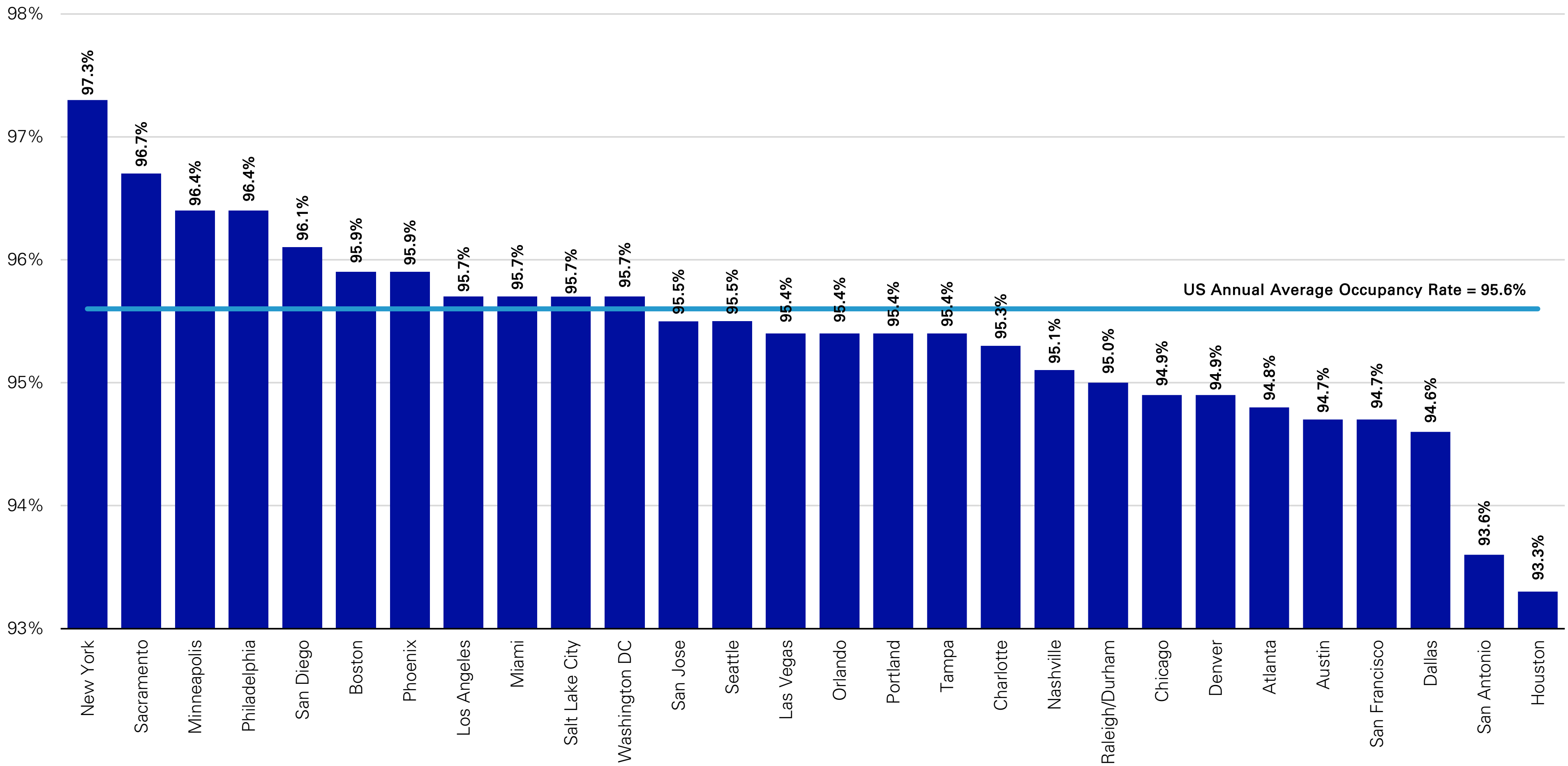


Source: Newmark Research, RealPage

Occupancy Rate by Market

12-MONTH TOTALS

Multifamily occupancy rates remain resilient at 95.6% nationally, despite a sharp increase in homeownership during the pandemic. Although being one of the most severely impacted markets at the beginning of COVID-19 in March, the New York metro area has retained the highest level of occupancy at 97.3% due to resilience in the suburbs and outer boroughs.



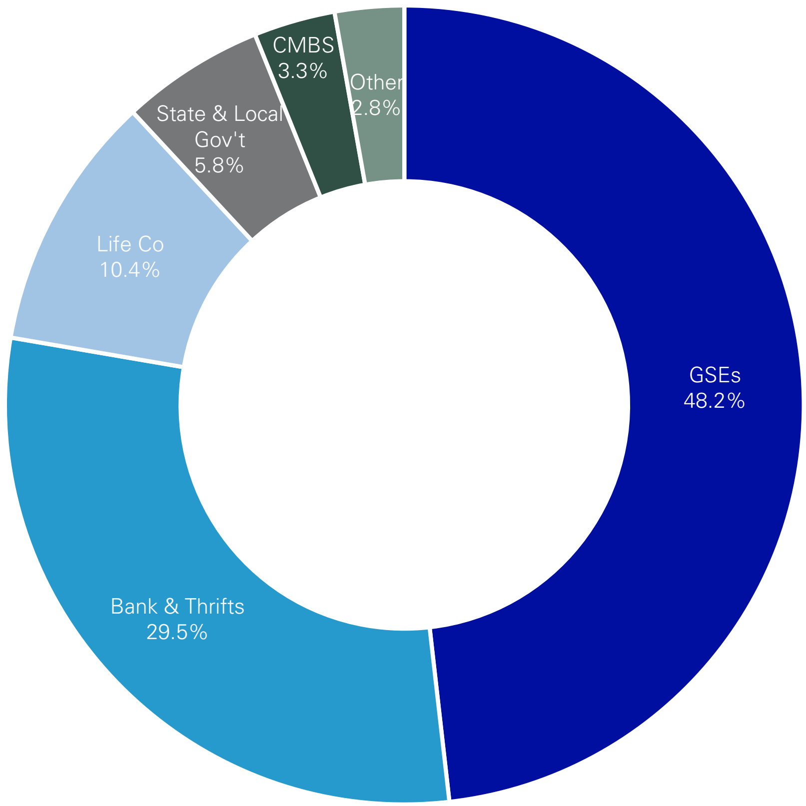
Source: Newmark Research, RealPage

Mortgage Debt Outstanding

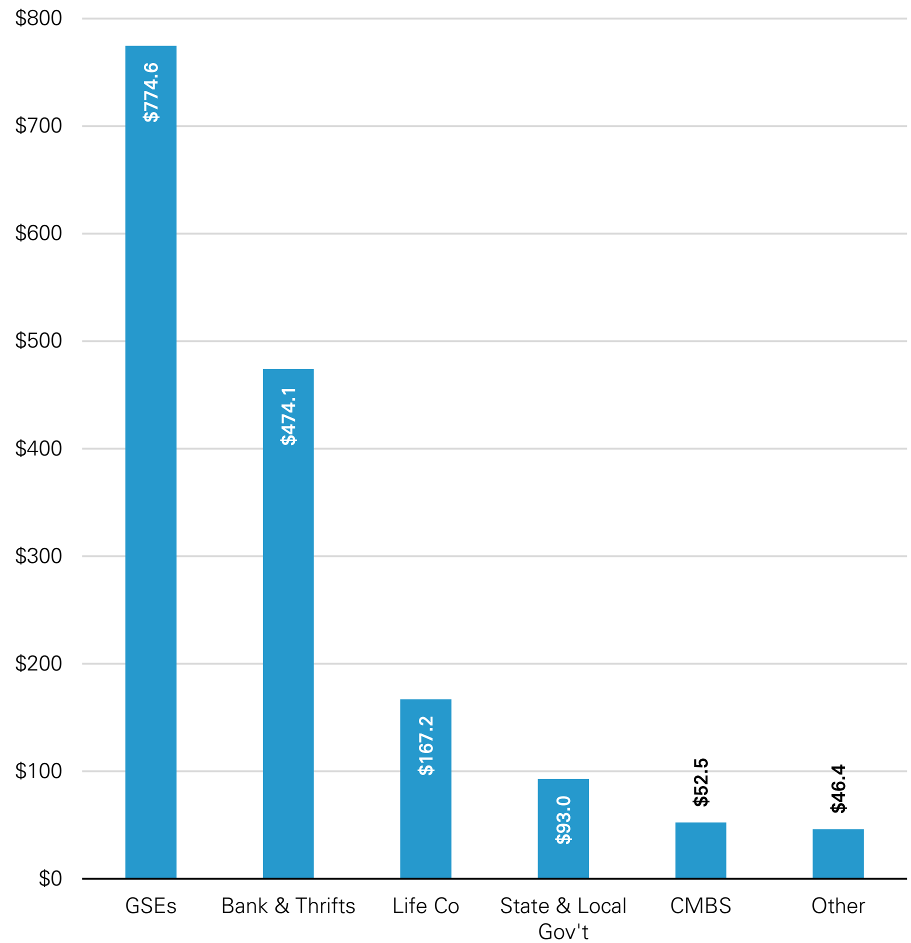
UNITED STATES

Total mortgage debt outstanding remained flat at $1.6 trillion quarter-over-quarter. Quarterly, debt outstanding for GSE lenders increased 3.1% as they continue to make up nearly half of the multifamily debt outstanding.

DEBT OUTSTANDING BY GROUP AS A PERCENTAGE



DEBT OUTSTANDING BY GROUP (DOLLARS IN BILLIONS)

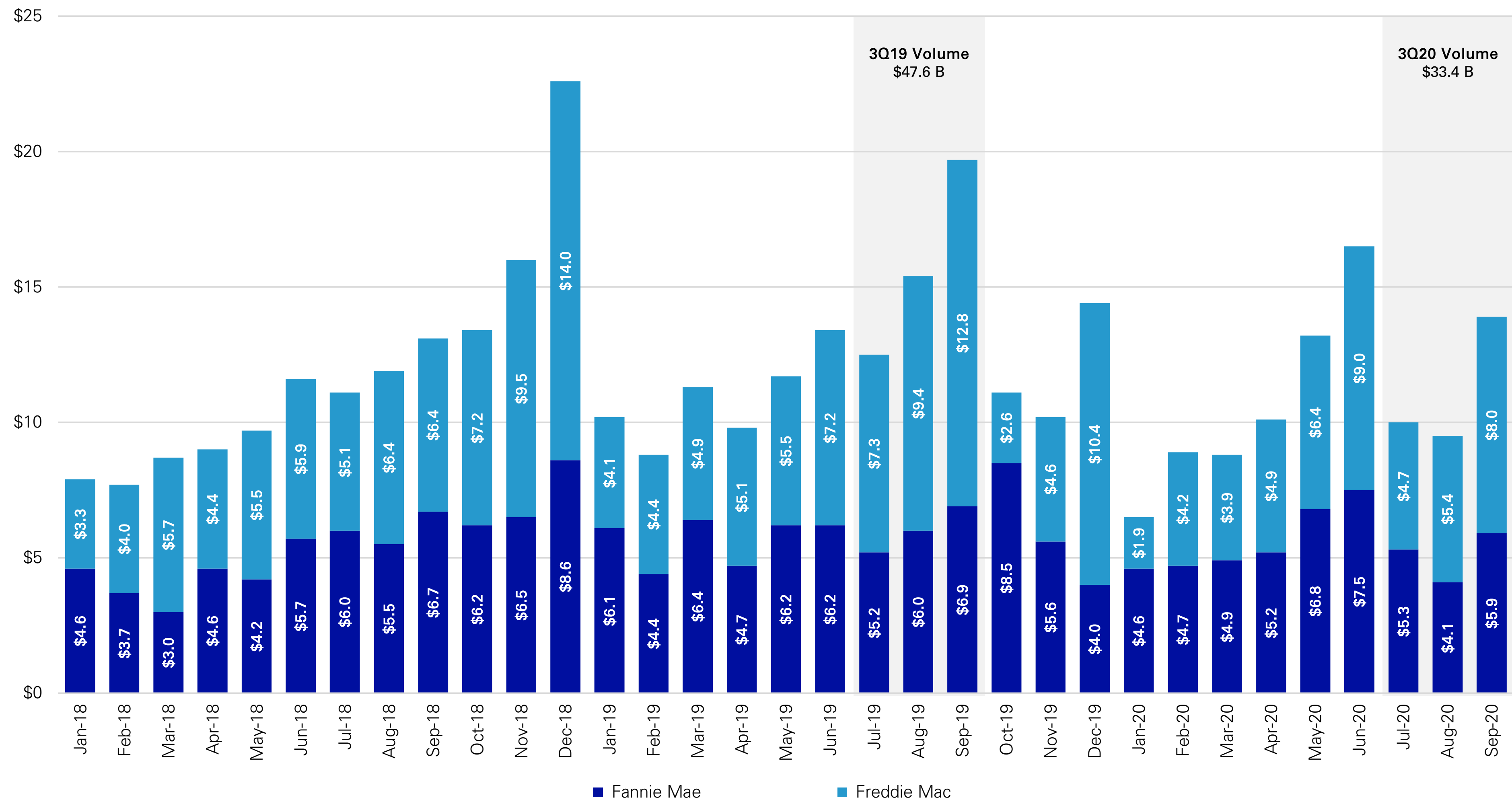


Source: Newmark Research, Mortgage Bankers Association

Monthly GSE Volume

$ IN BILLIONS

Fannie Mae and Freddie Mac have been active over the course of the pandemic, originating $97.4 billion in 2020 through 3Q20. 3Q20 volume totaled $33.4 billion, a 29.8% decrease compared 3Q19. Both agencies have significant levels of dry powder ready to deploy before year-end.



Source: Newmark Research, Fannie Mae, Freddie Mac

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Newmark 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 Research Reports are available at ngkf.com/research.

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