



What Now? A review of Economic and Demographic Dynamics in a post-COVID market

Week 1 sessions- January 12, 2021

Session Information

- To ensure good sound quality, all attendees will be muted during the webinar.
- To ask a question: type your question in to the Question Box on your control panel. NMHC staff will review and respond to as many questions as possible.
- Today's session is being recorded and will be made available to NMHC members on NMHC.org.

Session Moderator



David Schwartz

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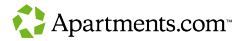
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Session Speakers



Hessam Nadji

Marcus & Millichap



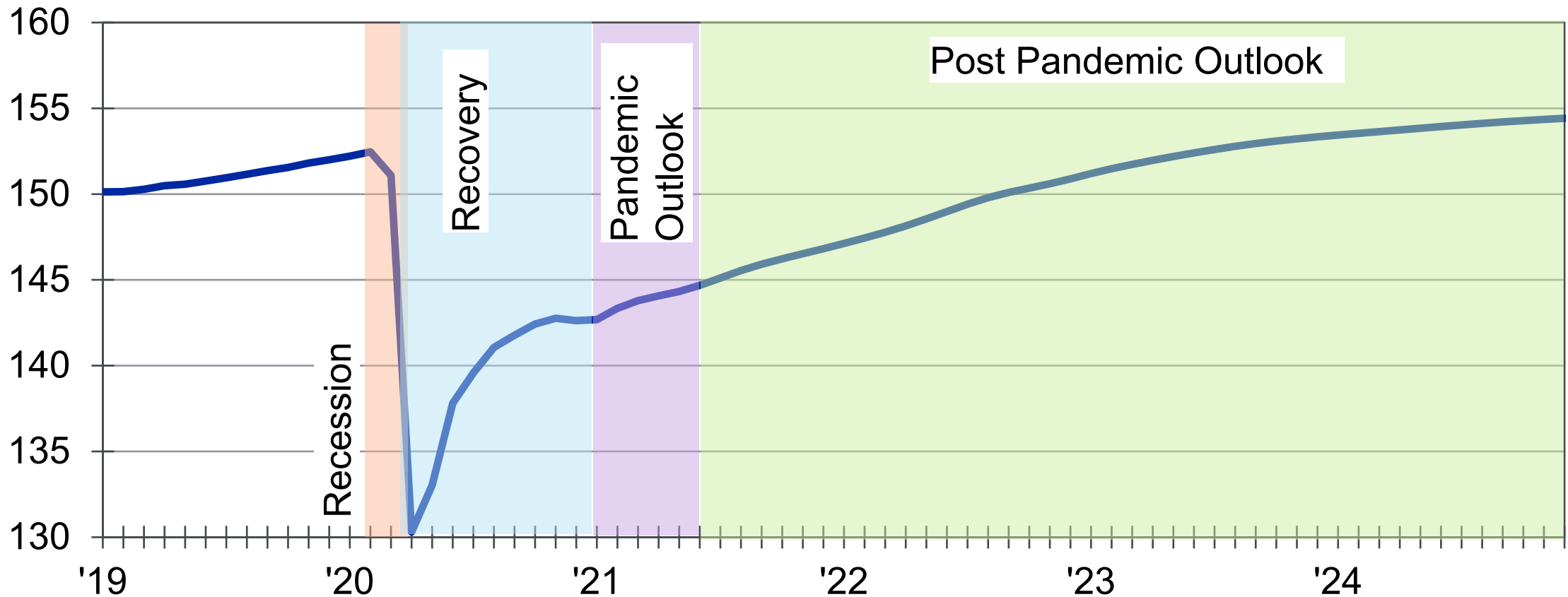
Mark Zandi

Moody's Analytics

Pandemic Economy

Tough Start to 2021, But Robust Growth By Mid-Year...

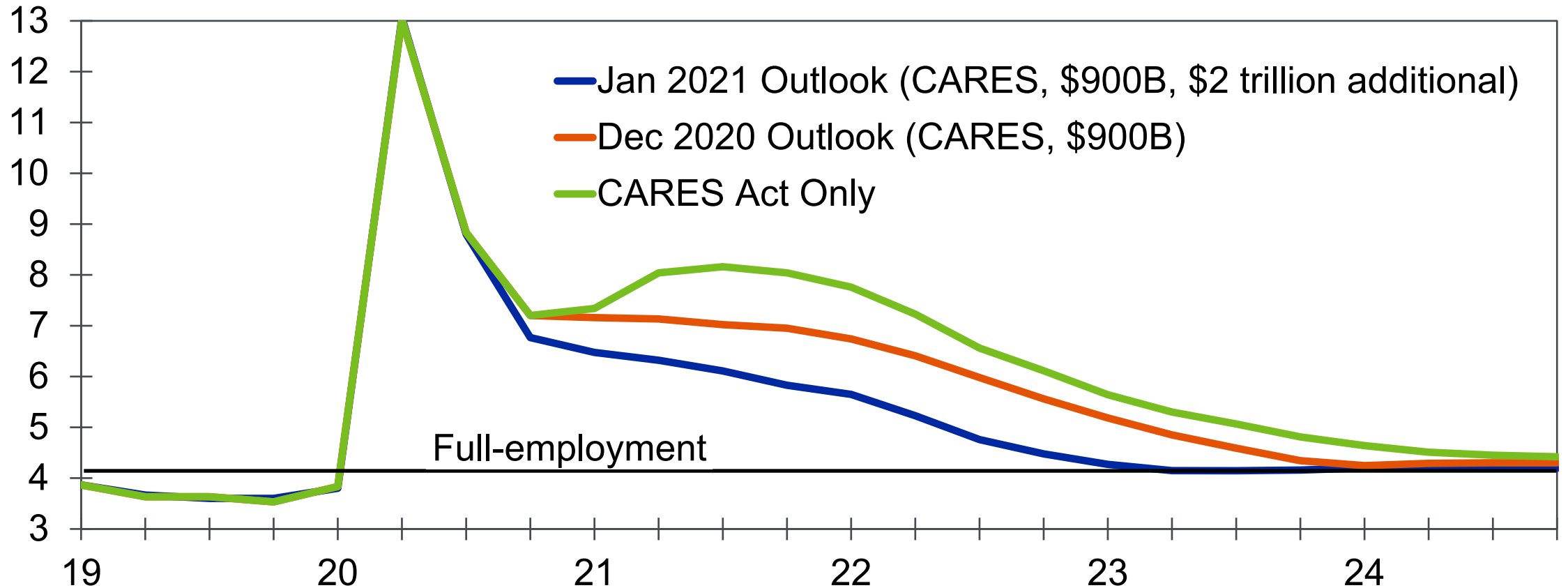
U.S. nonfarm employment, Millions



Sources: BLS, Moody's Analytics

...and Full Employment By Year-End 2022

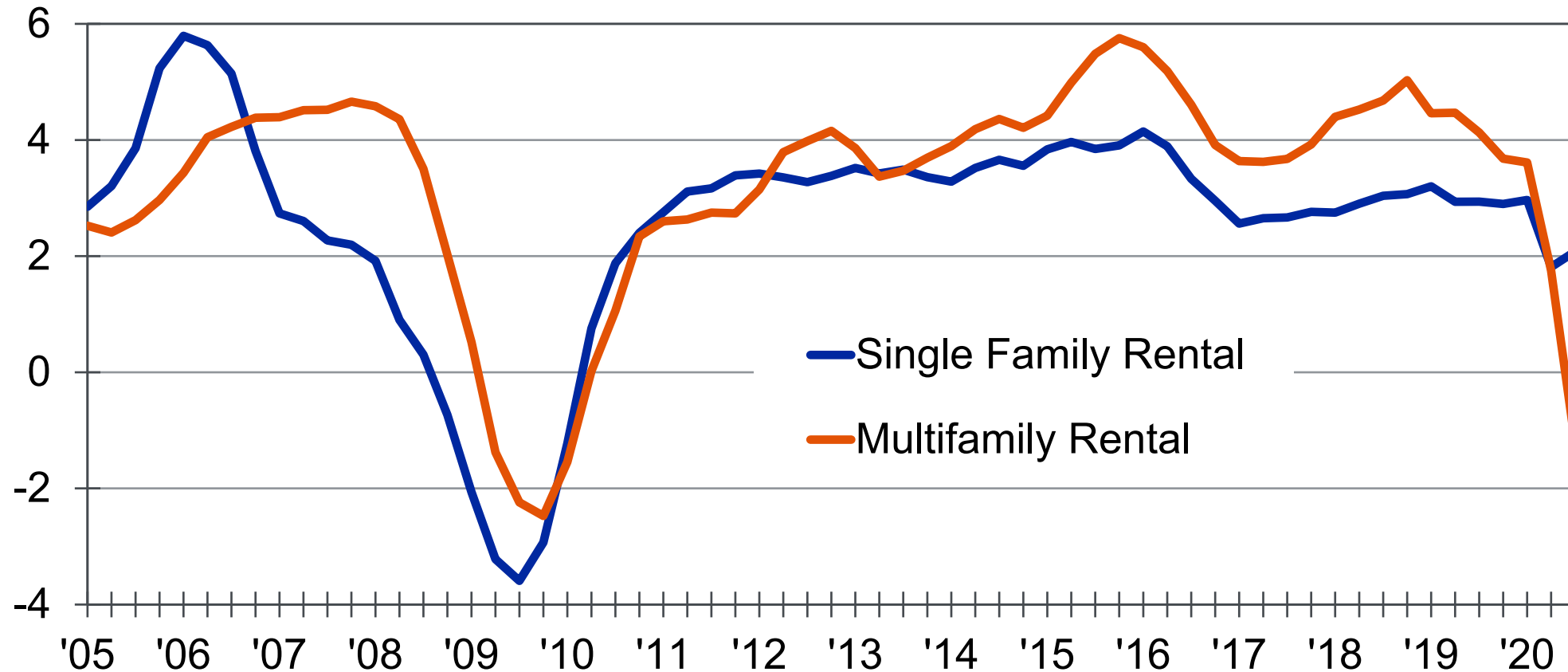
Unemployment rate, %



Sources: BLS, Moody's Analytics

Pandemic Ignites a Shift in Tenure Choice

Rent growth, % change year ago



Sources: CoreLogic, Moody's Analytics

Contact Us: Economics & Business Analytics Offices

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January 12, 2021

PRESENTED BY

HESSAM NADJI

President and Chief Executive Officer

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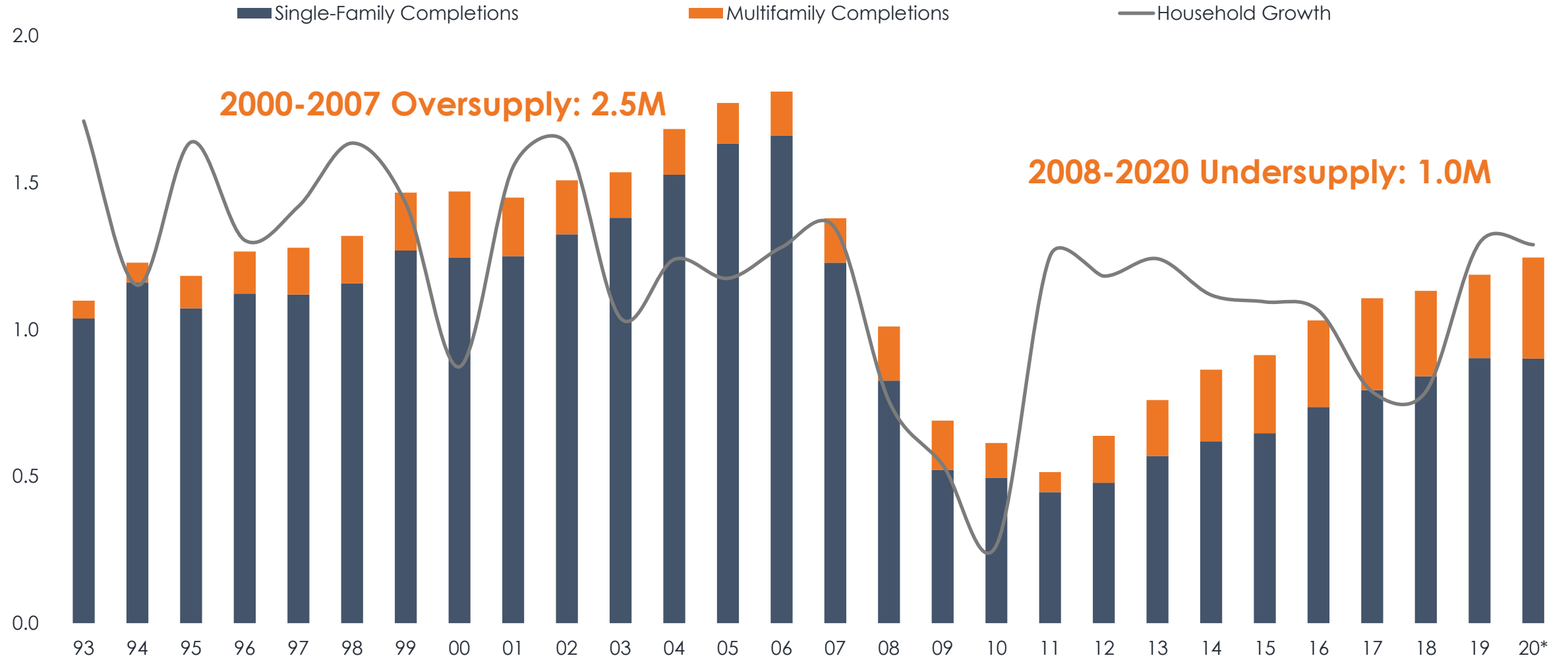
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ECONOMIC AND REAL ESTATE PERSPECTIVE

- ❖ **Current State **Mixed**: Record Cases, Choppy Recovery, Vaccine Rollout**
- ❖ **Stimulus Unprecedented (Delay Damaging, Liquidity a Major Positive Force)**
- ❖ **Eventual Release of **Pent-Up Demand** Should Not be Underestimated**
- ❖ **Housing: Disruption vs. Long-Term Trends**
 - **The Big Picture: Supply-Demand Not the Problem**
 - **The **COVID Surge**: Single-Family and Suburbs Win**
 - **Key Issues: Affordability, Design**
- ❖ **Apartment Investment Thesis More than Intact – Strengthened but with a **New Investment Playbook****
 - **Sudden Shift in Long-Standing View of Markets – Different than Any “Recession/Recovery”**
 - **Leveraging Segments with the Most Strength – When to Really Go “Contrarian”**
 - **Distress Gap – Too Much Capital with High Expectations; Not Enough True Distress**

OVERALL HOUSING CONSTRUCTION REMAINS SHORT OF DEMAND

Completions/Household Growth (Mil.)



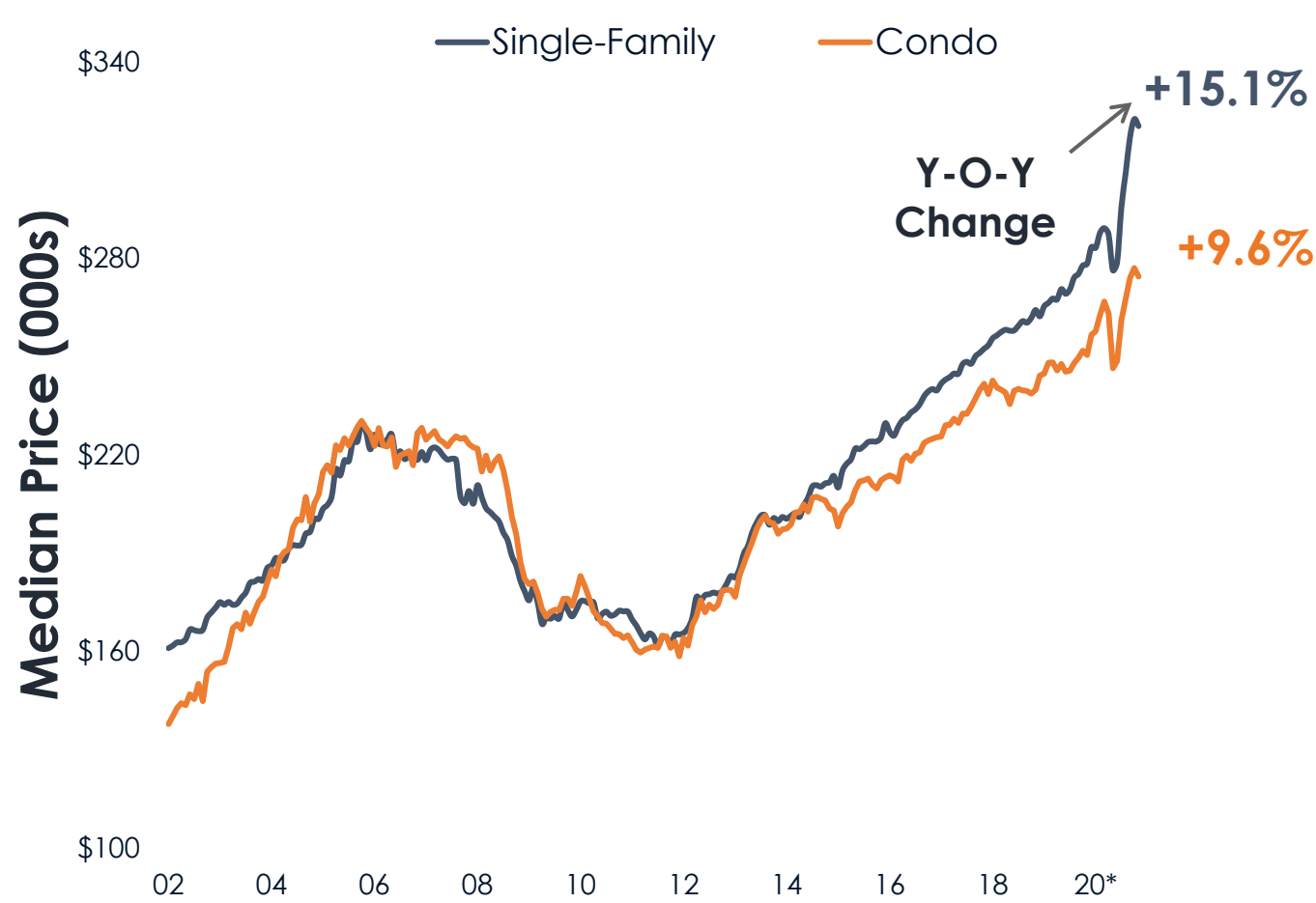
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* Preliminary estimate

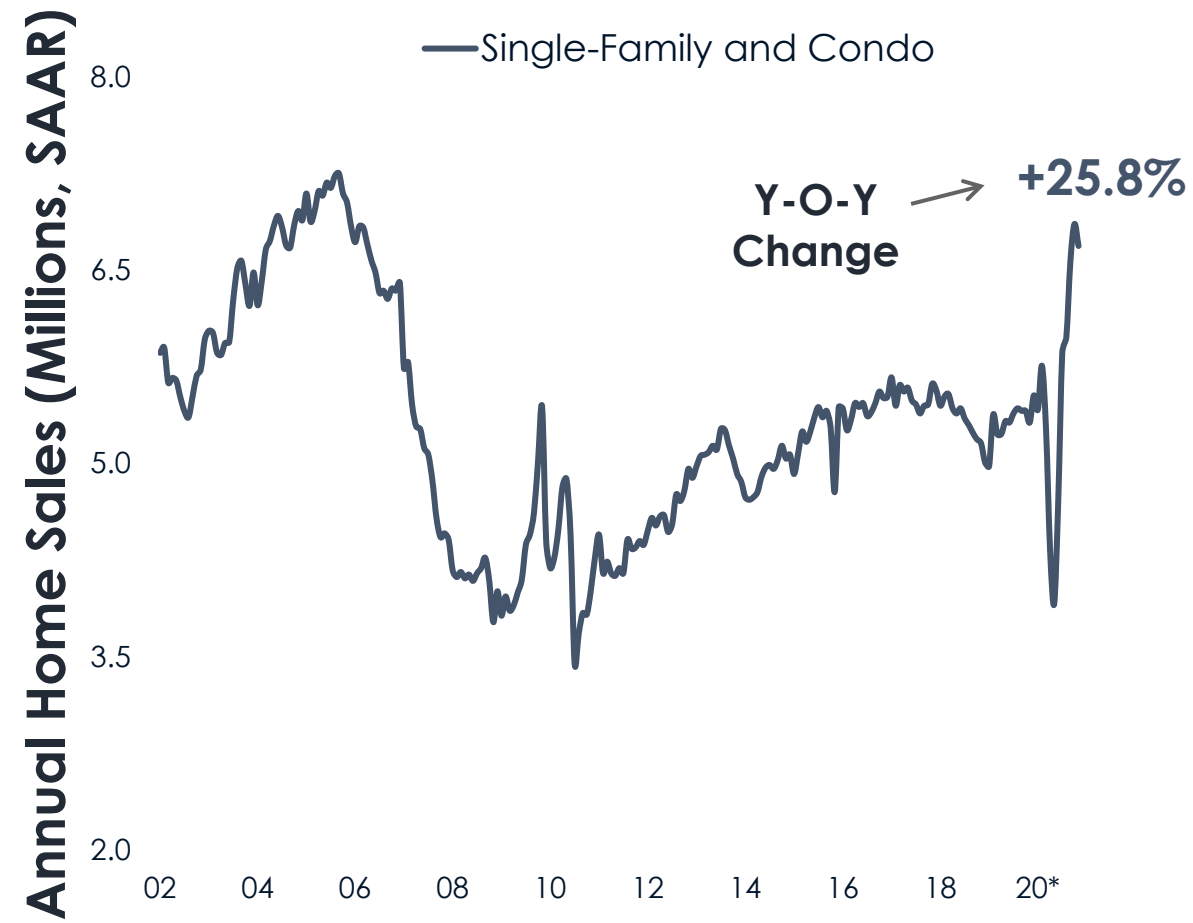
Sources: Marcus & Millichap Research Services, U.S. Census Bureau, RealPage, Inc.

HOME SALES SURGED, DRIVING PRICES TO RECORD LEVELS

Median Home Price



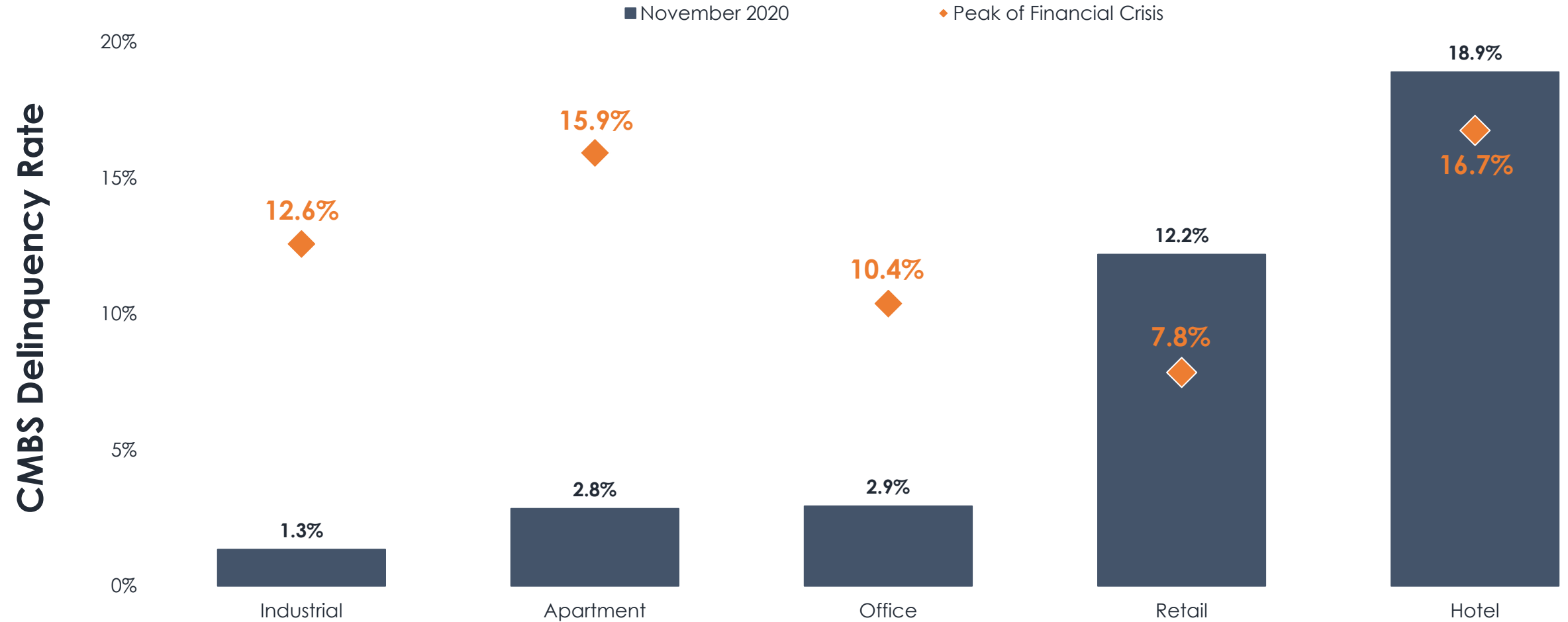
Existing Home Sales



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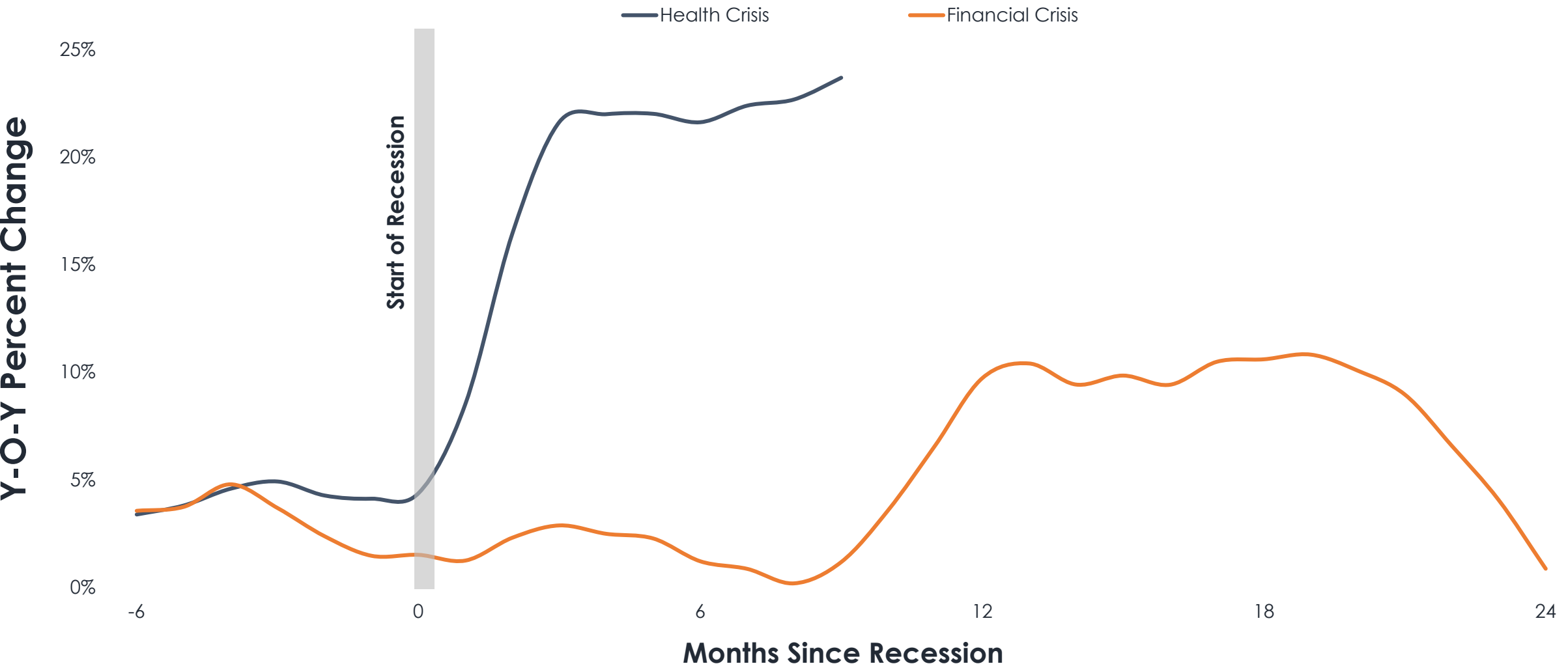
* Through November
Sources: Marcus & Millichap Research Services, National Association of Realtors

COMMERCIAL MORTGAGE DELINQUENCIES ARE PRIMARILY CONCENTRATED IN HOSPITALITY AND RETAIL SECTORS



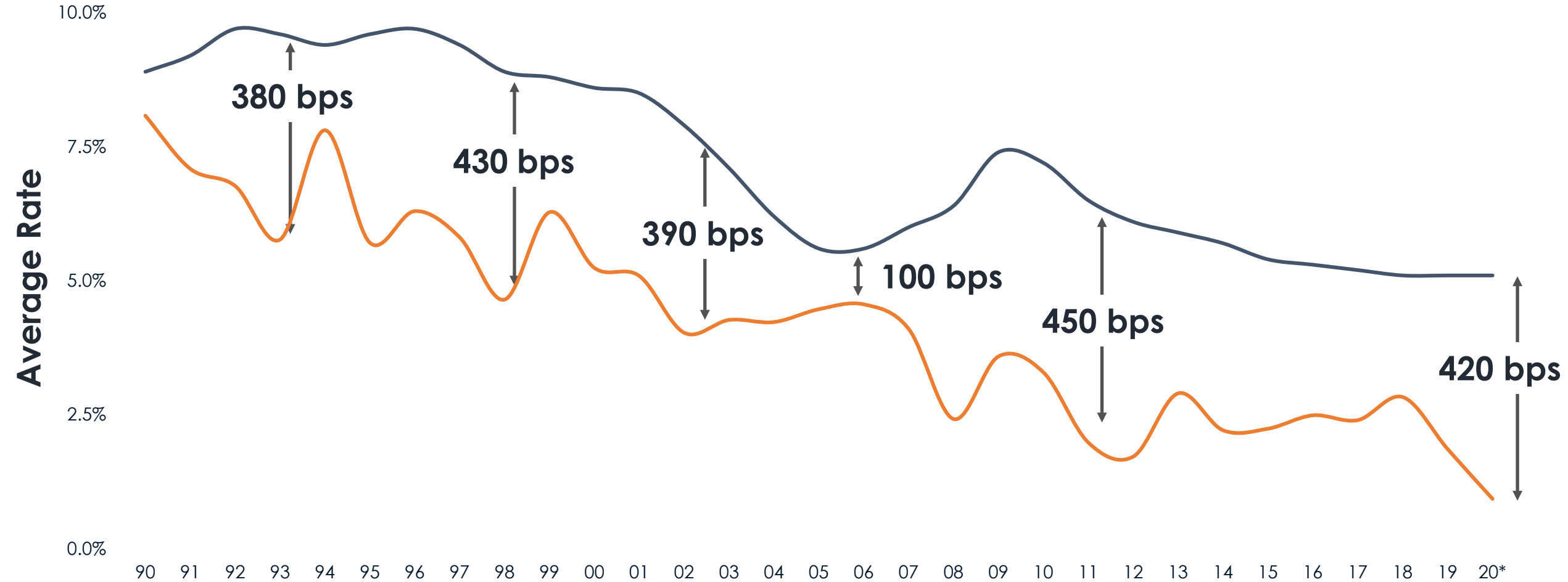
Peak of financial crisis from 2011 to 2012
For CMBS loans 60+ days delinquent
Sources: Marcus & Millichap Research Services, Trepp

FEDERAL RESERVE MONEY SUPPLY BOOST EXPONENTIALLY LARGER AND FASTER THAN FINANCIAL CRISIS



As of November 2020
Real M2 includes inflation-adjusted cash, checking deposits, savings deposits, money market securities, mutual funds and other time deposits
Sources: Marcus & Millichap Research Services, Federal Reserve

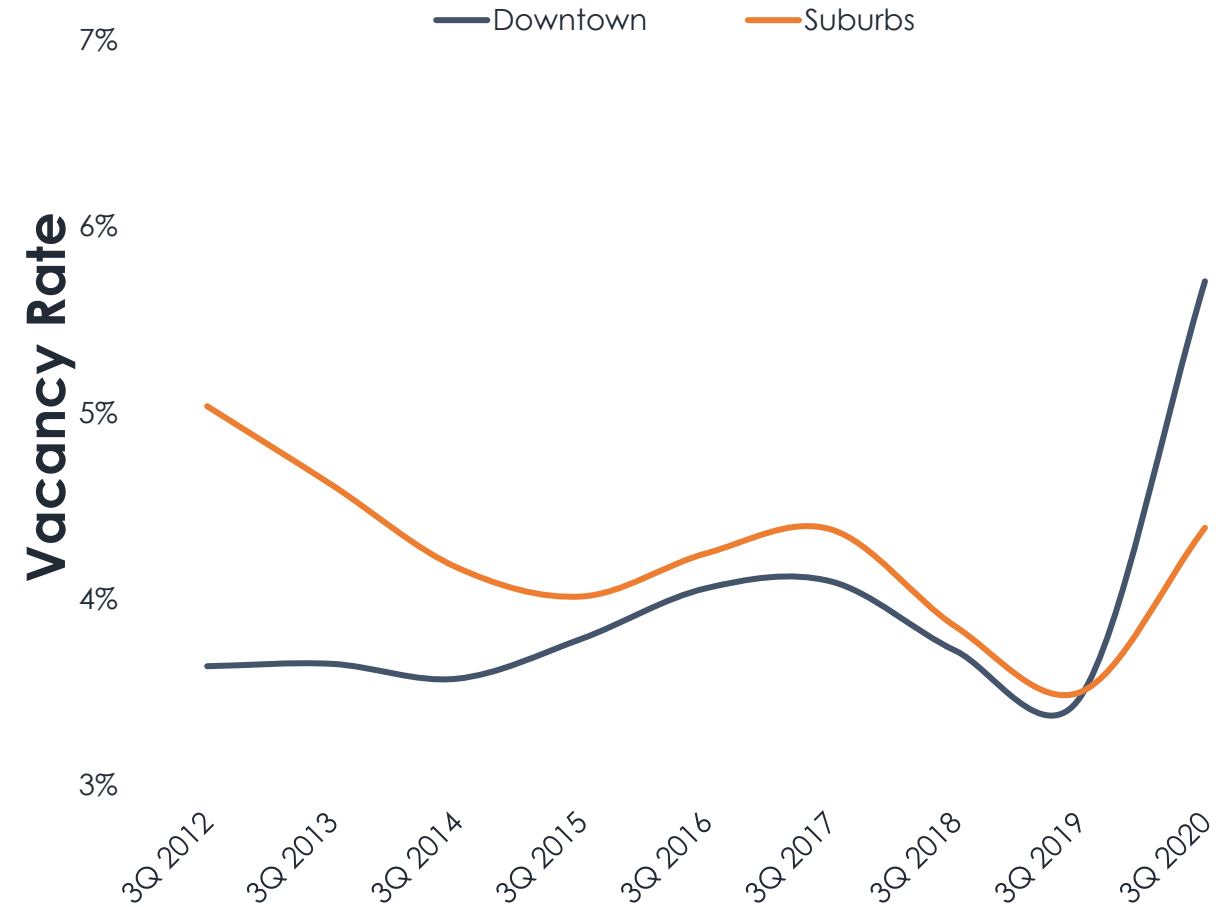
U.S. APARTMENT AVG. CAP RATE VS. 10-YEAR TREASURY; YIELD SPREAD NEAR WIDEST LEVEL ON RECORD



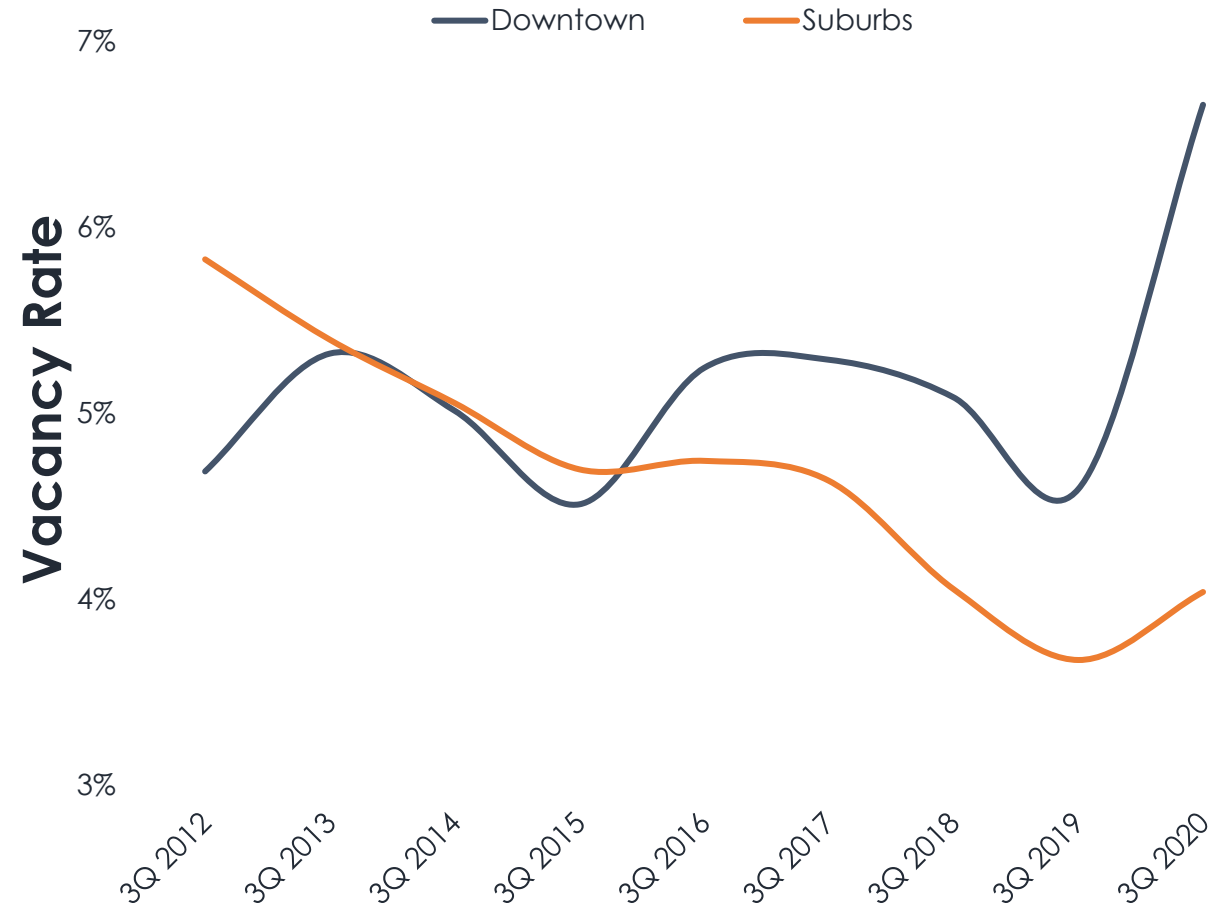
* Through December
Includes sales \$1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics, Federal Reserve

SUBURBS OUTPERFORMING ACROSS ALL MARKET TYPES

Primary Markets

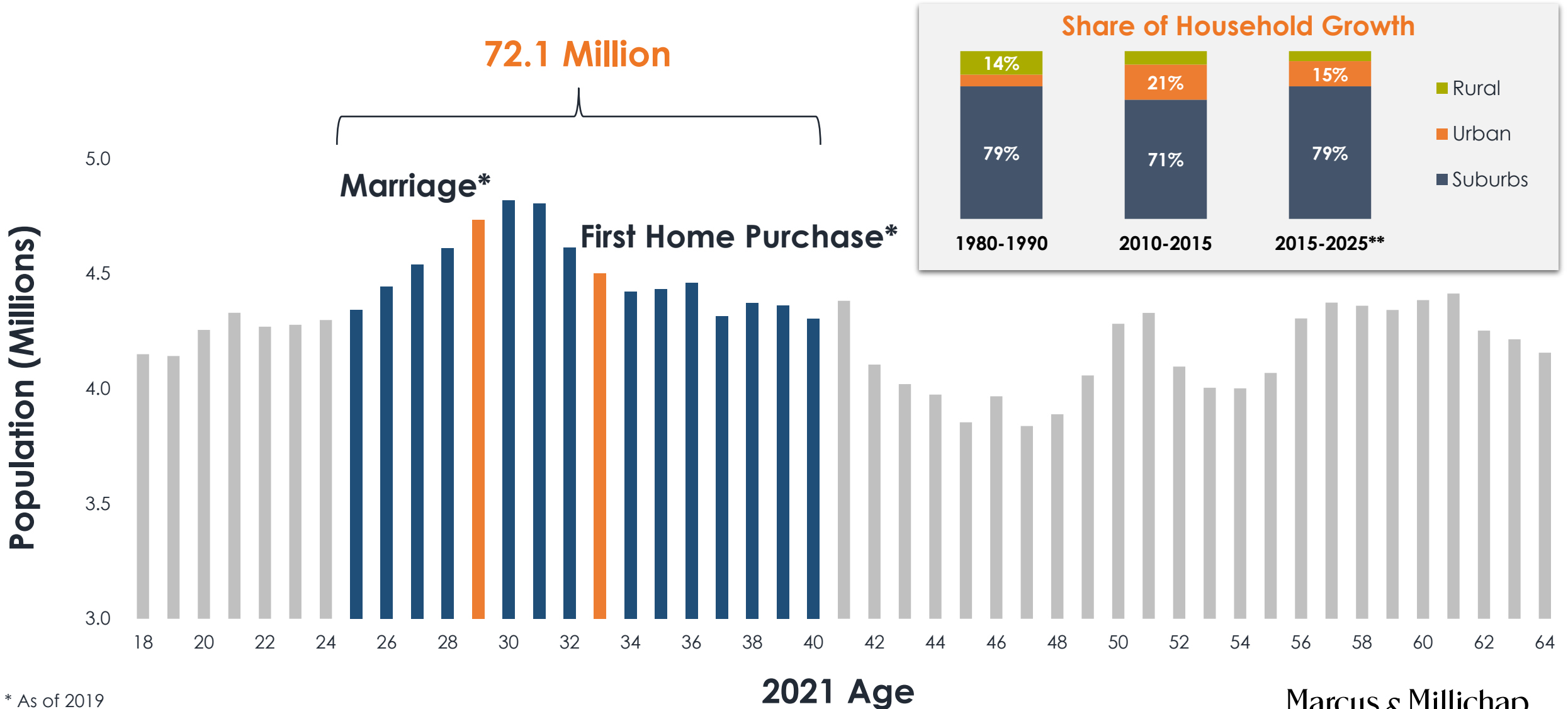


Secondary/Tertiary Markets



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DEMOGRAPHICS DRIVE SUBURBAN REVIVAL AS MILLENNIAL GENERATION ENTERS TYPICAL AGE OF FAMILY FORMATION



* As of 2019

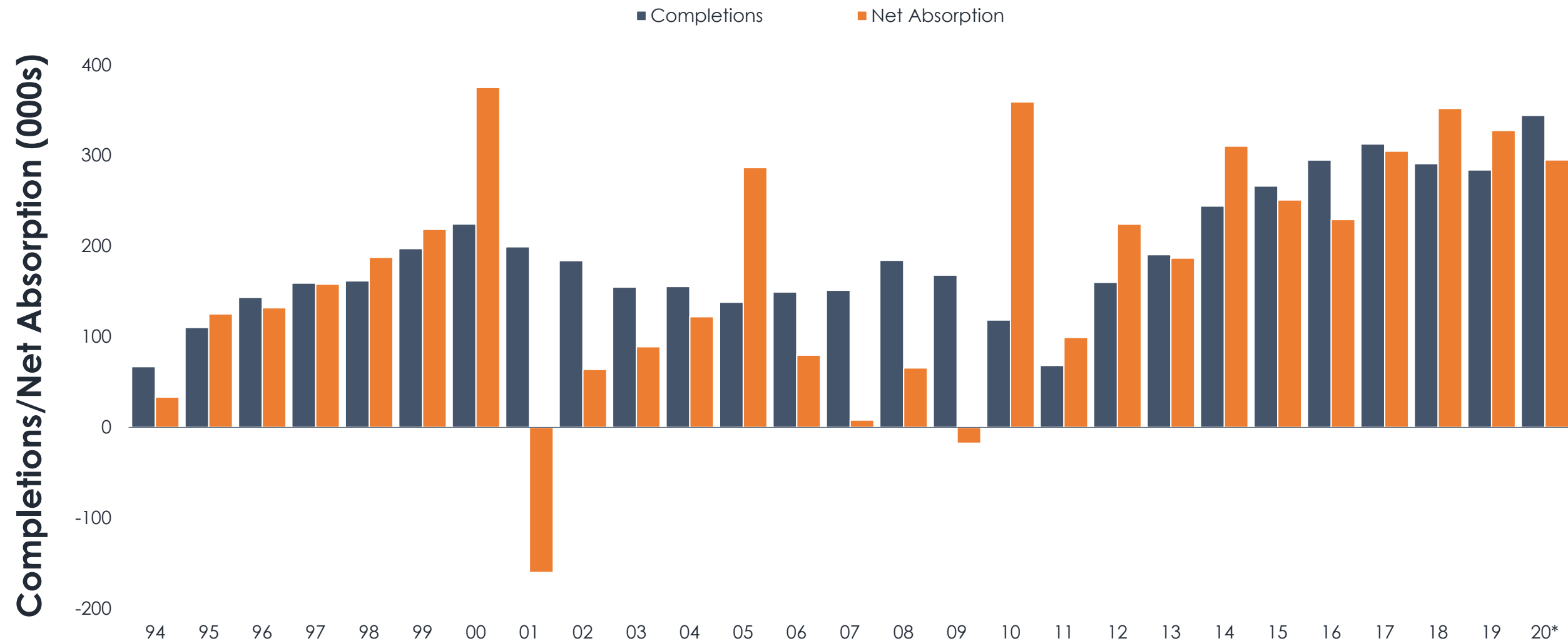
** Forecast

Sources: Marcus & Millichap Research Services, U.S. Census Bureau, John Burns Real Estate Consulting

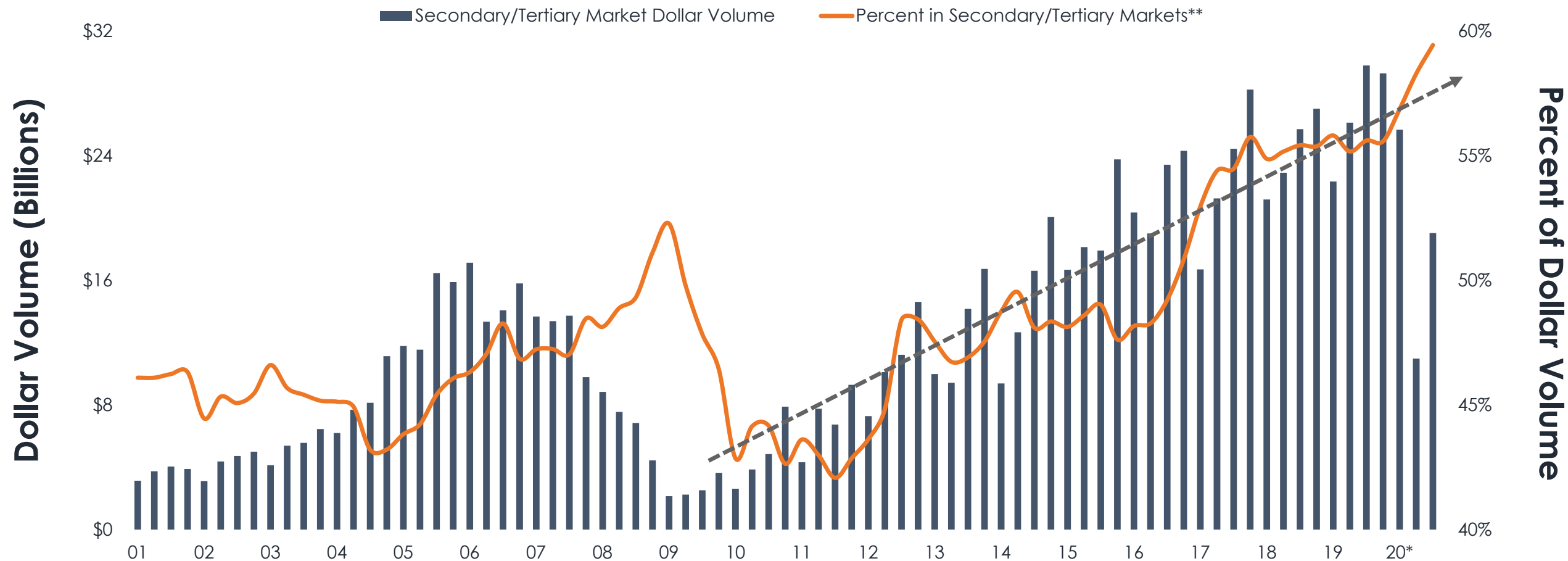
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CONSTRUCTION AT RECORD HIGH; DEMAND TAPERING

U.S. APARTMENT COMPLETIONS VS. NET ABSORPTION TRENDS



APARTMENT INVESTORS MOVE TO SECONDARY & TERTIARY MARKETS – 60% OF CAPITAL TARGETING SMALLER METROS



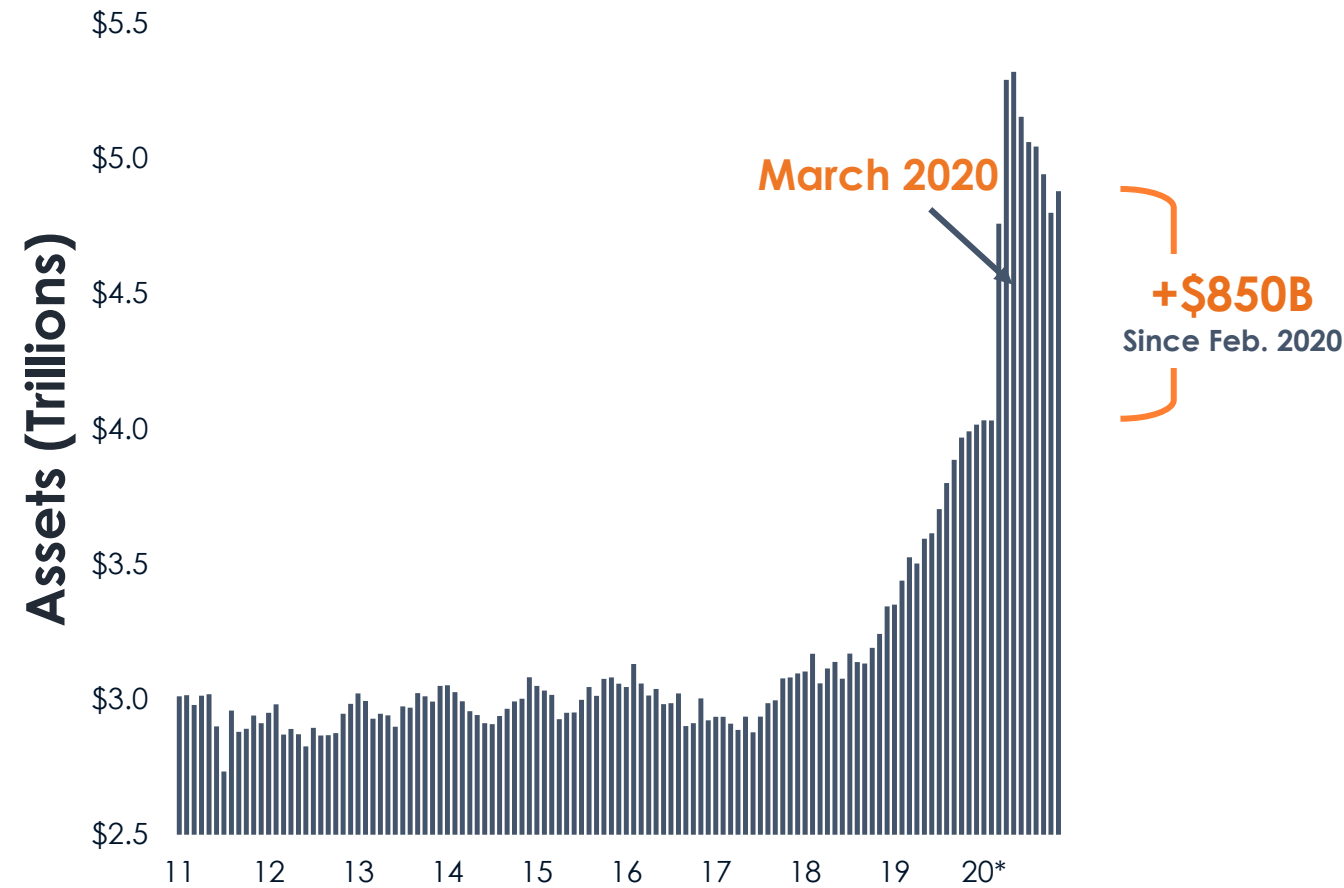
* Through 3Q
 ** Trailing 12-month average
 Includes sales \$1 million and greater
 Sources: Marcus & Millichap Research Services, Real Capital Analytics, CoStar Group, Inc.

CLASS 'A' PROPERTIES IMPACTED MOST BY ECONOMIC SHOCK AND RECENT SUPPLY ADDITIONS

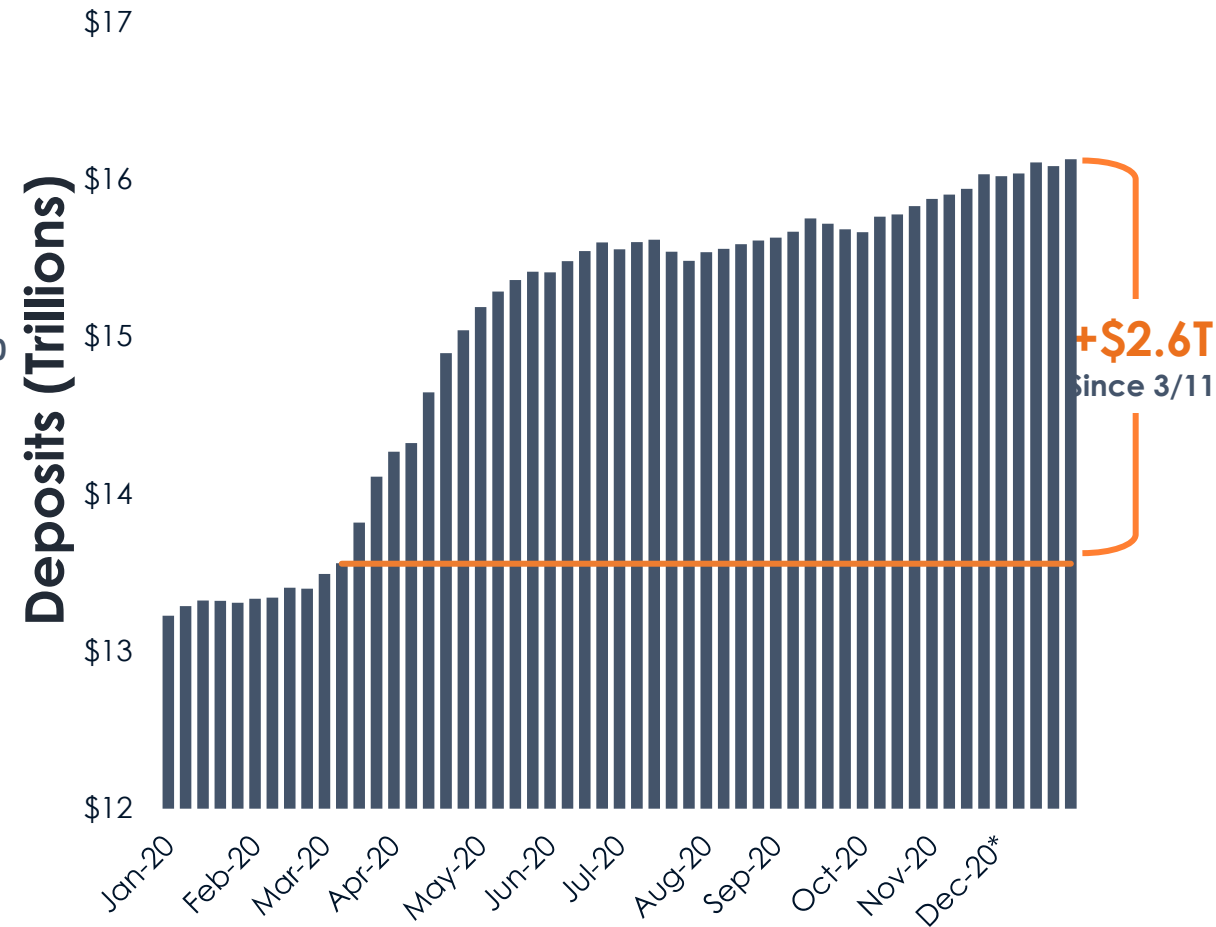


CAPITAL ON SIDELINES INDICATES SIGNIFICANT WAVE OF PENT-UP DEMAND

U.S. Money Market Mutual Funds



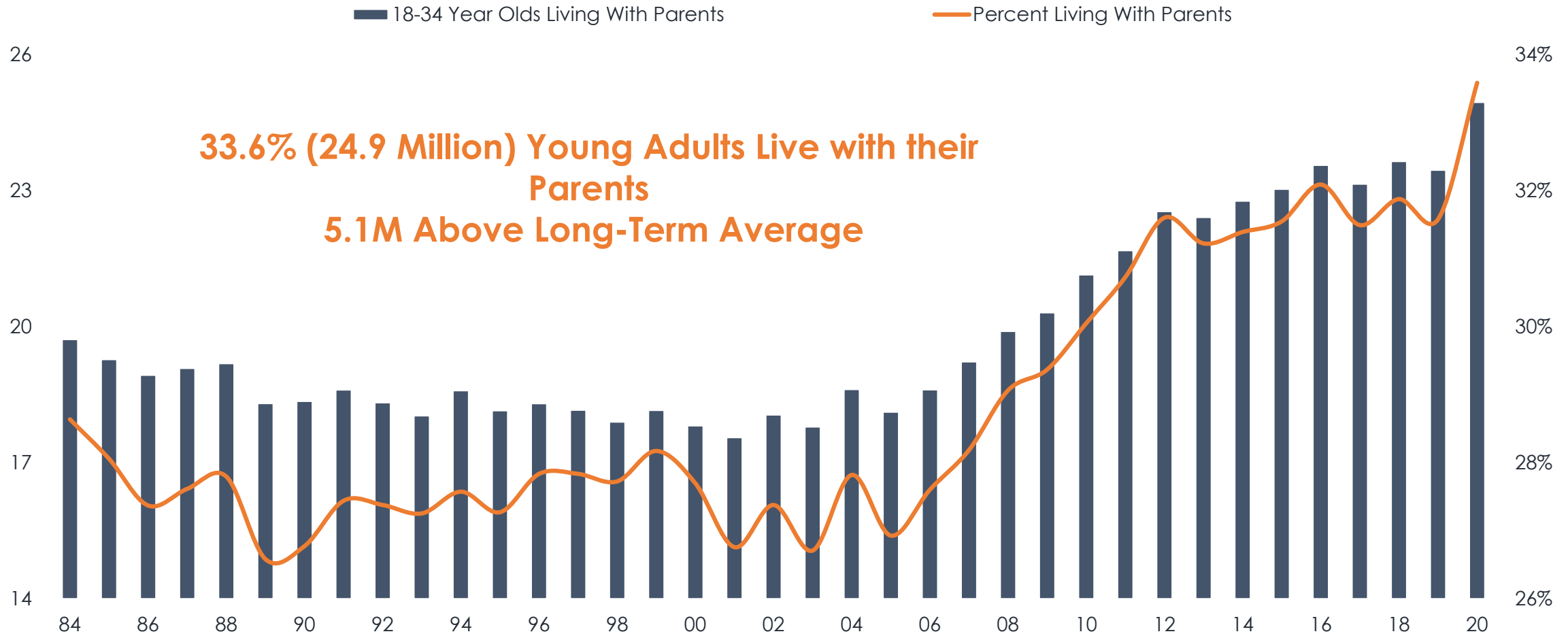
Savings Deposits



* Through November; Savings Deposits through week-ending December 30
Includes investment in prime, government and tax-exempt funds for retail and institutional accounts
Sources: Marcus & Millichap Research Services, Office of Financial Research, Board of Governors of the Federal Reserve System

PANDEMIC DRIVEN SURGE IN YOUNG ADULTS STAYING WITH FAMILY 18- TO 34-YEAR-OLD POPULATION

Population Living With Parents (Millions)

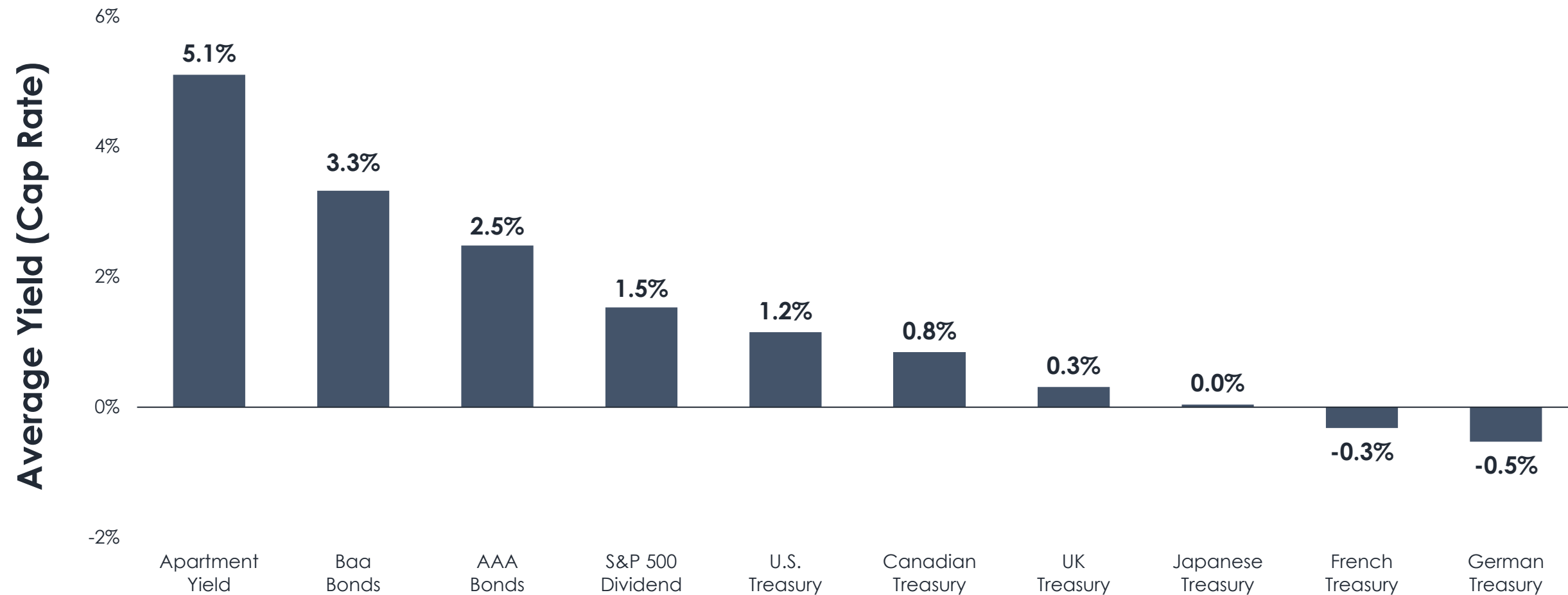


Percent Living With Parents

Marcus & Millichap

Note: Unmarried college students living in dormitories are counted as living in their parents' home
Sources: Marcus & Millichap Research Services, U.S. Census Bureau

APARTMENTS OFFER COMPETITIVE YIELDS COMPARED TO ALTERNATIVES



As of January 08, 2020

Treasury rates for 10-year treasuries

Yield (cap rate) includes sales \$1 million and greater

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics, Standard & Poor's, Federal Reserve

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Marcus & Millichap

Marcus & Millichap

Fireside Chat with David Schwartz



David Schwartz

Waterton

Session Moderator



Caitlin Sugrue Walter

National Multifamily Housing Council

Session Speakers



Kim Betancourt

Fannie Mae



Aimee Baumiller

PNC Real Estate Market Research



Nicholas Buss

Invesco, Ltd.

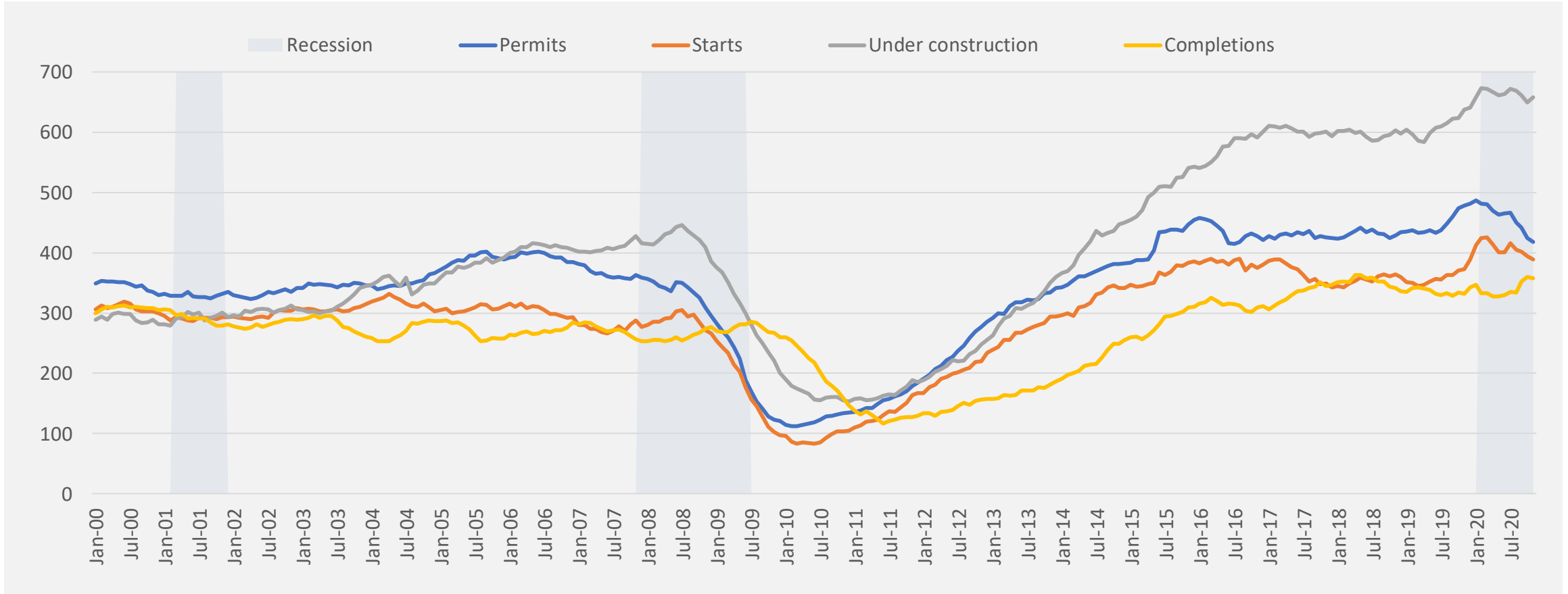
Market Trends

Supply
Investment performance

Nicholas Buss
Senior Director, Invesco Real Estate

Multifamily construction

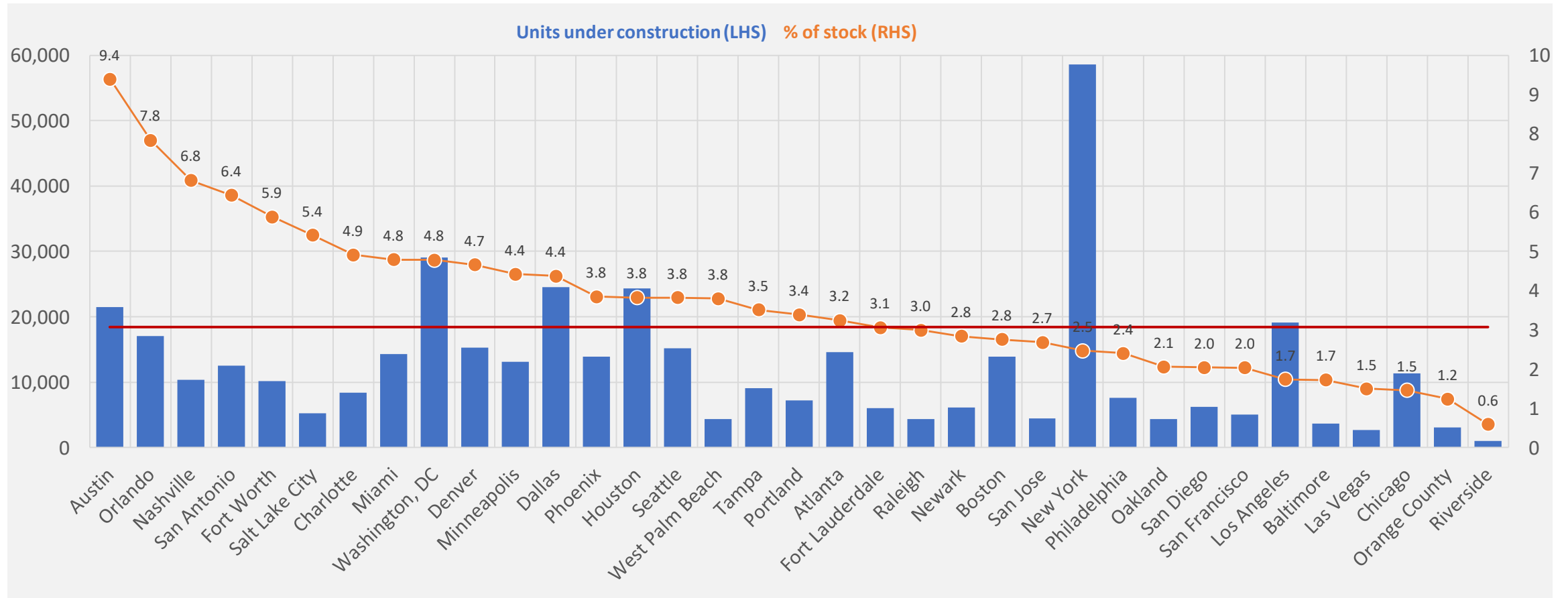
5+ unit construction trends (T12M total, units, ths)



Source: Invesco Real Estate using data from US Census Bureau and Moody's Analytics as of December 2020

Apartment units under construction

Construction pipeline as of 3Q-2020 (units, ths)

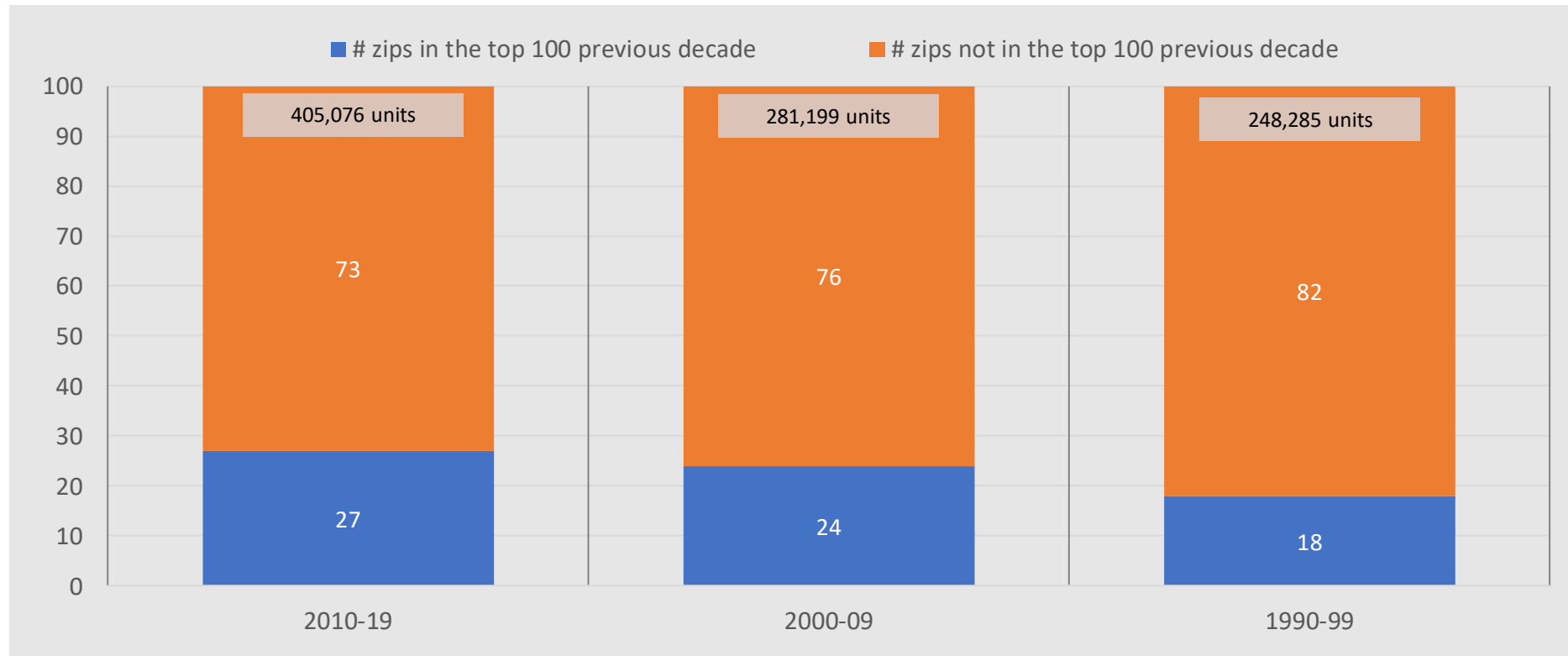


Source: Invesco Real Estate using data from CBRE-EA as of December 2020

Change in focus of apartment construction by decade

Zip codes

100 most active construction zip codes by decade



Analysis based on data for 145 markets, 1,001 submarkets, 6,203 zip codes.

Source: Invesco Real Estate using data from RealPage/Axiometrics as of December 2020

Top 5 supply zips by decade

2010-19:

- 20002 .Wash DC: Northeast DC
- 98109 Seattle: S Lake Union/Queen Anne
- 75034 Dallas: Frisco
- 07302 New York: Jersey City
- 37203 Nashville: Central Nashville

2000-09:

- 75056 Dallas: The Colony/Carrollton
- 28262 Charlotte: UNC Charlotte
- 30325 Atlanta: Northeast Atlanta
- 75024 Dallas: West Plano
- 75039 Dallas: Las Colinas/Coppell

1990-99:

- 75287 Dallas: Far North Dallas
- 30096 Atlanta: Duluth
- 89117 Las Vegas: Summerlin/The Lakes
- 75093 Dallas: West Plano
- 97124 Portland: Hillsboro

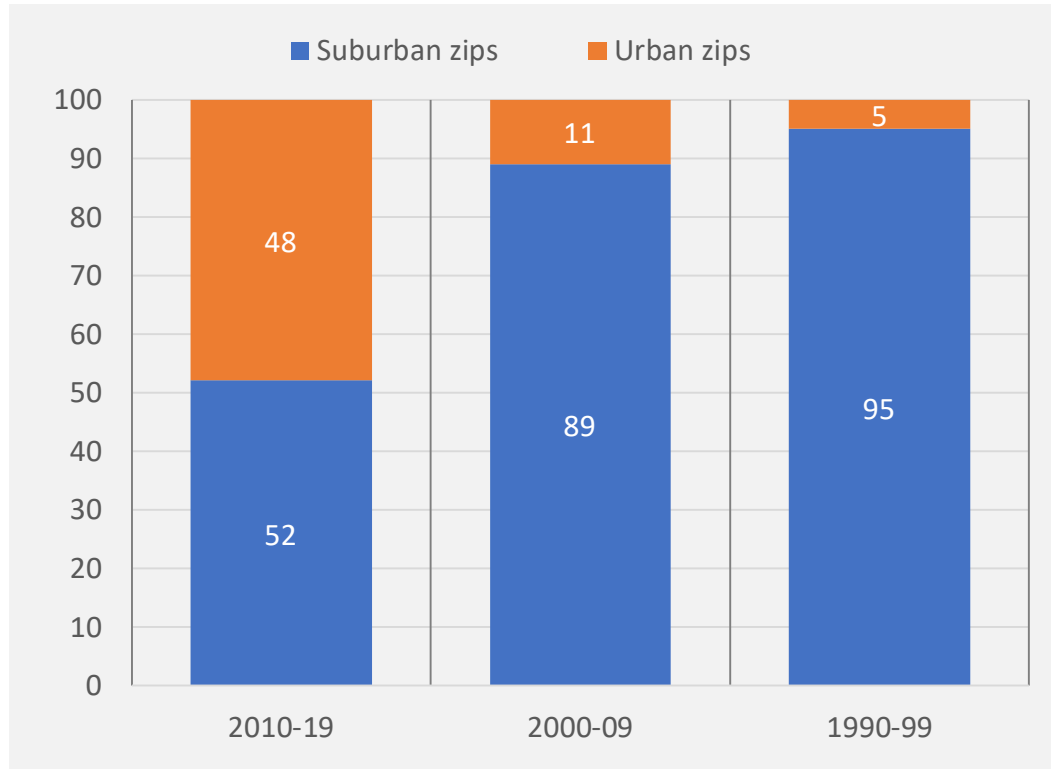
Top 100 each decade:

- 75204 Dallas: Intown
- 75201 Dallas: Intown
- 75039 Dallas: Las Colinas/Coppell
- 95134 San Jose: North San Jose
- 75024 Dallas: West Plano
- 28262 Charlotte: UNC Charlotte
- 77077 Houston: Greater Heights

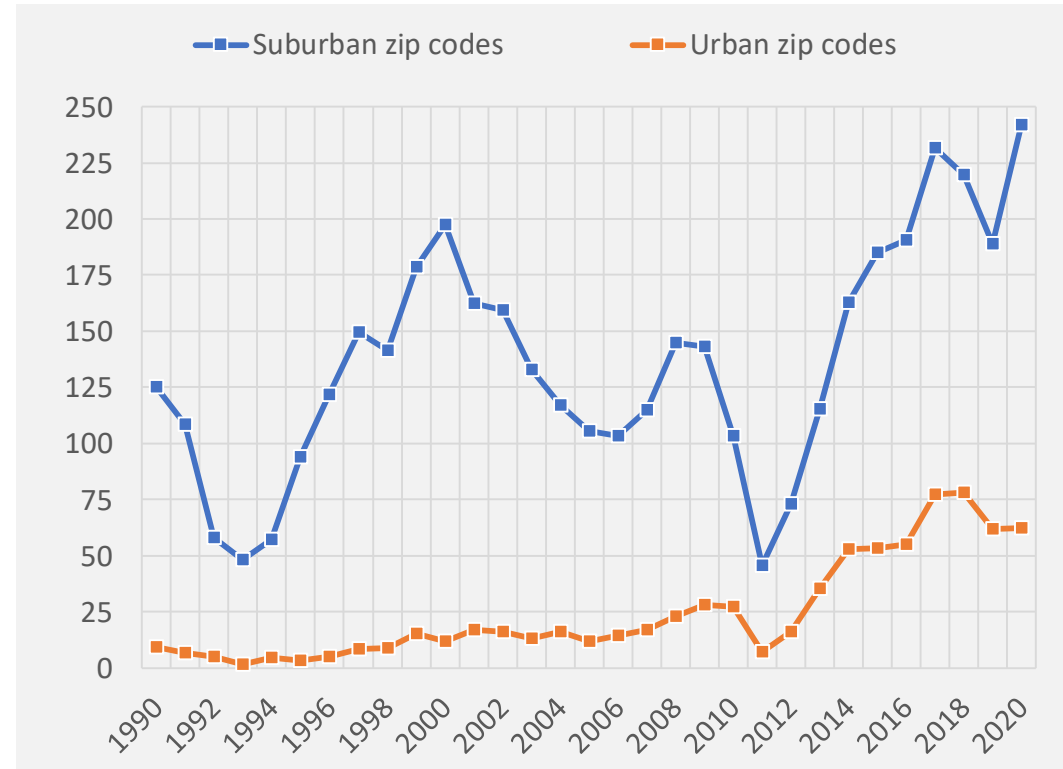
Change in focus of apartment construction by decade

Urban-Suburban

100 most active construction zip codes by decade



Urban-Suburban deliveries (units, ths)



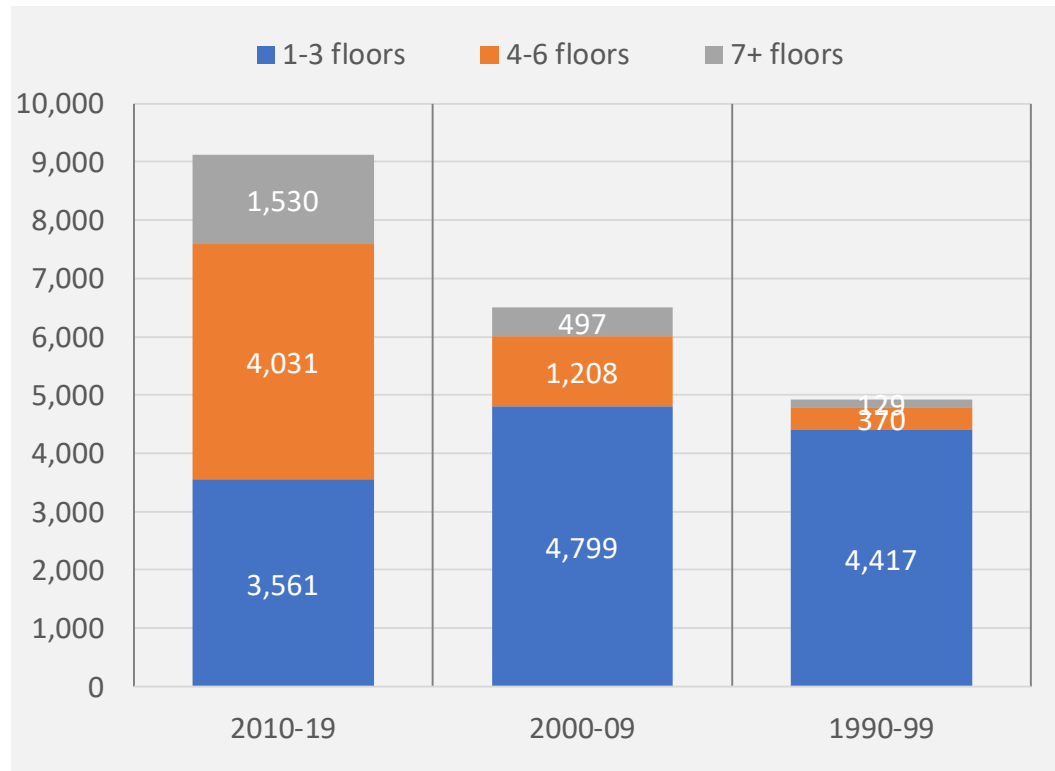
Analysis based on data for 145 markets, 1,001 submarkets, 6,203 zip codes.

Source: Invesco Real Estate using data from RealPage/Axiometrics as of December 2020

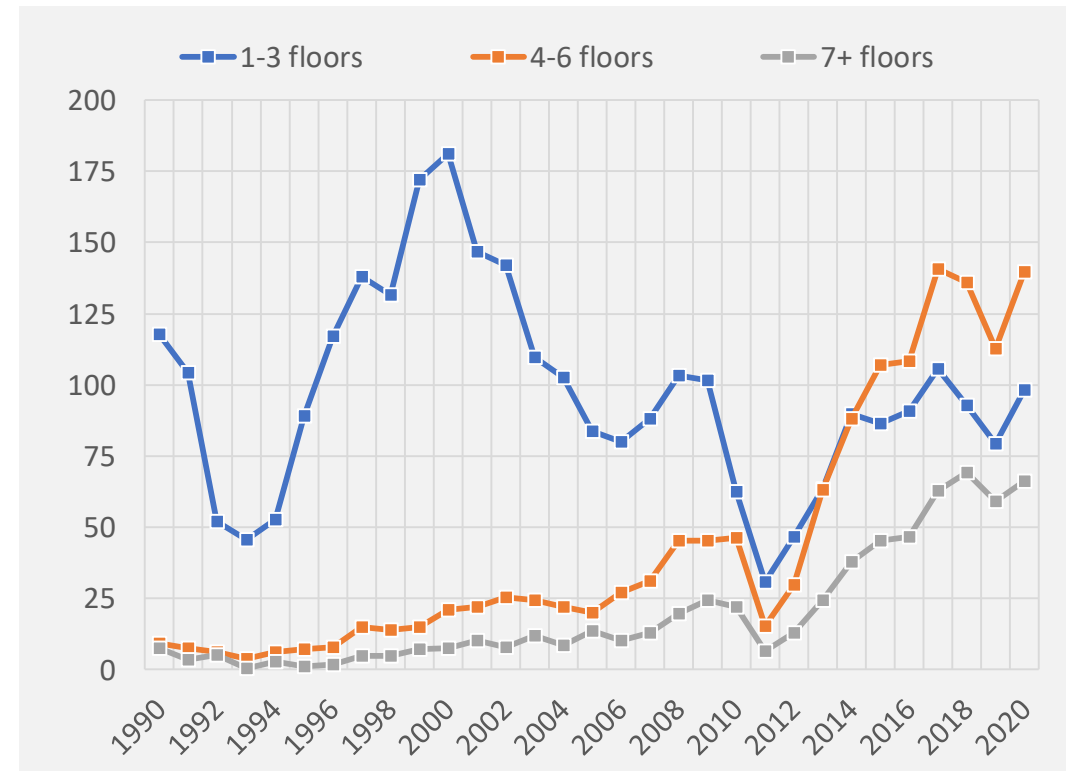
Change in focus of apartment construction by decade

Building height/density

of projects delivered by building height



Deliveries by building height (units, ths)



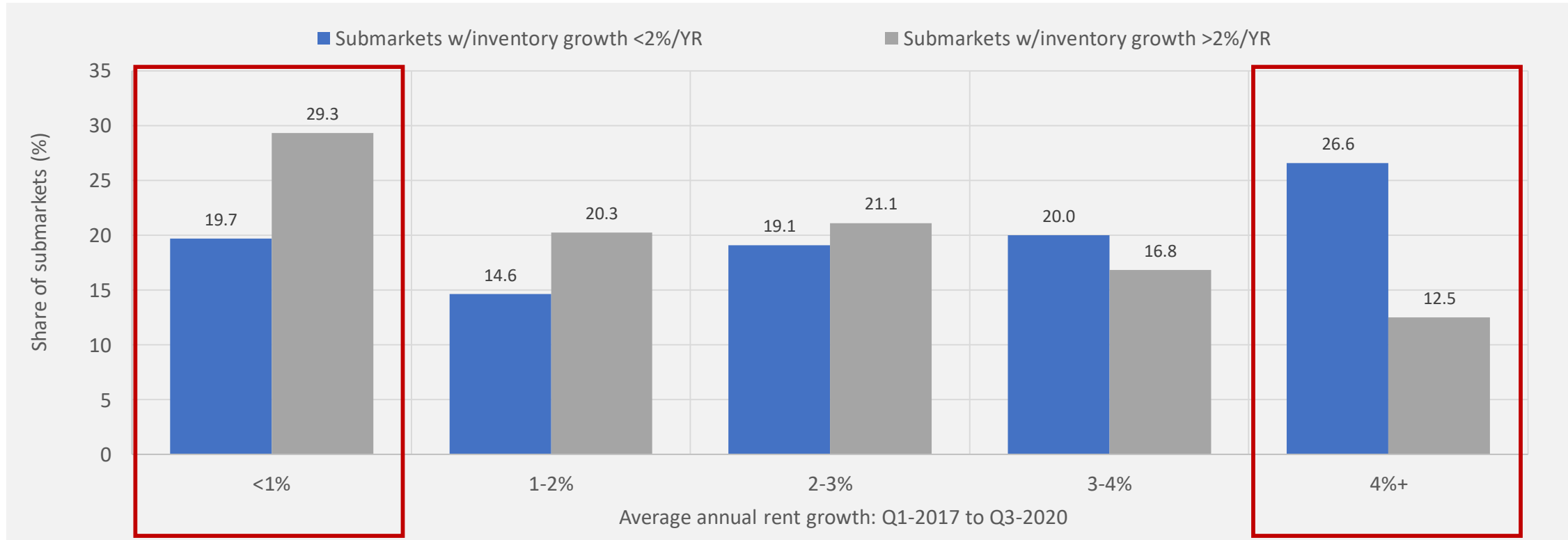
Analysis based on data for 145 markets, 1,001 submarkets, 6,203 zip codes.

Source: Invesco Real Estate using data from RealPage/Axiometrics as of December 2020

Relationship between supply and rent growth

Submarket data: Q1-2017 to Q3-2020

Inventory growth vs. rent growth



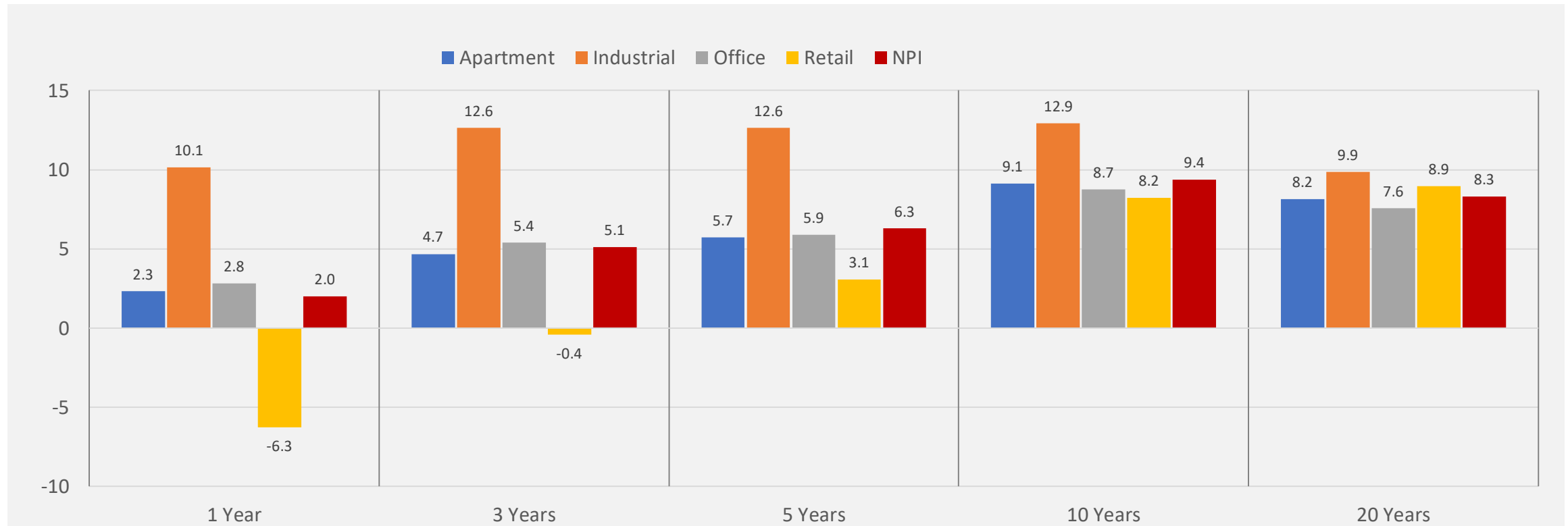
Based on an analysis of 35 markets comprised of 567 submarkets; 335 submarkets with average annual inventory growth of less than 2% since Q1-2017, 232 submarkets with average annual inventory growth of 2% or higher since Q1-2017.

Source: Invesco Real Estate using data from CBRE-EA as of December 2020

Investment performance by property sector

Total return performance

Annualized unlevered total returns (income + appreciation, %)



NCREIF Property Index (NPI) is a quarterly, unleveraged composite total return index for private commercial real estate held for investment purposes only on behalf of tax-exempt institutional investors and held in a fiduciary environment. The NPI is currently comprised of 9,191 properties with a market value of \$702 billion (as of 3Q-2020)

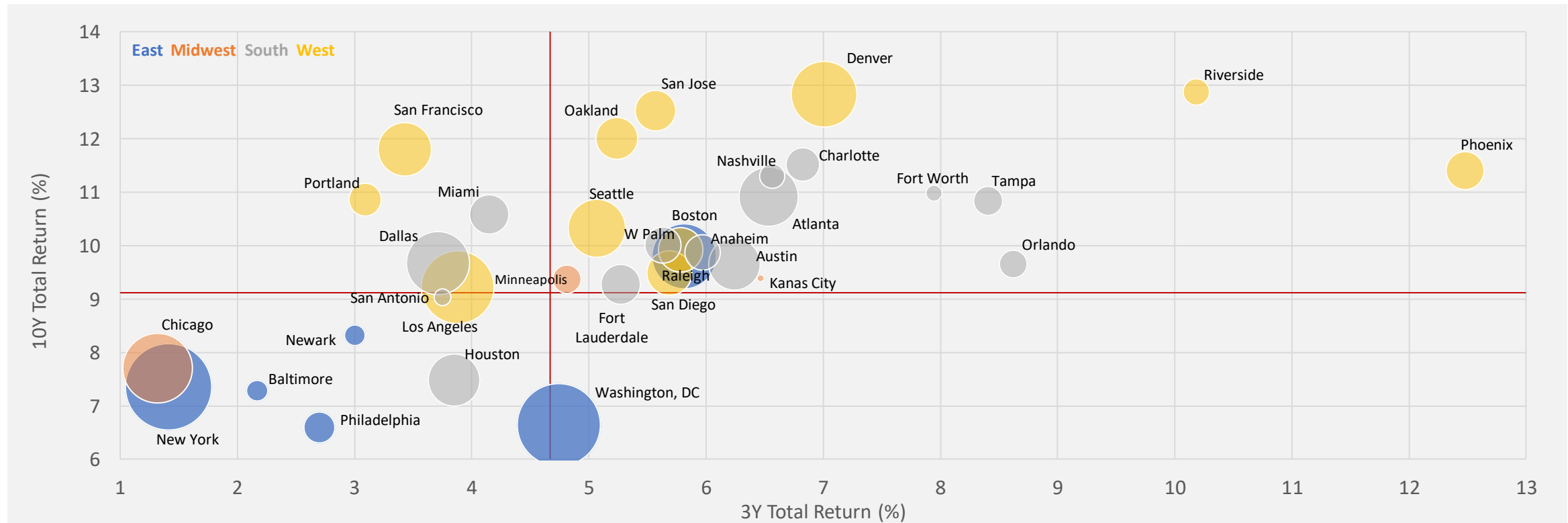
Source: Invesco Real Estate using data from NCREIF as of December 2020

Apartment performance by market

Total return performance

Annualized unlevered total returns (income + appreciation, %)

Bubbles sized on 3Q-2020 NPI market value



NCREIF Property Index (NPI) is a quarterly, unleveraged composite total return index for private commercial real estate held for investment purposes only on behalf of tax-exempt institutional investors and held in a fiduciary environment. The apartment component of the NPI is currently comprised of 1,941 properties with a market value of \$179 billion (as of 3Q-2020)

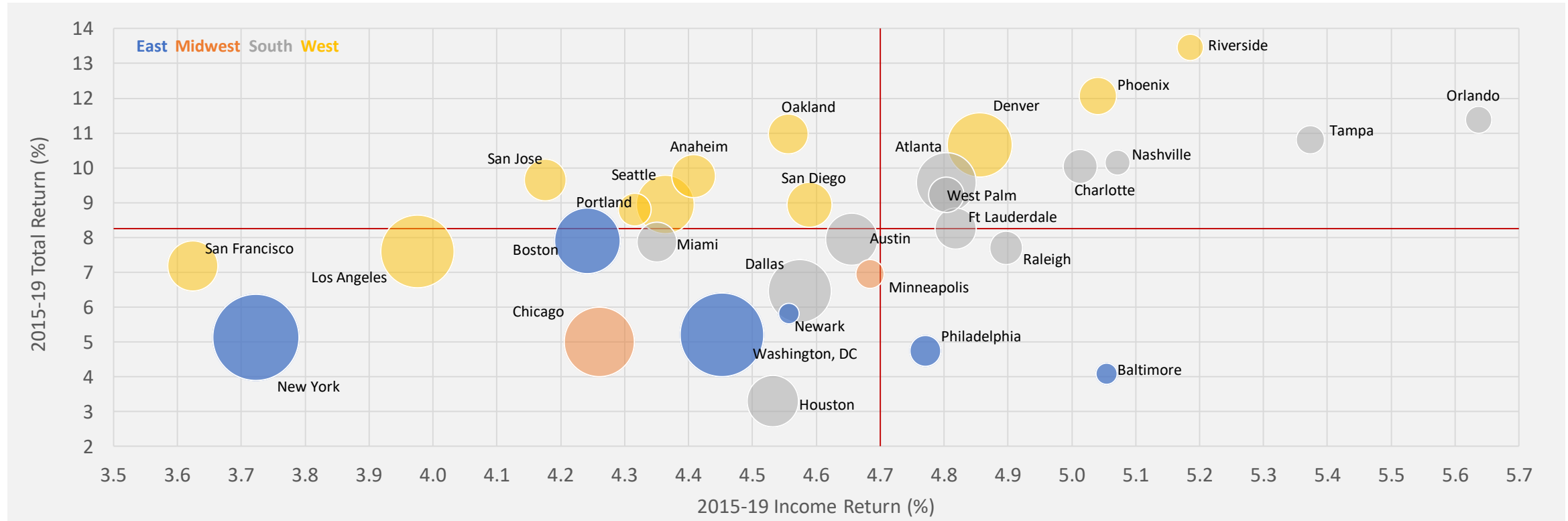
Source: Invesco Real Estate using data from NCREIF as of December 2020

Apartment yields and returns by market

Income return performance

Annualized unlevered income returns and total returns (%)

Bubbles sized on 3Q-2020 NPI market value



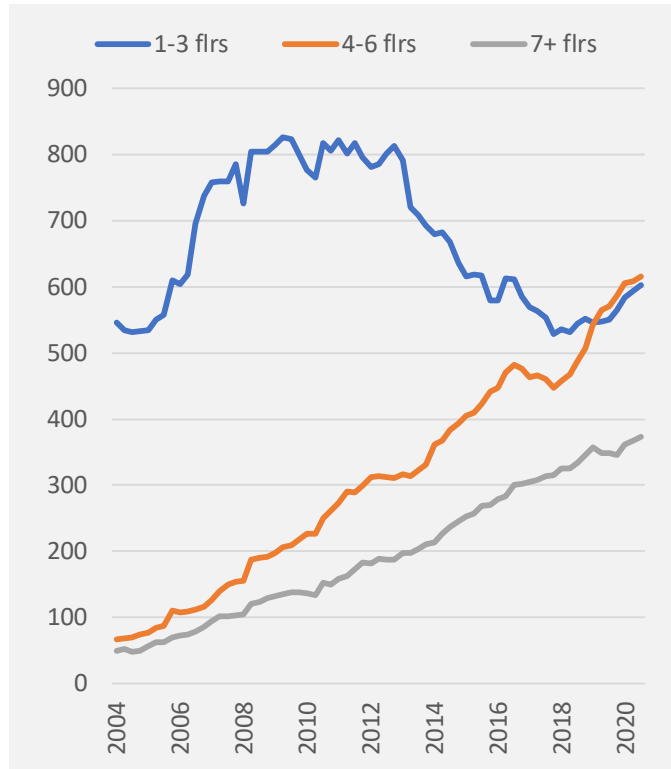
NCREIF Property Index (NPI) is a quarterly, unleveraged composite total return index for private commercial real estate held for investment purposes only on behalf of tax-exempt institutional investors and held in a fiduciary environment. The apartment component of the NPI is currently comprised of 1,941 properties with a market value of \$179 billion (as of 3Q-2020)

Source: Invesco Real Estate using data from NCREIF as of December 2020

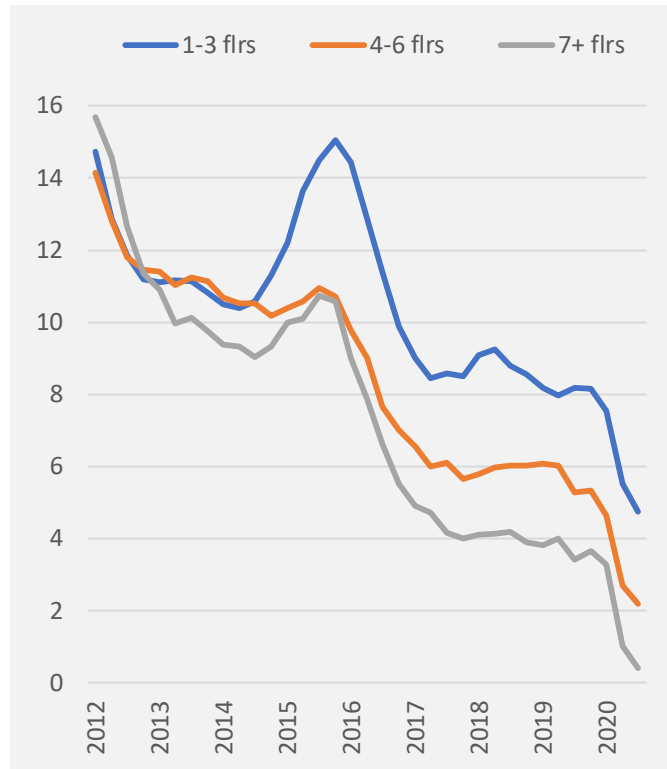
Apartment performance by building height

Total return performance

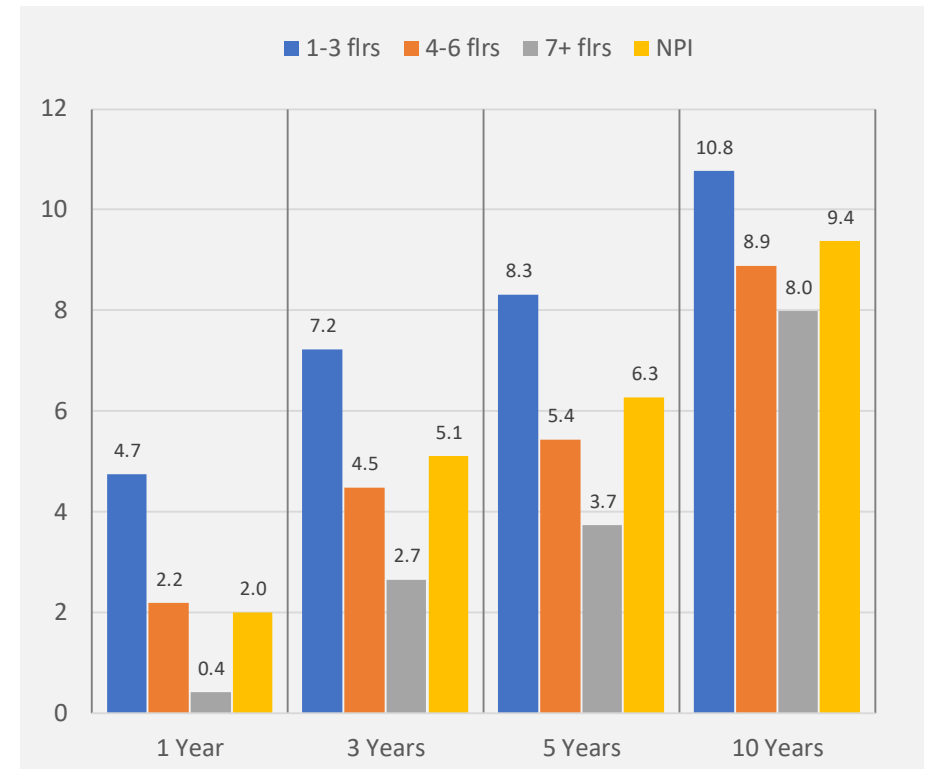
Apartment properties by height (#)



Annual unlevered total return (%)



Annualized unlevered total returns (%)



NCREIF Property Index (NPI) is a quarterly, unleveraged composite total return index for private commercial real estate held for investment purposes only on behalf of tax-exempt institutional investors and held in a fiduciary environment. The apartment component of the NPI is currently comprised of 1,941 properties with a market value of \$179 billion (as of 3Q-2020)

Source: Invesco Real Estate using data from NCREIF as of December 2020



Multifamily Market Outlook – A Brighter Outlook Ahead

Kim Betancourt, CRE

Senior Director, Economics and Multifamily Research

January 2021

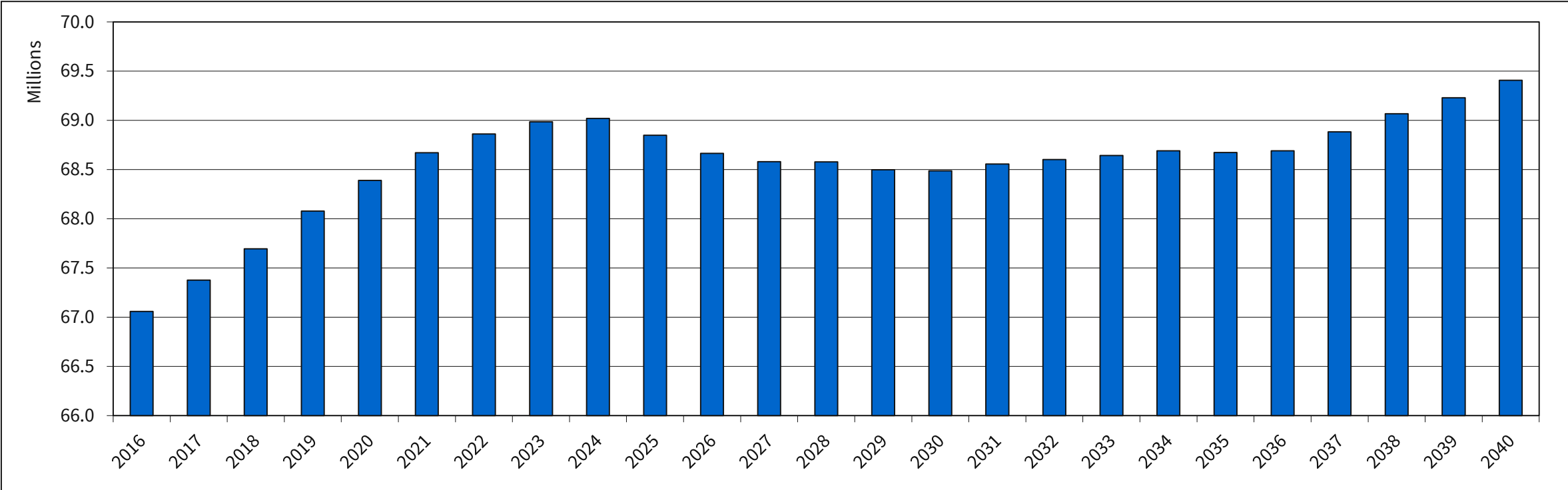
Disclaimer

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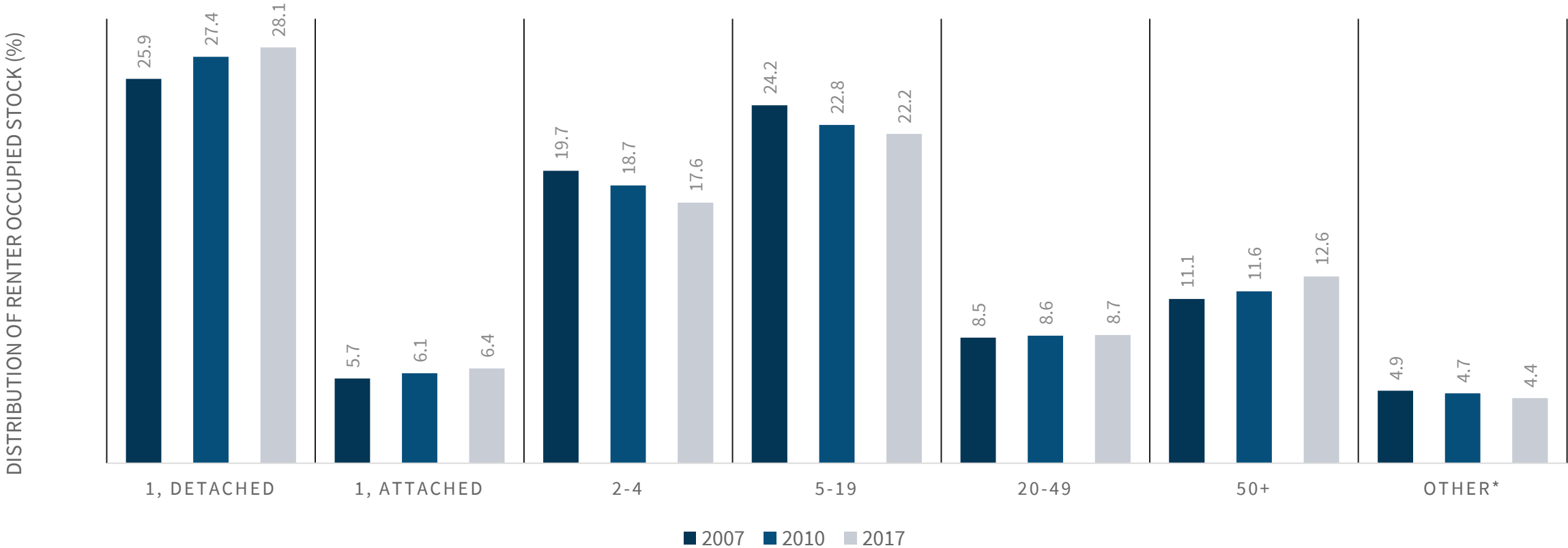
Multifamily Market Fundamentals

U.S. Population: Age 20-34 Cohort



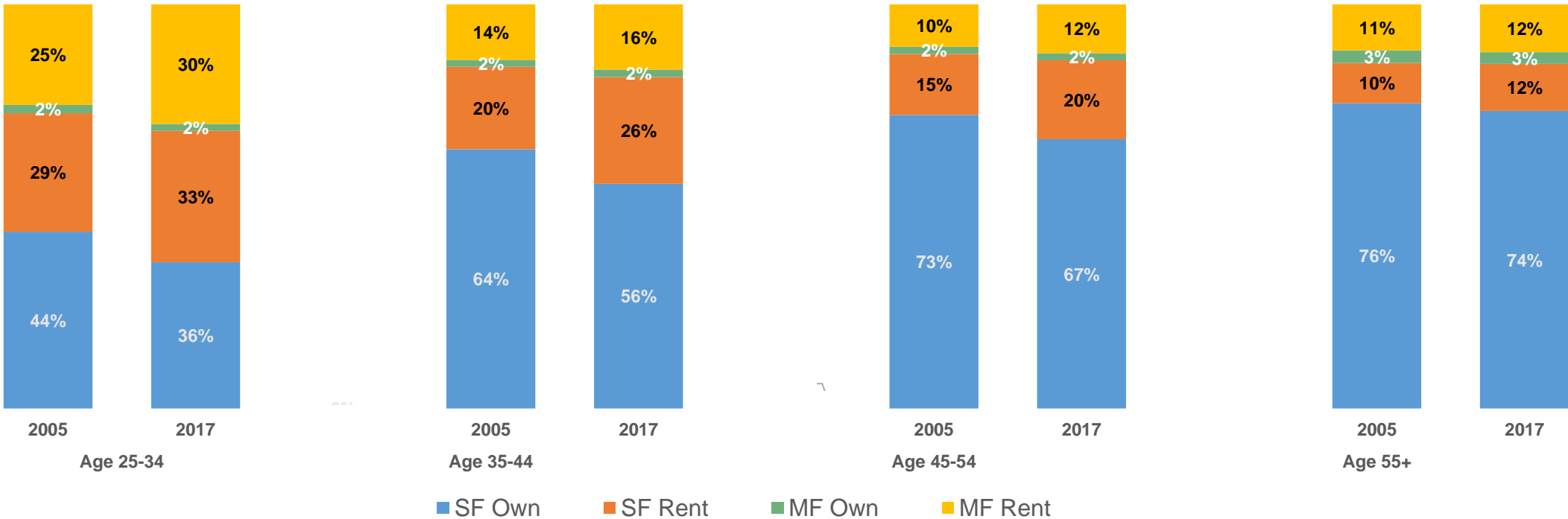
Multifamily Market Fundamentals

U.S. Renter-Occupied Stock by Structure



Multifamily Market Fundamentals

Single-Family and Multifamily Occupied Dwellings



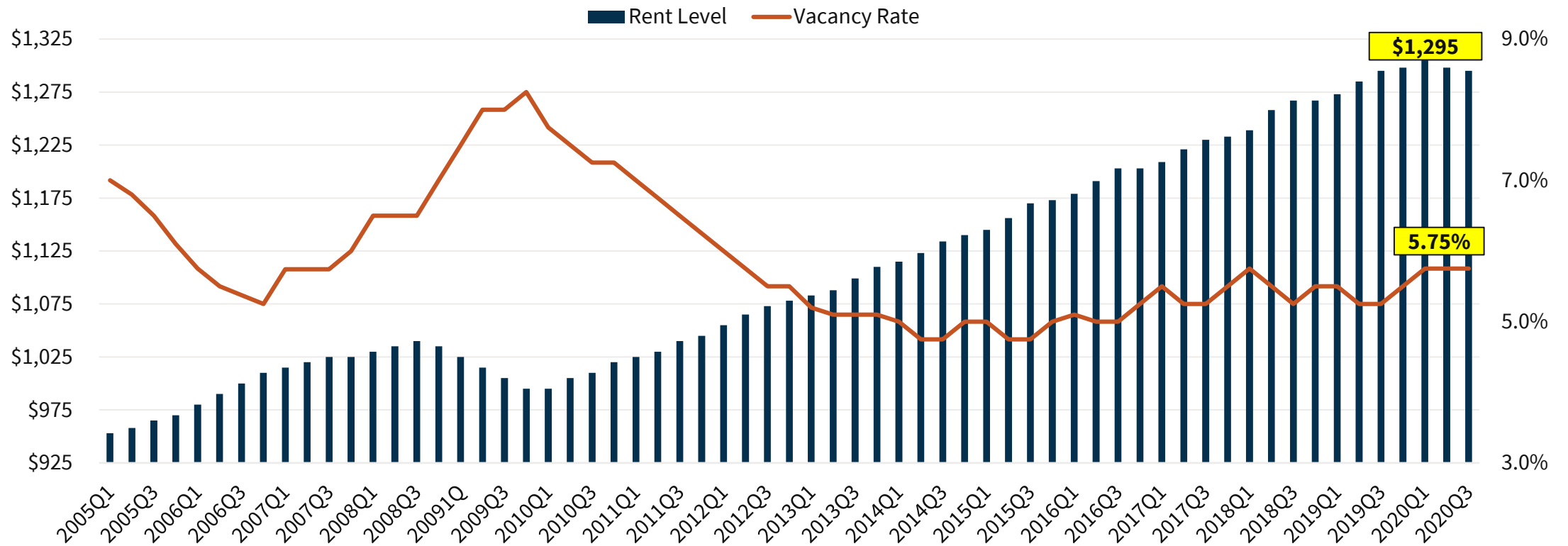
Source: U.S. Census Bureau, American Community Survey 1-Year Estimates.

Note: Single-family includes housing units in structures with 1-4 units. Multifamily includes units located in 5+ unit structures. Excludes manufactured/mobile homes and other less common types of housing units (e.g., boat or RV).



Multifamily Market Fundamentals

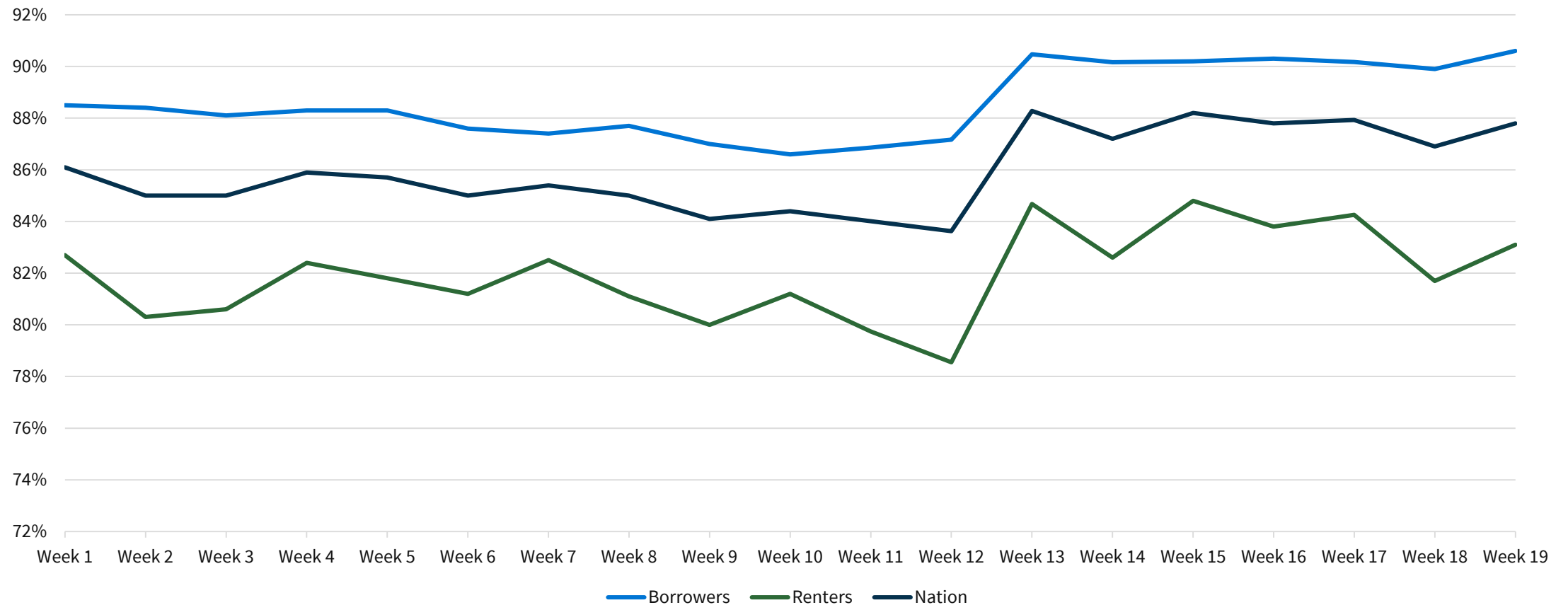
Estimated Multifamily Market Rent and Vacancy Trends



Multifamily Market Fundamentals

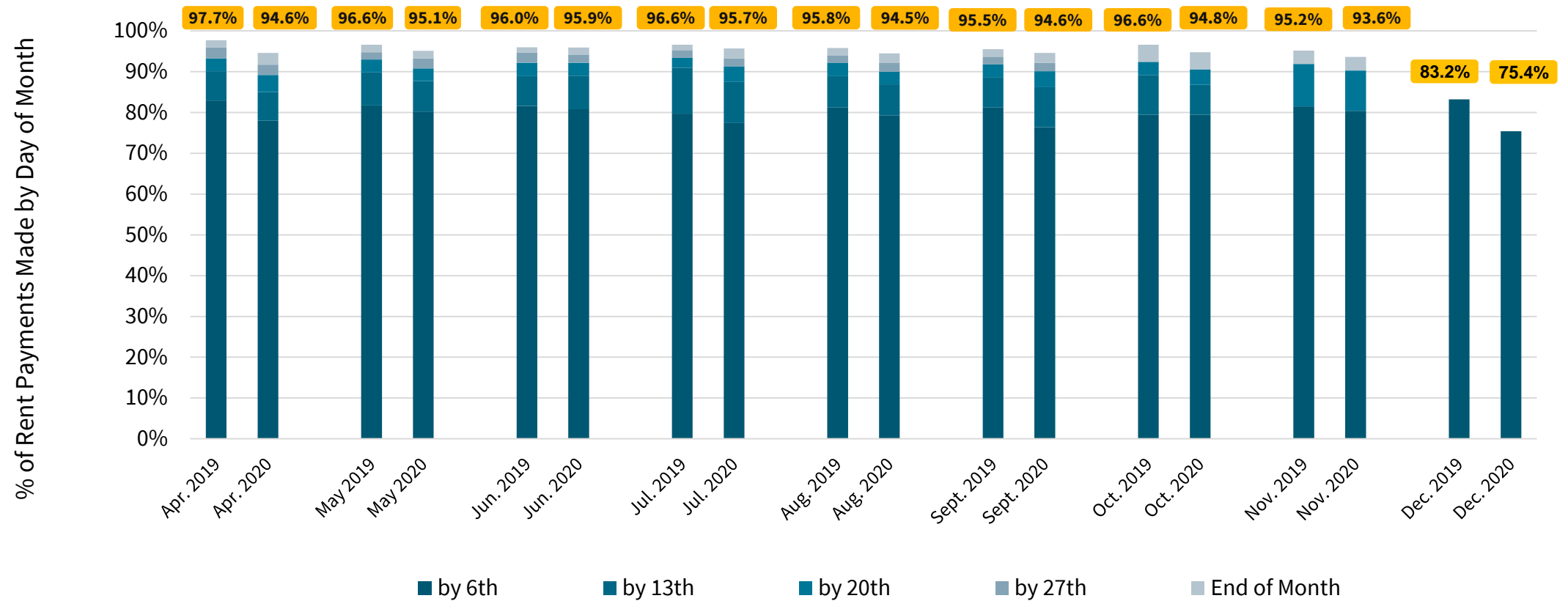
Census Bureau COVID-19 Pulse Survey: 2020 Weekly Results April 23 – November 23

On-Time Housing Payments for the Prior Month



Multifamily Market Fundamentals

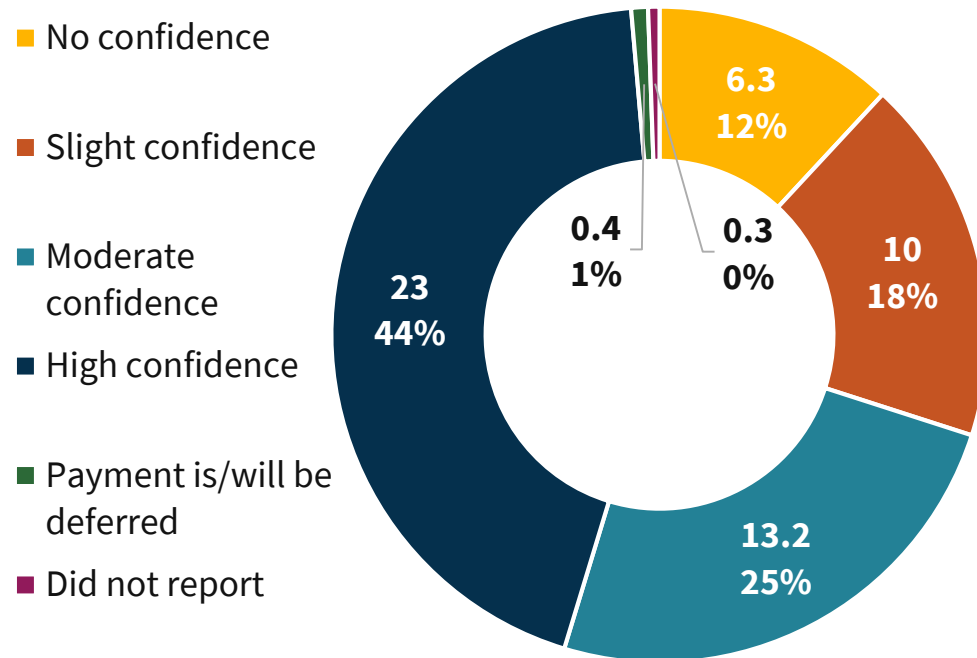
NMHC weekly rent payment tracker: As of December 6, 2020



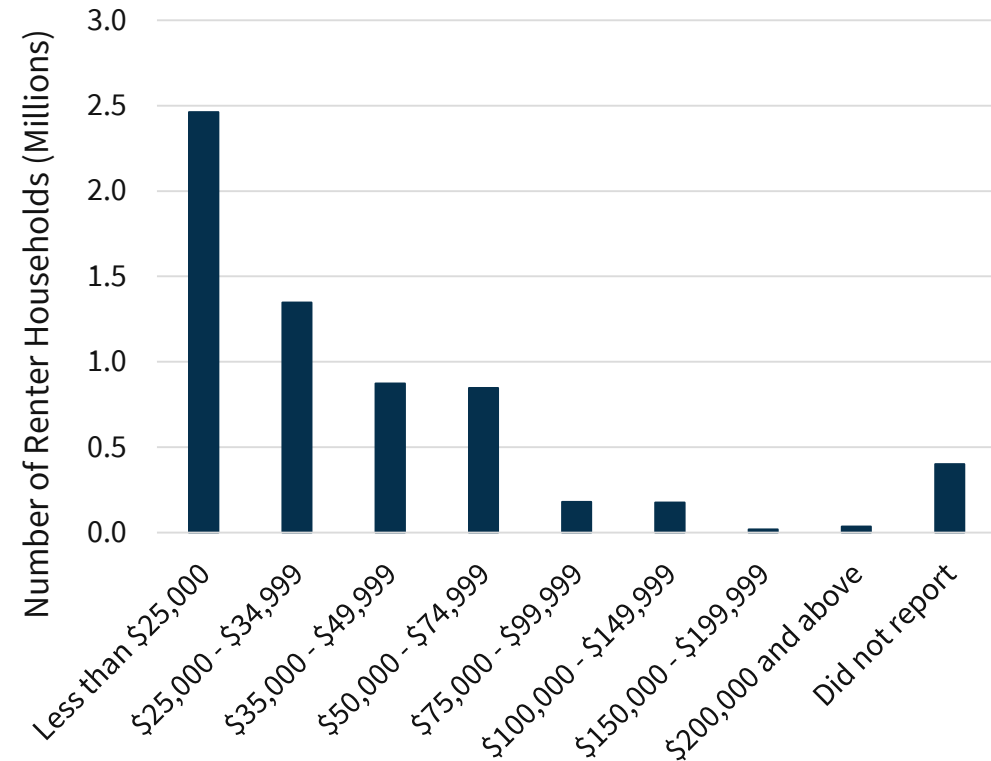
Multifamily Market Fundamentals

For the week ending November 23, 6.3 million renters reported having no confidence in their ability to pay December's rent. Another 440,000 renters indicated that their rental payment will be deferred. These are renters who may eventually face eviction.

Renter Confidence to Pay Next Month's Rent (millions)

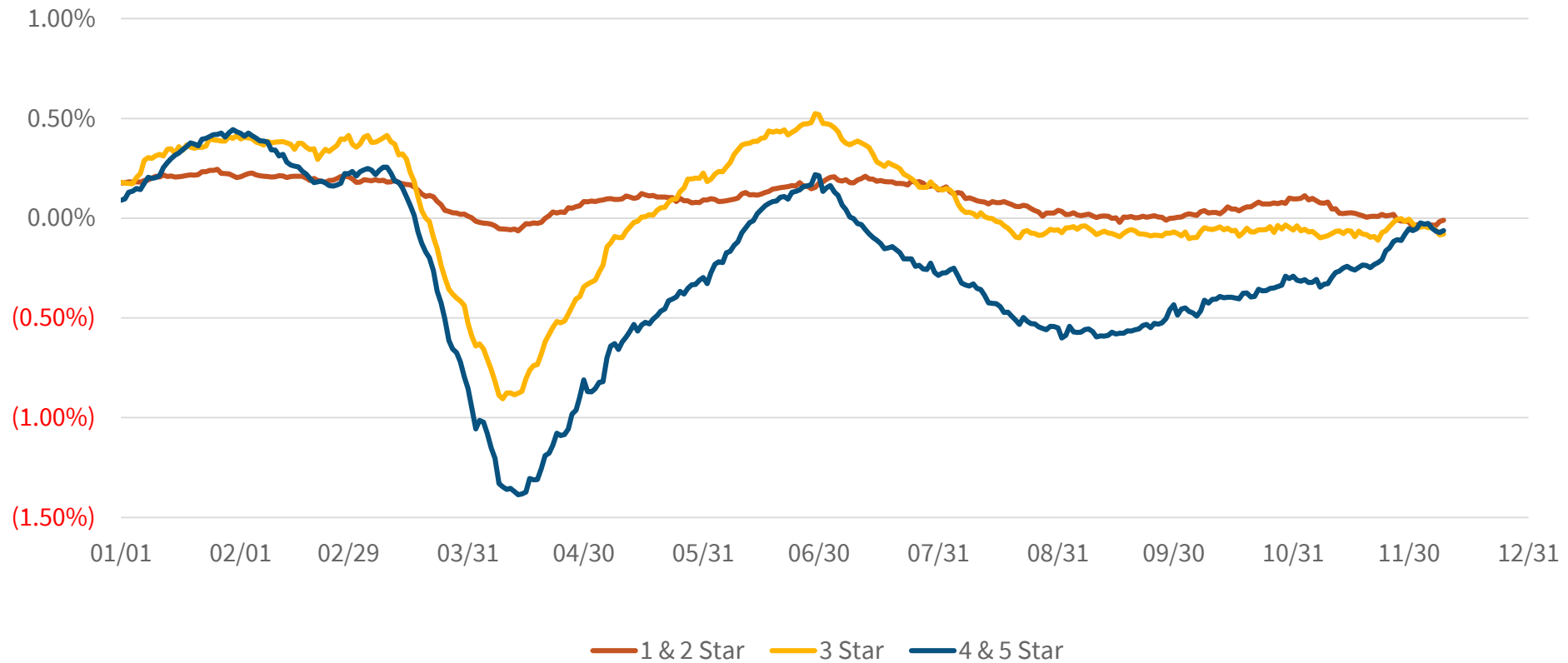


Renters Who Have No Confidence by Household Income



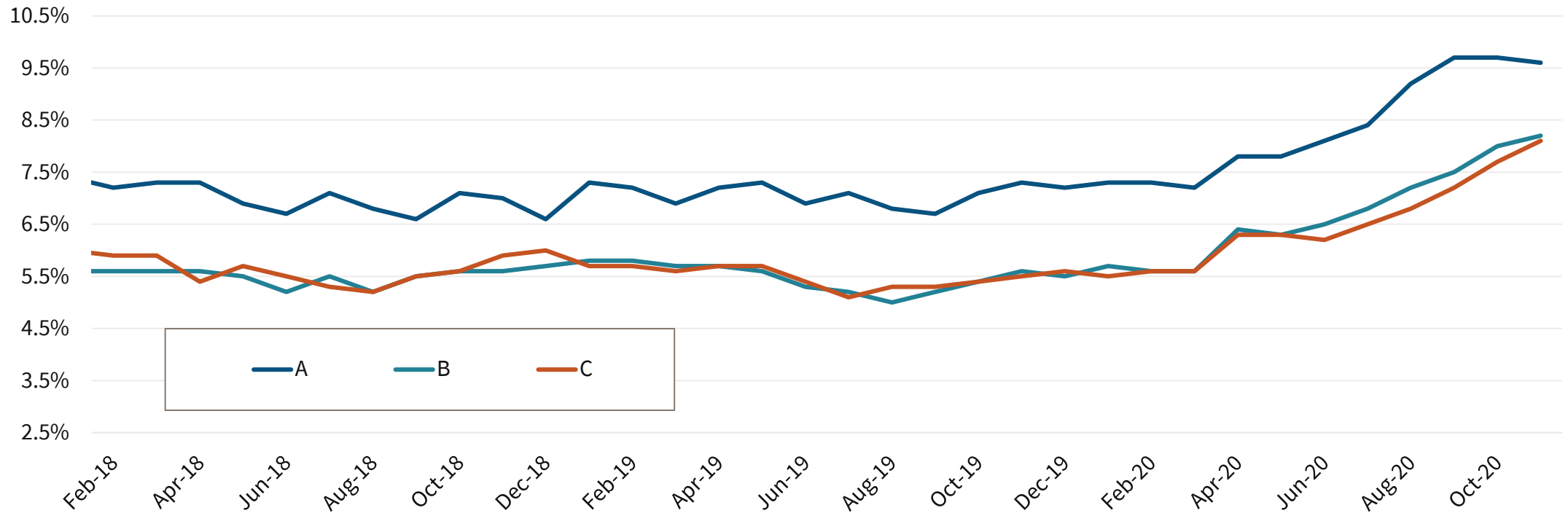
Multifamily Market Fundamentals

28-Day Rent Change – By Property Class

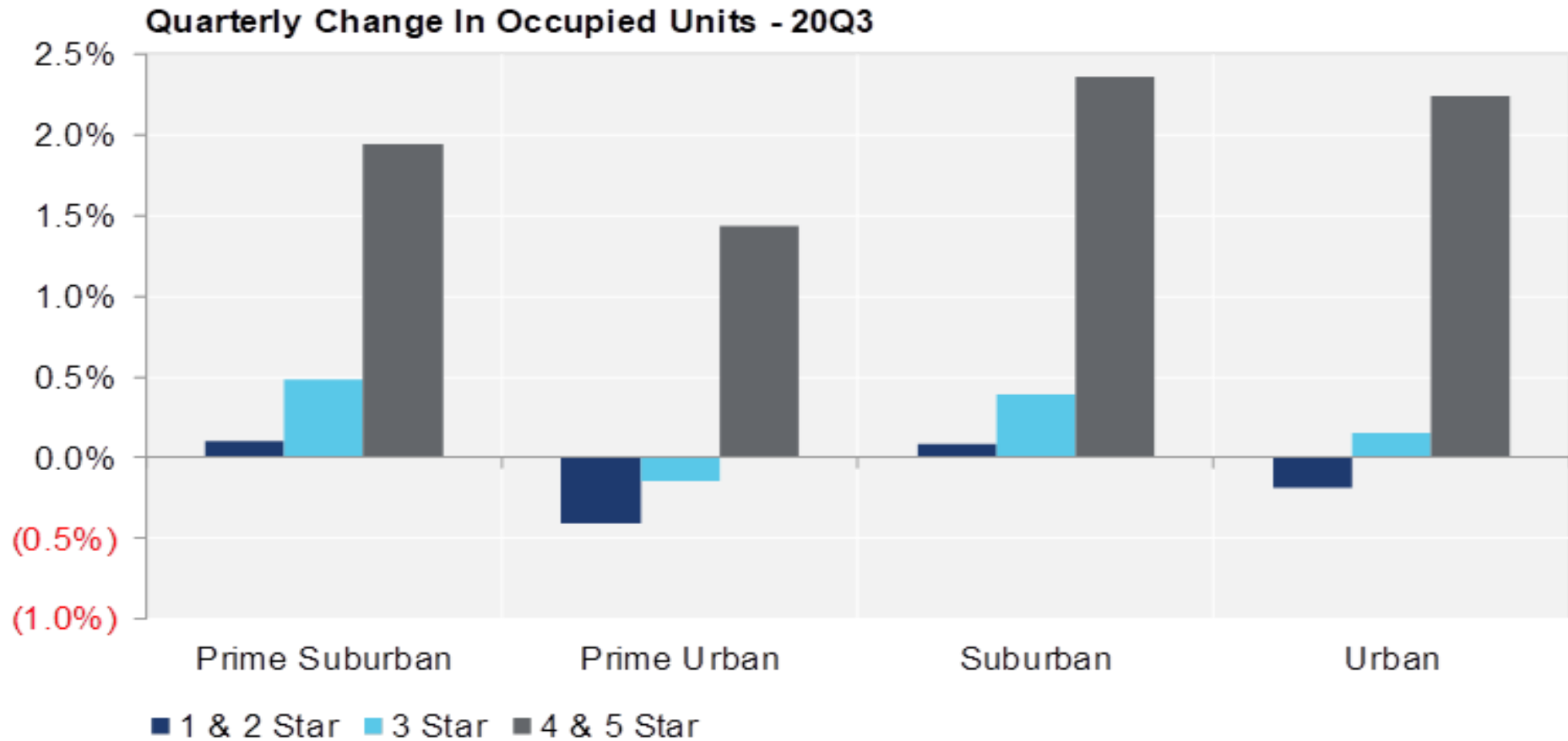


Multifamily Market Fundamentals

National concession rate by class



Multifamily Market Fundamentals



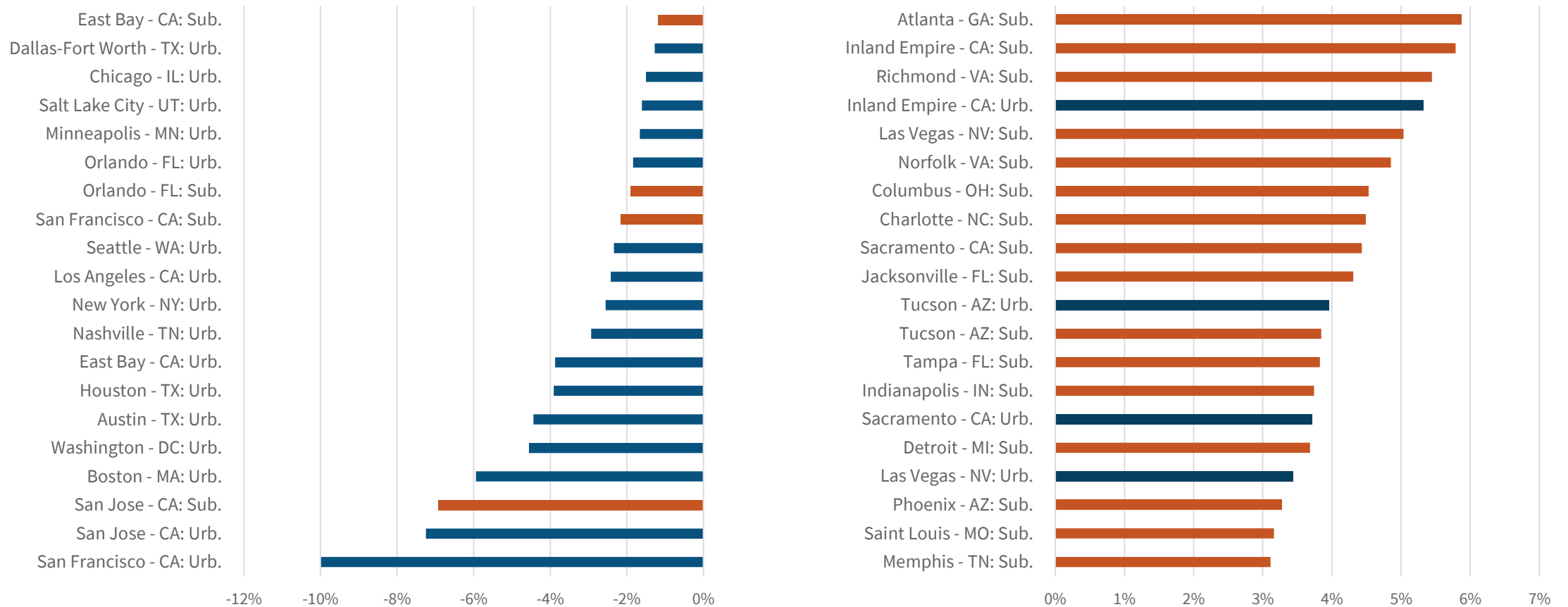
Source: CoStar Advisory Services
Note: Top 54 national markets

As of 20Q3

Multifamily Market Fundamentals

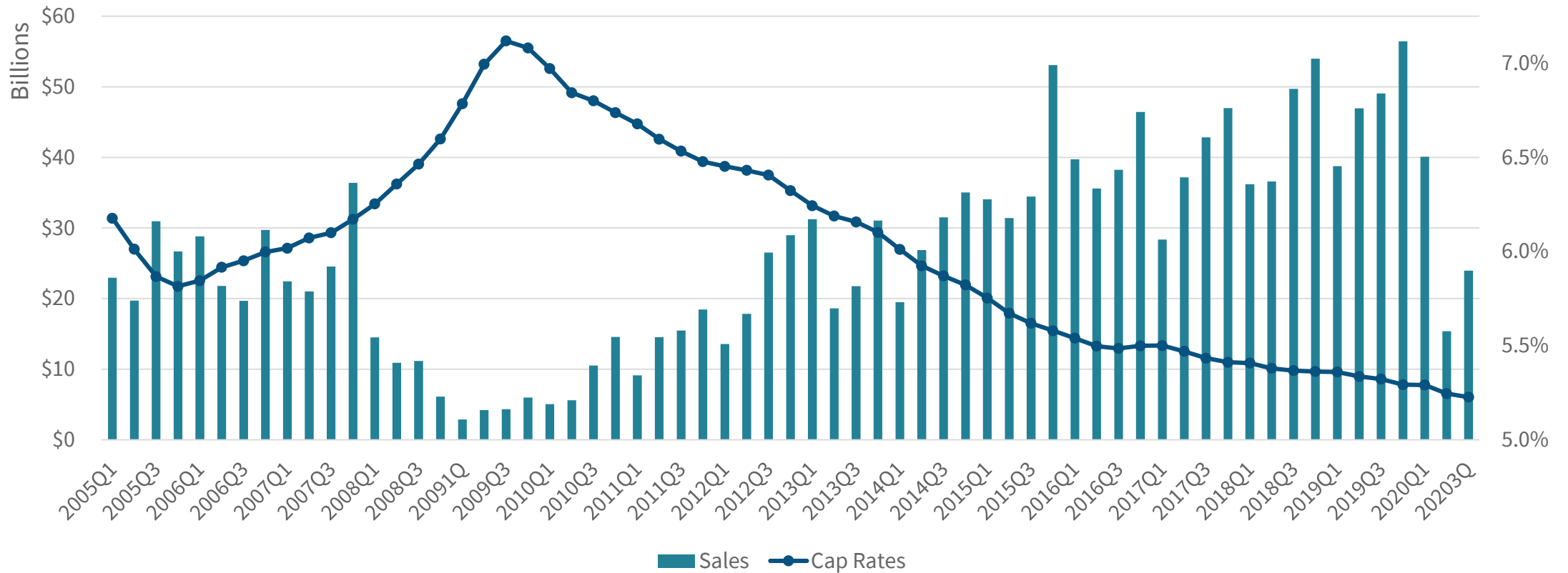
Rent Growth Varies by Metro

Change in Average Rent by Submarket Type, Q4 2019 vs. Q3 2020



Multifamily Market Fundamentals

National Apartment Sales Volume and Cap Rates



Multifamily Market Fundamentals

National Multifamily Cap Rates and 10-Year Treasury



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"My God... those meetings really could all have been e-mails."

Multifamily Markets Panel

Aimee L. Baumiller

PNC Real Estate Market Analytics

January 12, 2021

Markets Ranked by Occupancy

<u>BEST</u>			<u>WORST</u>		
1	Norfolk	97.5%	1	San Francisco	92.8%
2	Inland Empire	97.5%	2	Houston	93.3%
3	Providence	97.3%	3	San Antonio	94.0%
4	Detroit	97.3%	4	Austin	94.3%
5	Sacramento	97.3%	5	San Jose	94.4%
6	Milwaukee	96.8%	6	Dallas	94.5%
7	Philadelphia	96.7%	7	Chicago	94.7%
8	New York	96.6%	8	West Palm Beach	94.8%
9	Cincinnati	96.6%	9	Seattle	94.9%
10	Cleveland	96.5%	10	Nashville	94.9%
National Average		95.7%	3Q2020		

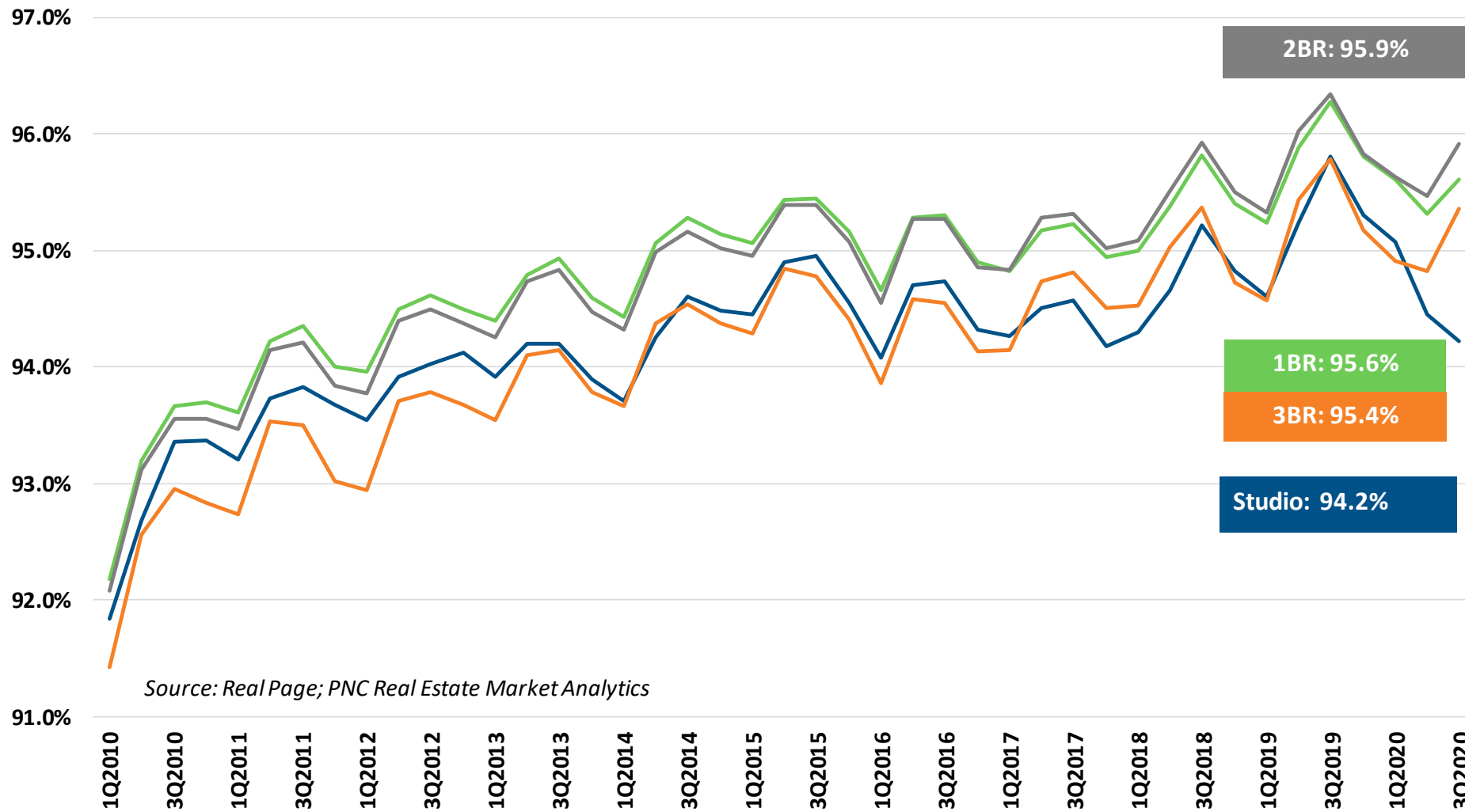
Source: Real Page; PNC Real Estate Market Analytics

Markets Ranked by Annual Effective Rent Growth

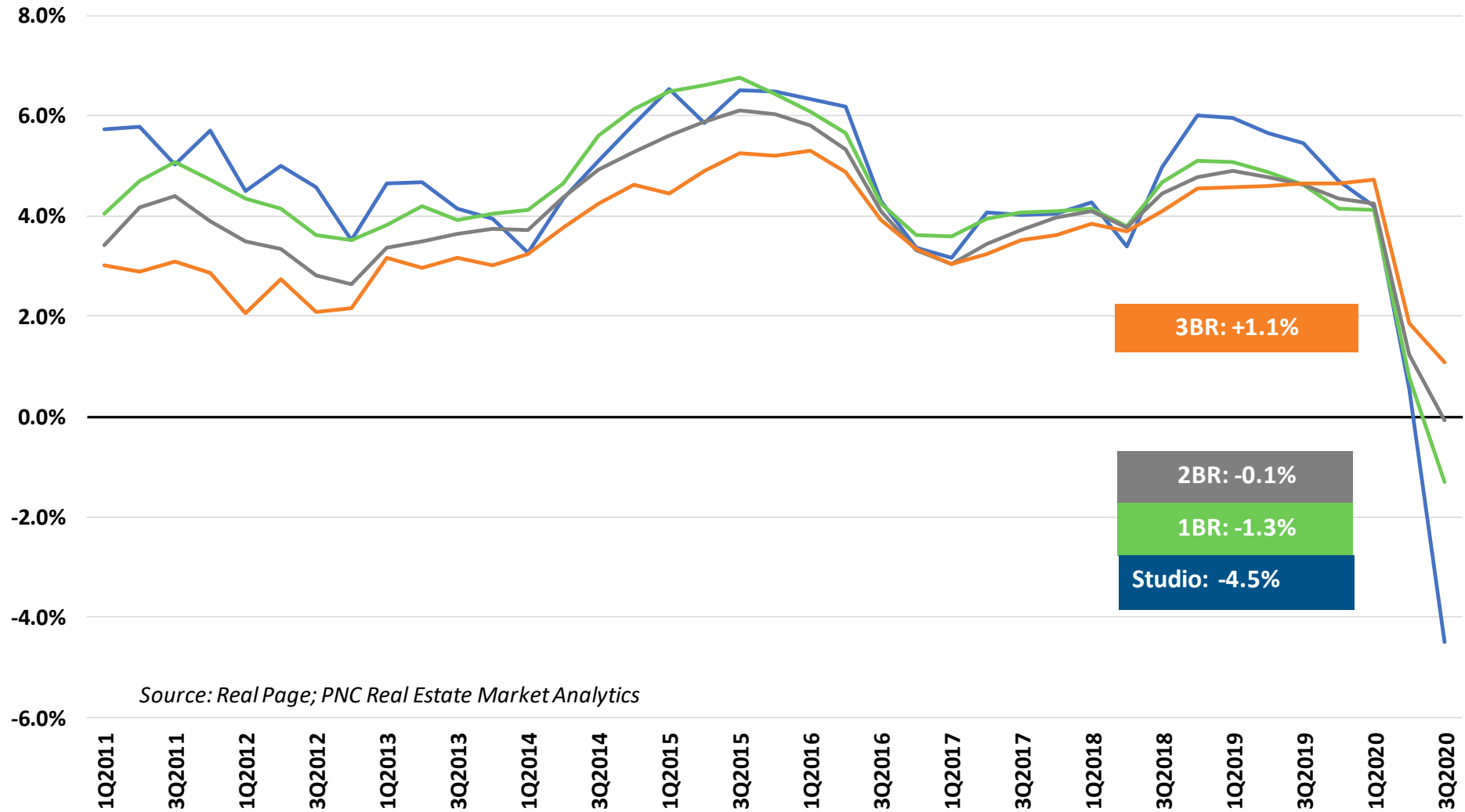
<u>BEST</u>			<u>WORST</u>		
1	Inland Empire	4.6%	1	San Francisco	-12.4%
2	Sacramento	3.8%	2	San Jose	-11.2%
3	Norfolk	3.6%	3	New York	-9.5%
4	Memphis	3.2%	4	Boston	-5.7%
5	Phoenix	3.2%	5	Los Angeles	-4.9%
6	Greensboro	3.1%	6	Oakland	-4.7%
7	Richmond	3.1%	7	Austin	-4.3%
8	Cincinnati	2.4%	8	Chicago	-4.2%
9	Columbus	2.4%	9	Orlando	-3.4%
10	Detroit	2.4%	10	Washington, D.C.	-3.2%
National Average					
					-1.3%
			3Q2019-3Q2020		

Source: Real Page; PNC Real Estate Market Analytics

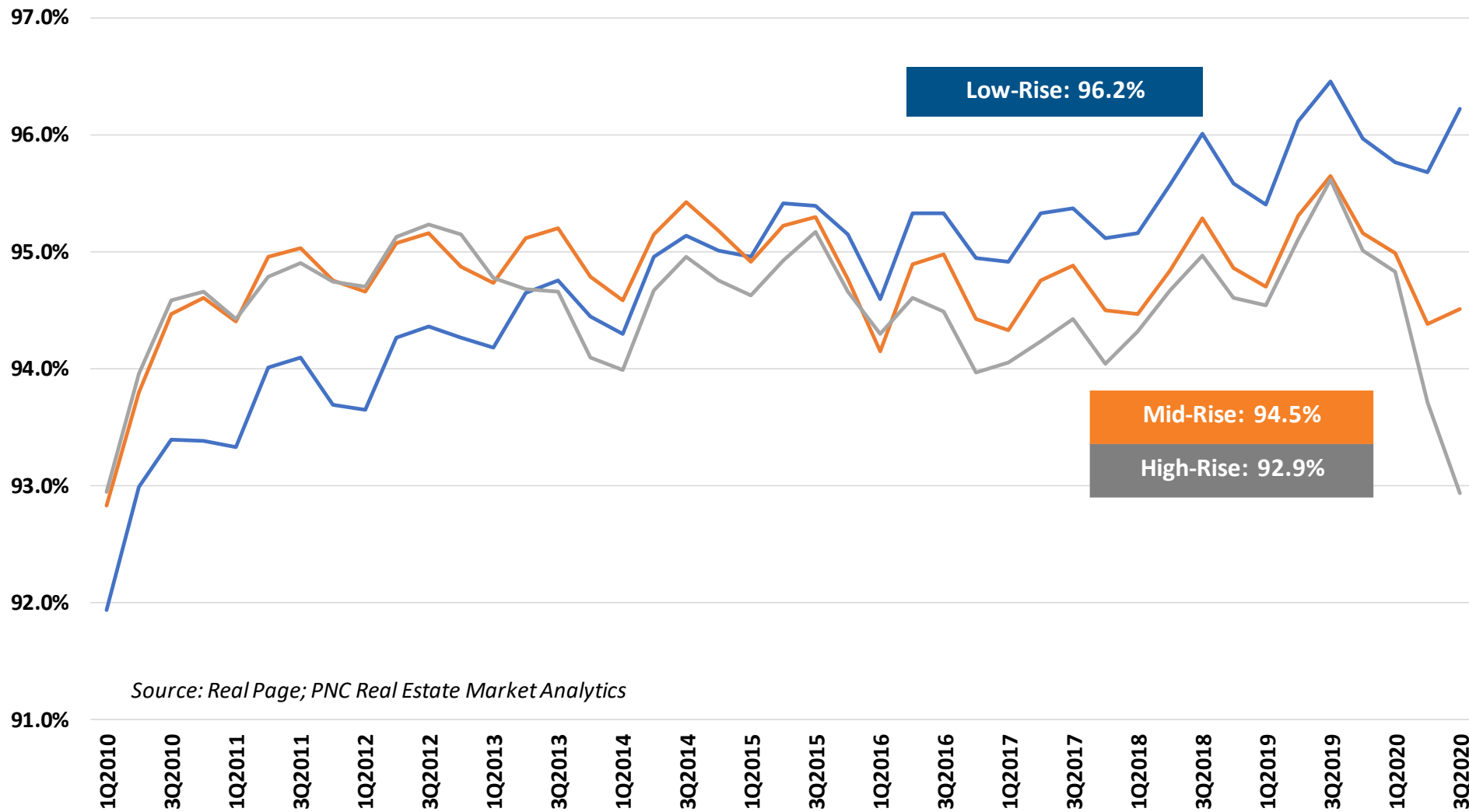
U.S. Apartment Occupancy by Unit Type, as of 3Q2020



U.S. Apartment Annual Effective Rent Growth by Unit Type, as of 3Q2020

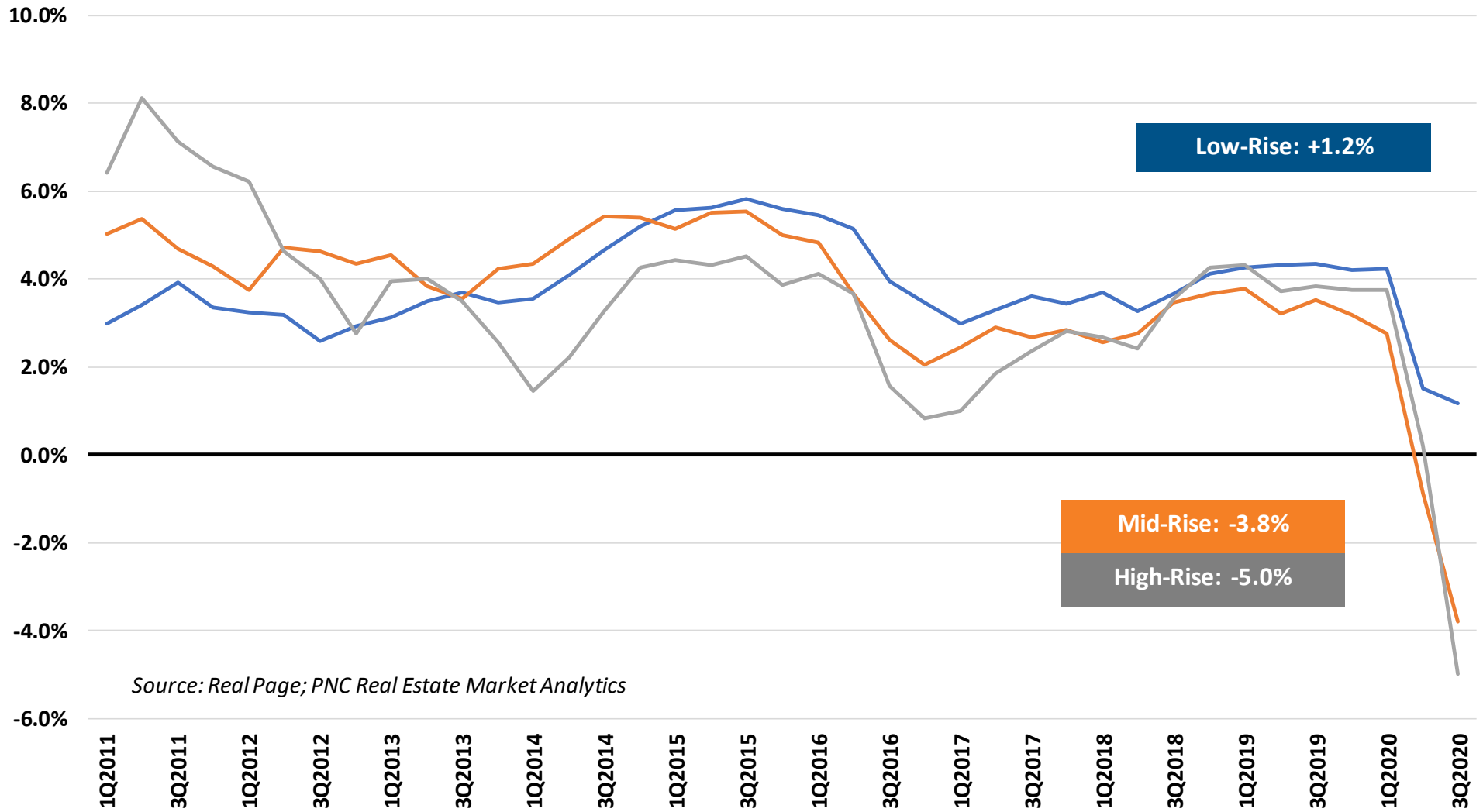


U.S. Apartment Occupancy by Building Type, as of 3Q2020



Source: Real Page; PNC Real Estate Market Analytics

U.S. Apartment Annual Effective Rent Growth by Building Type, as of 3Q2020

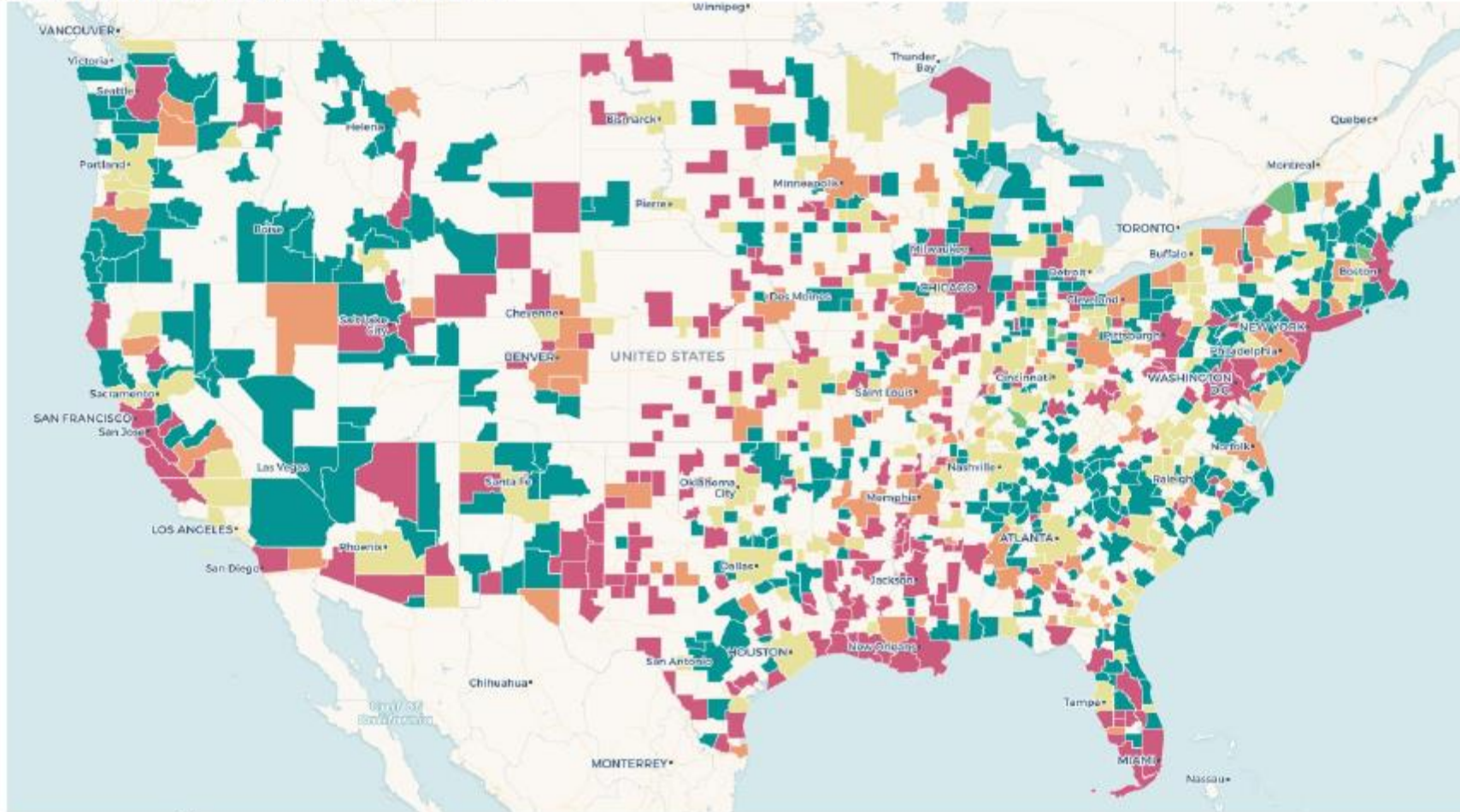


Source: Real Page; PNC Real Estate Market Analytics

Migration Trends

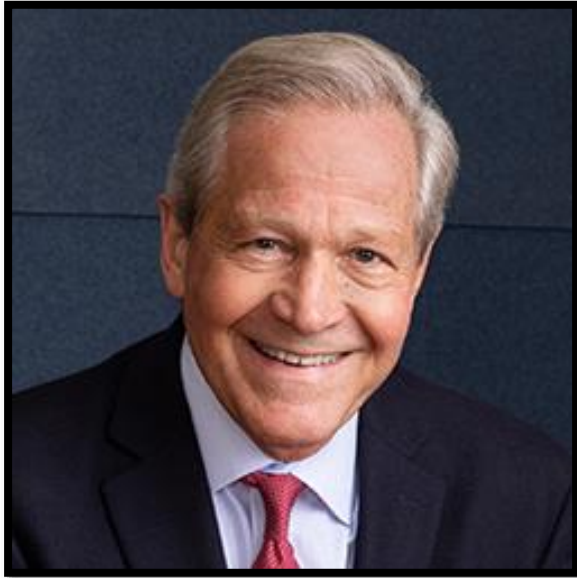
National Picture of Mail Movement; Large Coastal Cities Seeing Outflows, and People Move to Smaller Markets: Raleigh, Charlotte, Jacksonville, Las Vegas, Boise, etc.

Green = Move Ins > Move Outs; Red = Move Outs > Move Ins



Source: USPS, Carto, Jefferies

Closing Comments



Doug Bibby

National Multifamily Housing Council

NMHC Research

- **High-Frequency COVID Economic Impact Data**
- **Apartment Industry Quick Facts**
- **Industry Benchmarks**



Upcoming NMHC Member Events

Apartment Strategies Outlook Conference Webinar Series:

- Week 2, January 19 – Market Signals: Multifamily Outlook
- Week 3, January 26 – The Market Cycle Endures: Multifamily Development After the COVID-19 Pandemic

NMHC PAC Awards, February 2
Racial Equity Event, February 25

Member Virtual Networking

- Emerging Leaders, January 26
- Women in Multifamily, February 10; March 17; July 14

NMHC Webinars

Government Affairs Post-election Webinar, January 29

Monthly Rent Payment Tracker

- February 9: Ricardo Rivas, Allied Orion Group
- March 9: Joanna Zabriskie, BH Management



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