

APARTMENT ADVISORY

SEPTEMBER 2020

Will the fear of COVID-19 push renters out of dense, expensive downtowns and into the suburbs?

The potential migration of urban renters to suburban markets has been a major discussion topic in recent months as the nation continues to grapple with the far-reaching impact of the pandemic and its effects on the multifamily industry.

struggling, but there is very little to suggest that renters are fleeing downtown apartments out of fear of contracting the virus. The reasons that the urban core markets are struggling are more related to economic circumstances and renter demographics. Erosion in urban core performance has been most pronounced in - and, one could

the nation, a significant portion of which is paid by young renters who bring in a roommate or two to make ends meet. Adding roommates to cover the cost of housing leaves the household vulnerable should one occupant lose employment. And with double-digit unemployment in these markets, and job loss concentrated in segments of the labor market with high numbers of young workers, many renter households have likely been impacted by job loss. Unemployment benefits alone aren't enough to cover some of the country's highest rents.

Gateway Markets Hit Hard by COVID-19

Market	Occupancy	YOY Occupancy Change	YOY Effective Asking Rent Change
San Francisco	92.6%	-410 bps	-12.7%
New York	96.6%	-120 bps	-10.1%
Boston	95.1%	-210 bps	-5.8%
Los Angeles	95.1%	-150 bps	-5.0%
Chicago	94.6%	-110 bps	-4.4%
Miami	95.4%	-120 bps	-3.0%
Seattle	94.9%	-120 bps	-2.9%

Data as of August 2020
Source: RealPage, Inc.

These dynamics have led to significant household destruction in gateway downtowns, but there is no indication that large numbers of these renters are opting for less expensive rents in the neighboring suburbs. While net move-outs have occurred in these gateway market downtown areas, there has not been a subsequent increase in

Many factors are at play here, and while no one can be certain exactly how the pandemic will impact real estate, some signs suggest the much-discussed urban-to-suburban migration trend is overstated.

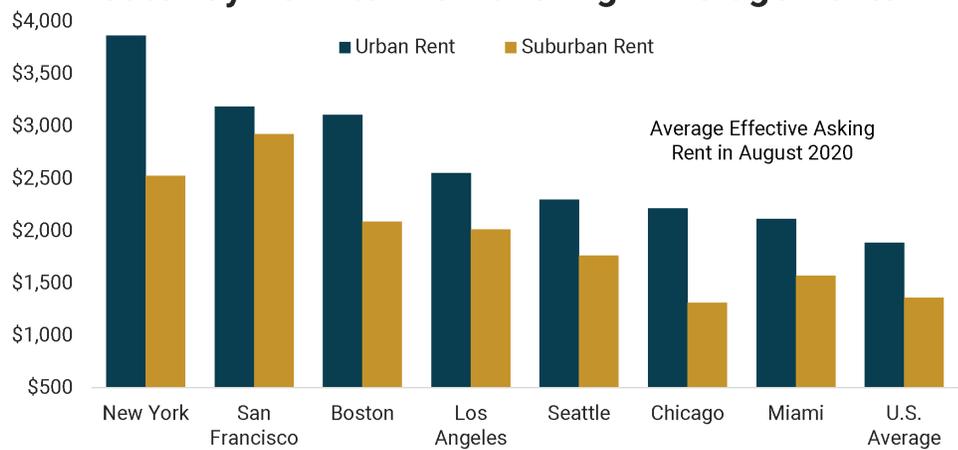
A widespread, global pandemic is certainly a phenomenon that few alive have ever experienced. COVID-19 brought an economic recession seemingly overnight, led by government ordered shutdowns of certain types of businesses where people congregate and social distancing practices that continue to discourage certain types of economic activity. But while the speed and magnitude of the economic decline is unprecedented, apartment performance indicators suggest that renters are behaving as they have in past recessions, which provides some signposts going forward.

Many urban markets are indeed

argue, limited to - expensive gateway markets such as New York, San Francisco, and Los Angeles. The downtown areas in these gateway markets have the priciest rents in

apartment demand in neighboring suburbs. In fact, these suburban areas have struggled through the pandemic too, just not to the same extent. Apartment occupancy in both areas has declined since

Gateway Downtowns Have High Average Rents



Source: RealPage, Inc.

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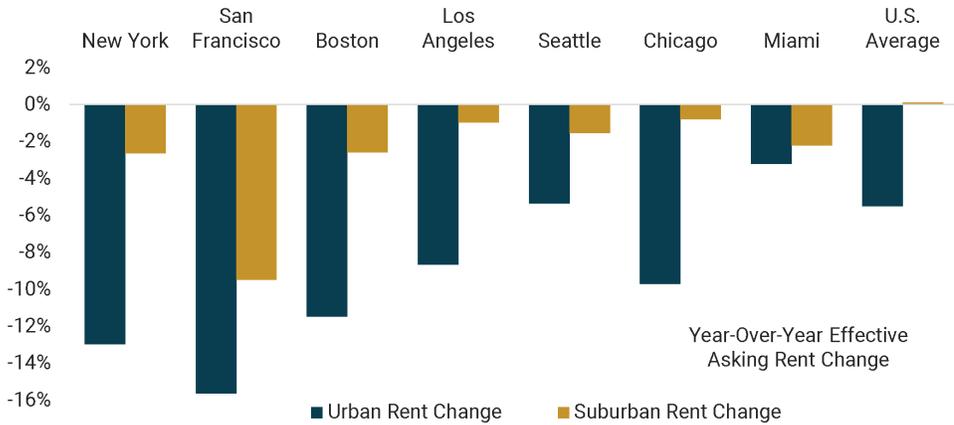
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mid-March, and operators in both areas have resorted to rent cuts in hopes of stimulating demand. The declines in the urban core areas are just more severe.

and those neighborhoods are essentially closed for business, renters have a hard time justifying the high rents to be there. What's more, proximity to work – historically another benefit to living near employ-

ated by COVID-19 and the subsequent economic downturn, are the downtown apartment markets of gateway cities doomed? RealPage expects these areas to continue to struggle in the near term as COVID-19 continues to affect the multifamily market. With social distancing and constraints on conducting business remaining in place to slow the spread of the virus, COVID-19 will still affect everyday life for some time. Even with vaccines in the pipeline, the Center for Disease Control does not expect widespread availability before mid-2021. It will also take time for the economy to claw its way out of the deep hole created by the U.S. outbreak in mid-March. The majority of urban core households that dissolved due to COVID-19 likely will not return. However, that doesn't mean urban core markets won't recover. Younger millennials and Gen Z are almost certain to start arriving in the downtowns to replace dissolved households as the economy recovers, and many of the live-work-play options that lured people to these pricey downtowns in the first place will become attractions again.

Rent Cuts Steepest in Gateway Downtown Locations



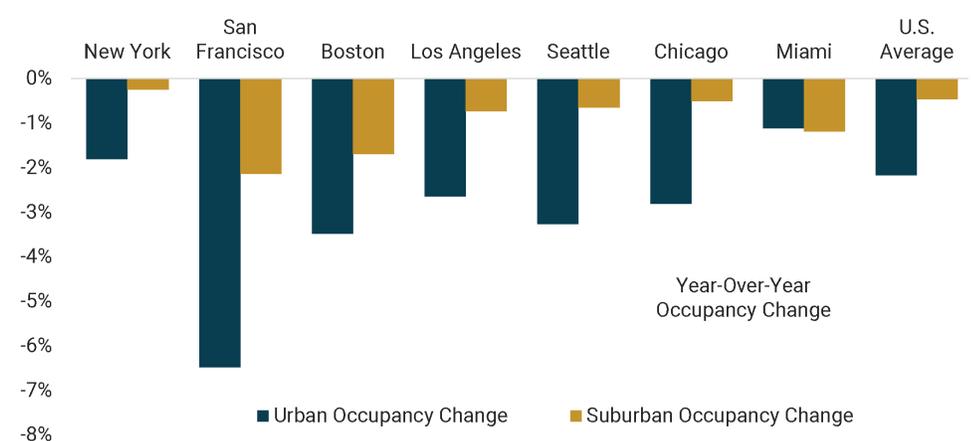
Source: RealPage, Inc.

So if urban core renters are not moving to the suburbs, where are they going? When household destruction has occurred in past recessions, many young renters have moved back in with Mom and Dad. Other renters displaced by job loss could be moving out of the gateway metropolitan areas altogether. Less expensive Sun Belt markets have held up comparatively well in recent months, avoiding the severe, urban core-led performance declines in their gateway counterparts. It is true that these markets are also less dense, and density is central to the argument that urban renters are moving due to fear of contracting COVID-19. But they also are a favorable alternative when the quality-of-life draws of gateway markets – such as restaurants, bars, and other entertainment options – are closed or operating on limited capacity. In other words, if the downtown neighborhoods themselves are considered an amenity,

ment clusters in downtown central business districts – has become less important too, as many employers and employees have successfully adapted to working remotely – sometimes from completely different states.

With significant headwinds cre-

Downtowns Lead for Occupancy Loss



Source: RealPage, Inc.

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