



Q4 2020

U.S. MULTIFAMILY FIGURES

Q4 2020 U.S. MULTIFAMILY FIGURES | EXECUTIVE SUMMARY

Q4 SURPRISES ON THE UPSIDE

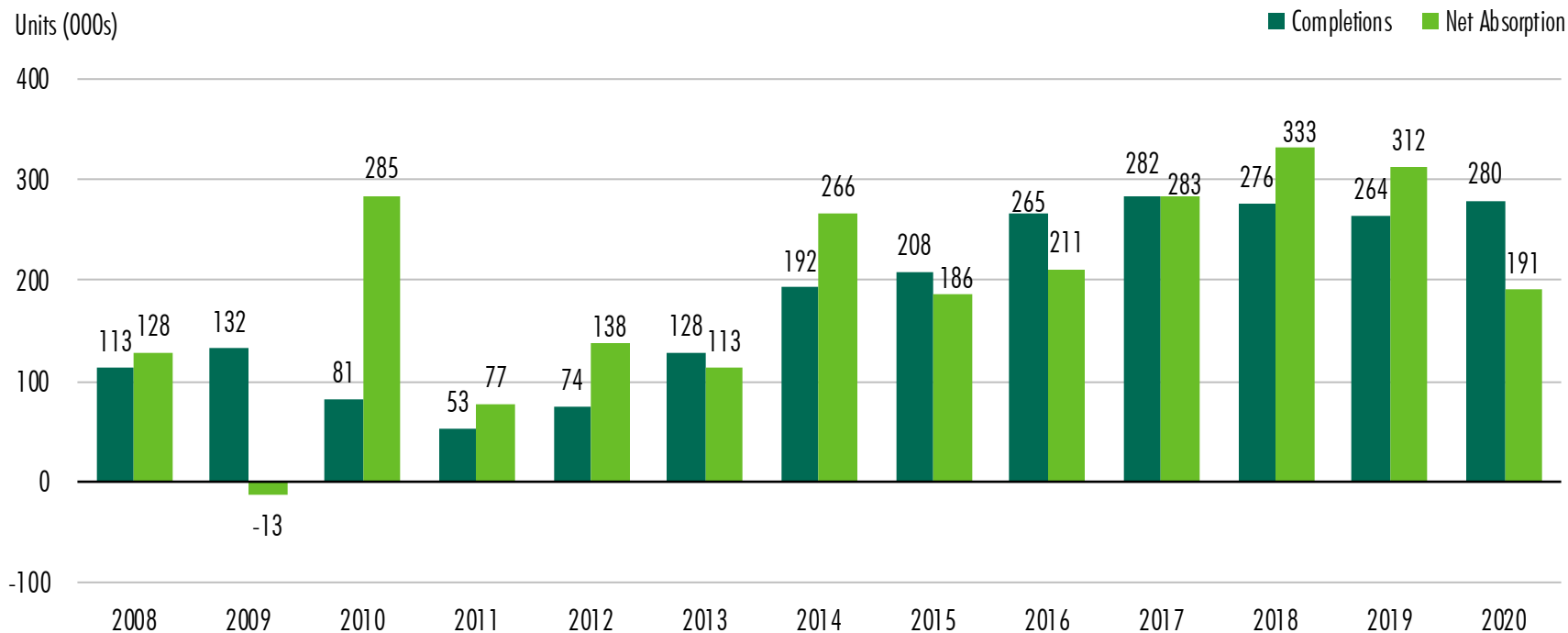


Arrows indicate from the same quarter in the previous year.
*Total past four quarters.

- Q4 net absorption totaled 55,600 units, far better than expected given normally weak leasing in fourth quarters and during recessions. The overall vacancy rate rose only 10 basis points (bps) to 4.5% in Q4 and was up by 50 bps year-over-year.
- A high level of new deliveries far outpaced demand in Q4. Average rent declined 1.6% in the quarter to \$1,666 per month. Year-over-year, average rent dropped 4.2%.
- Certain multifamily segments performed better than average in Q4, including suburban submarkets, smaller markets, the Midwest, Mountain West and Southeast regions and Class B and C assets.
- Overall multifamily fundamentals should stabilize by Q2 2021. Steady market recovery is expected through the second half of 2021.

FIGURE 1

MARKET DEMAND STAYS STRONG DESPITE RECESSION



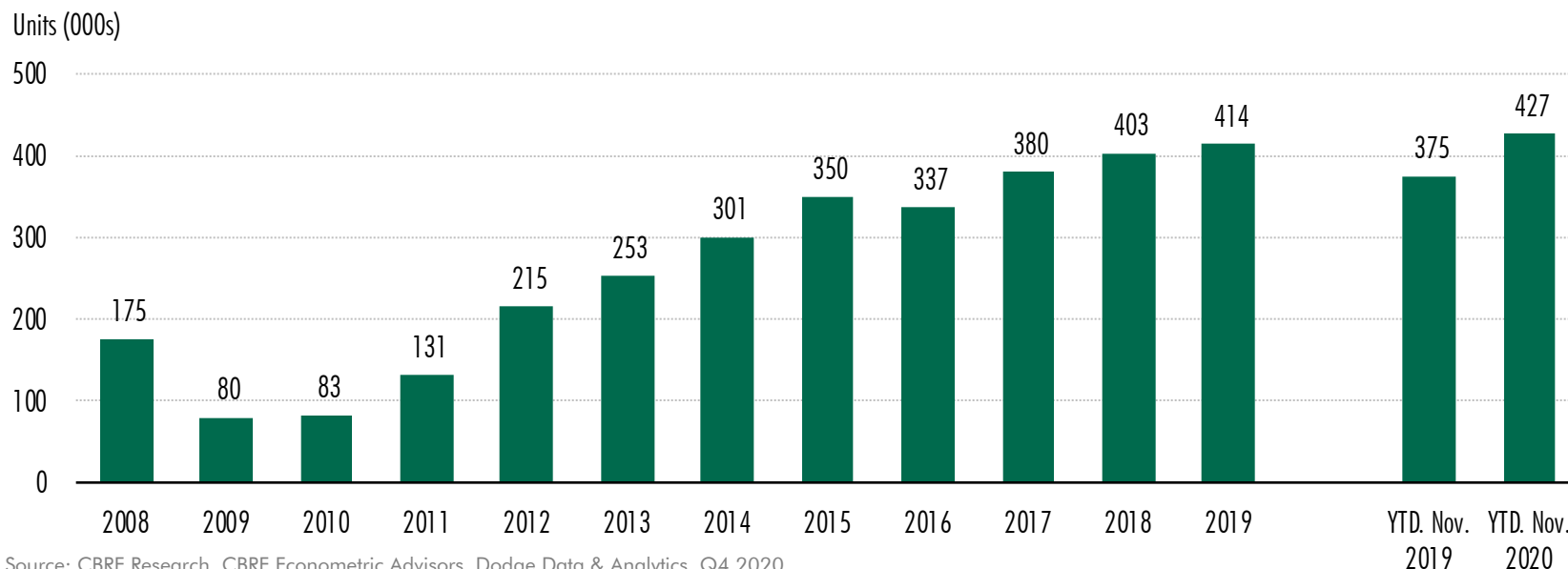
Note: Completions and net absorption of newly-built communities are counted in the quarter in which the property reaches occupancy stabilization.

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020. Based on the 66 markets tracked by CBRE EA.

- Q4 net absorption was much higher than expected at 55,600 units.
- Annual net absorption totaled 190,600 units—a very respectable level given the economic recession, but still 39% below 2019.
- The Q4 completions total was the highest in 10 quarters at 81,100 units.
- Annual completions totaled 279,600 units, the second most in at least 25 years (2017 was slightly higher at 282,300 units) and a 5.9% increase over 2019.

FIGURE 2

CONSTRUCTION STARTS CLIMB 14%



- Multifamily construction starts totaled 427,100 units year-to-date through November, up 13.8% from the same period a year ago.
- Starts in October and November averaged 36,400 units, 13.5% below Q3's monthly average of 42,100. The decline was more likely due to seasonal changes than developers pulling back on new projects.
- The under-construction total rose to an 18-year high of 702,400 units in October and then moderated slightly to 685,600 in November. Year-over-year, the November total was up by 11.9%.
- Nearly all completions came from construction projects begun prior to the 2020 recession. Similarly, most of the multifamily projects started in 2020 were planned before the COVID pandemic. Developers were reluctant to delay projects so as not to lose the opportunity or the time and dollar investment.
- High levels of permit activity also indicate that developers are looking well beyond the COVID period. For full-year 2020, 429,400 multifamily units received permit approval, down 10.8% from 2019, according to the U.S. Census Bureau.
- Q4's permit total of 110,700 units, however, was the highest quarter of the year and up 4.9% from Q3.


FIGURE 3

NEW YORK, HOUSTON & DALLAS LEAD IN COMPLETIONS

Rank by Completions	Market	Completions Q4 2020	Net Absorption Q4 2020	Completions Full Year 2020	Net Absorption Full Year 2020	Completions As % of Inventory	Net Absorption As % of Inventory
	Sum of Markets	81,100	55,600	279,600	190,600	1.7	1.2
1	New York	7,700	(2,600)	23,200	(9,200)	1.0	-0.4
2	Houston	4,500	2,300	18,000	12,400	2.8	1.9
3	Dallas	3,200	1,500	14,200	9,600	2.5	1.7
4	Washington, D.C.	3,100	200	11,900	4,400	1.9	0.7
5	Boston	2,200	1,000	11,600	4,700	2.3	0.9
6	Minneapolis	2,200	700	9,500	6,500	3.2	2.2
7	Atlanta	2,500	2,800	8,600	11,200	1.9	2.5
8	Austin	2,000	700	8,400	4,400	3.6	1.9
9	Los Angeles	3,000	5,500	8,300	(800)	0.8	-0.1
10	Denver	2,400	1,000	8,300	7,800	2.5	2.3
11	Chicago	2,400	(2,300)	8,300	200	1.1	0.0
12	Seattle	2,800	500	8,000	4,000	2.0	1.0
13	Miami	3,100	2,900	7,800	4,600	2.6	1.5
14	San Antonio	1,200	500	6,700	6,000	3.4	3.0
15	Charlotte	2,100	1,900	6,600	6,700	3.8	3.9
16	Orlando	1,100	600	6,500	4,300	3.0	2.0
17	Ft. Lauderdale	2,300	2,200	6,200	6,400	3.1	3.2
18	Oakland	1,100	800	5,900	4,500	2.8	2.1
19	Portland	2,500	2,300	5,800	5,700	2.7	2.7
20	Kansas City	900	300	5,400	4,700	3.4	3.0
21	Philadelphia	1,900	2,000	5,000	5,100	1.6	1.6
22	Phoenix	1,100	1,600	4,900	5,600	1.4	1.6
23	Baltimore	1,500	1,900	4,800	6,100	2.3	2.9
24	Columbus	1,000	700	4,700	4,700	2.8	2.8

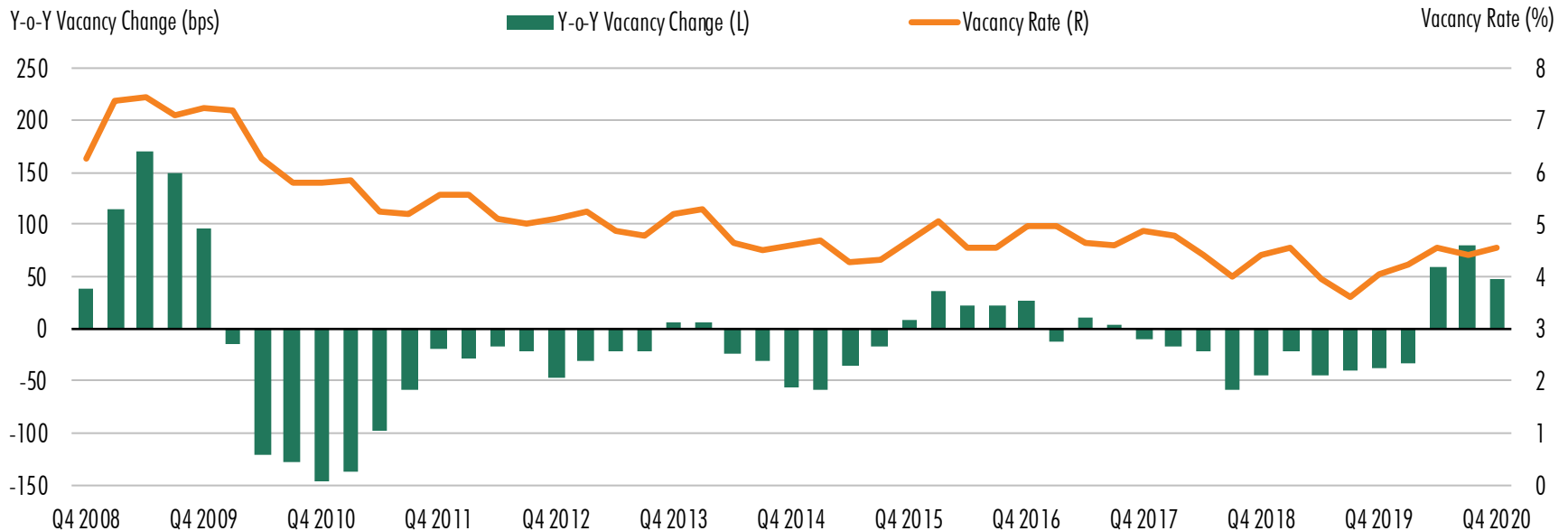
- New York, Houston and Dallas led the nation for most multifamily units completed in 2020. Roughly 23,200 units were delivered in New York (26,000 when including Northern New Jersey and Long Island) and 18,000 units in Houston.
- Dallas had the third largest total with 14,200 units (18,800 including Ft. Worth).
- The next highest-ranking markets were Washington, D.C. (11,900 units delivered), Boston (11,600) and Minneapolis (9,500). Minneapolis is a newcomer to the lead-metros-for-construction group; over the past 10 years, its annual deliveries have averaged 4,900 units.
- Among the 22 markets with the highest 2020 completions totals, no markets had completion-to-inventory ratio over 4% as in recent quarters. This ratio is a measure of overbuilding risk. However, six markets had ratios over 3%: Charlotte (3.8%), Austin (3.6%), San Antonio (3.4%), Kansas City (3.4%), Minneapolis (3.2%) and Ft. Lauderdale (3.1%).
- Only five markets had negative net absorption in Q4: New York, Chicago, Oklahoma City, San Jose and Milwaukee.
- For full-year 2020, only San Francisco, San Jose, Los Angeles, Pittsburgh and Oklahoma City had negative net absorption totals. San Francisco had the highest ratio of negative net absorption to total inventory (2.2%) while the other markets had ratios of less than 1%.

Note: All ratios based on unrounded figures. Markets are MSAs or Metropolitan Divisions, whichever is smaller.

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.

FIGURE 4

VACANCY INCHES SLIGHTLY HIGHER TO 4.5%

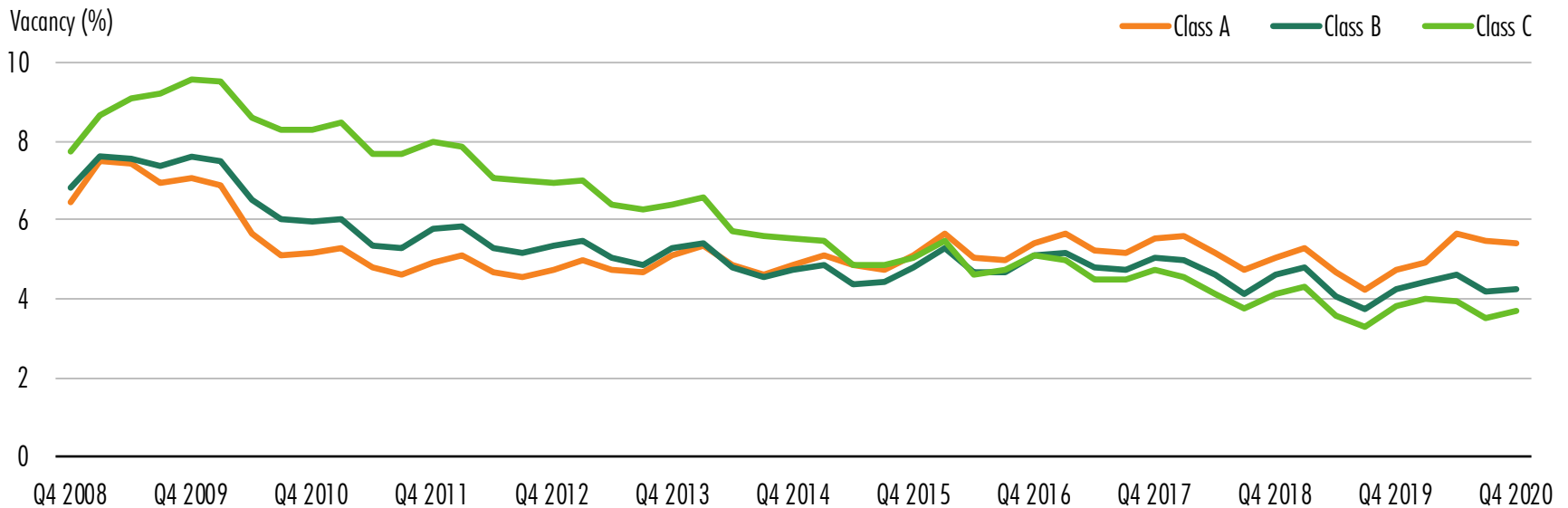


Note: Based on the 66 metro markets tracked by CBRE EA.
Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.

- The national multifamily vacancy rate rose by 10 bps quarter-over-quarter in Q4 to 4.5%.
- Given usual seasonal weakness in the last quarter of the year, the rise of only 10 bps was good news for the market.
- Year-over-year, vacancy was up 50 basis points.
- Vacancy should reach its highest point in Q1 2021 and then trend down with increased demand and overall market improvement.

FIGURE 5

CLASS A VACANCY HIGHEST IN Q4 BUT STABLE

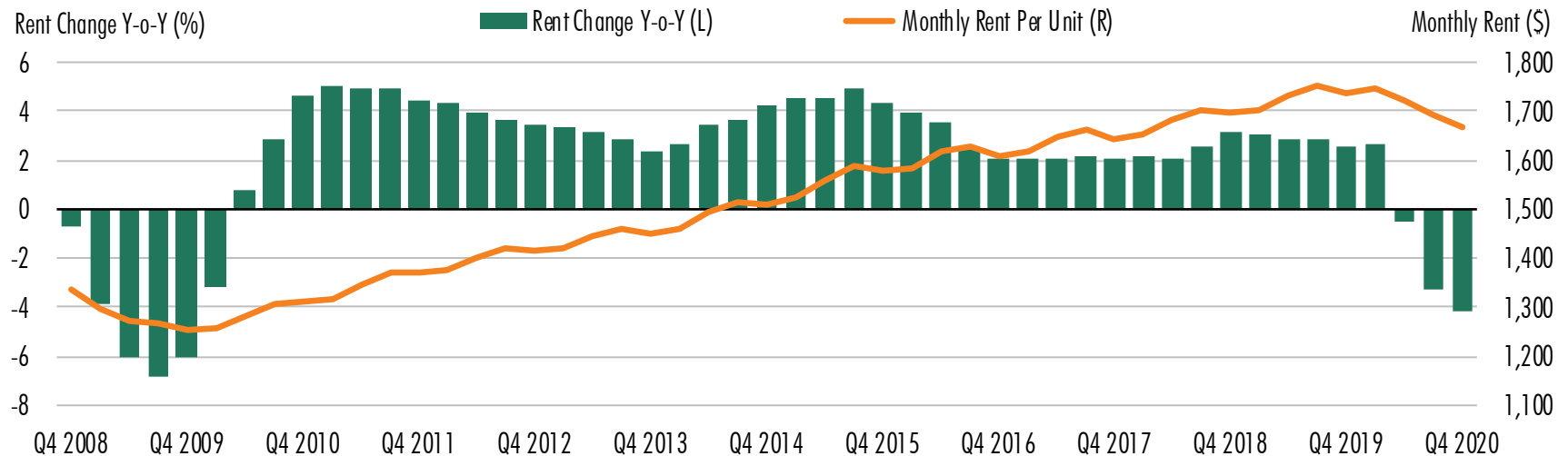


Source: CBRE Research, RealPage, Q4 2020.

- Overall, the 2020 market downturn impacted Class A properties more than Class B and C. Q4's Class A vacancy rate was 5.4% compared with Class B's 4.3% and Class C's 3.7%.
- In Q4, however, Class A vacancy fell by 10 bps, while Class B vacancy rose 10 bps and Class C rose 20 bps.
- Renters of Class B and C multifamily assets were harder hit by 2020 job losses than renters of Class A assets. However, Class B and C renters had fewer housing options than those of Class A renters, so they tended to move less. Eviction moratoriums also helped keep many renters in their apartments despite income loss. Additionally, the recession led to some flight from quality, thereby increasing demand for more affordable housing, and Class A assets continued to face competition from new supply.
- Suburban submarkets continued to outperform urban submarkets in Q4. Urban submarkets have been impacted by outmigration from the urban cores, especially in gateway markets.
- CBRE Research forecasts urban submarkets to experience strong recoveries when most office workers return to their offices (even on a partial basis) and when urban amenities flourish again. But urban submarket recovery likely will not begin in earnest until fall 2021.

FIGURE 6

RENTS DECLINE 4.2% IN 2020



Note: Effective same-store rents based on the 66 metro markets tracked by CBRE EA.
Source: CBRE Research, CBRE Econometric Advisors, RealPage, Q4 2020.

- The average same-store effective rent fell 1.6% to \$1,666 per month in Q4.
- Average rent fell by 4.2% year-over-year.
- The COVID-driven market downcycle is expected to continue in the first half of 2021 with further rent decline. Rents should begin increasing in Q3 2021 and reach pre-COVID levels by Q1 2022.
- Three gateway markets are skewing the U.S. average rent downward. If San Francisco, San Jose and New York were taken out of the U.S. average, the year-over-year decline would be a modest 1.3%— a much better reflection of multifamily’s resilience.
- Q3 statistics (Q4 are not yet available) also showed much greater resilience in suburban multifamily vs. urban. Suburban rents fell by only 1.1% year-over-year in Q3 vs. an 8.9% decline in urban rents. The majority of suburban submarkets experienced rent growth in 2020.
- High-end urban submarkets in gateway markets, including San Francisco, San Jose, New York and others experienced double-digit year-over-year rent loss as of Q3. Of the 794 submarkets tracked by CBRE Econometric Advisors, 22 had year-over-year losses of 10% or more. Downtown San Francisco had the largest decline at 18.8%.

FIGURE 7

MOUNTAIN WEST IS BEST REGION FOR RENT GROWTH

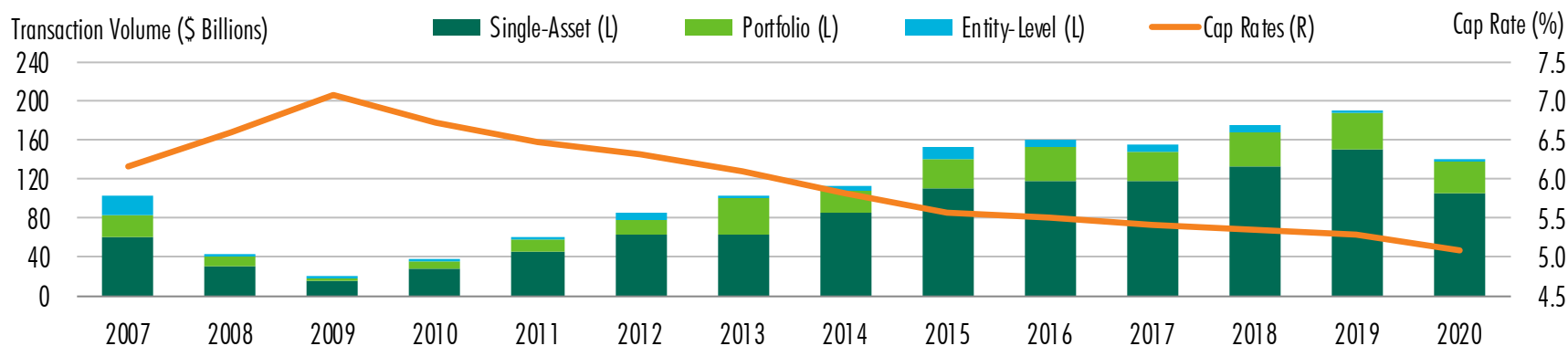
Rank	Market	Rent Change Y-o-Y (%)	Rank	Market	Rent Change Y-o-Y (%)	Rank	Market	Rent Change Y-o-Y (%)
ALL MARKET			SOUTH CENTRAL			MIDWEST		
	Sum of Markets	-4.2	1	Tulsa	4.5	1	Detroit	3.5
PACIFIC			2	Oklahoma City	2.4	2	Indianapolis	3.5
1	Inland Empire	8.2	3	El Paso	1.8	3	Columbus	3.3
2	Sacramento	6.4	4	Ft. Worth	1.7	4	Cincinnati	2.7
3	Ventura	3.7	5	Corpus Christi	0.9	5	Dayton	2.1
4	San Diego	0.6	6	San Antonio	-0.8	6	Cleveland	1.9
5	Portland	-0.1	7	Dallas	-1.2	7	St. Louis	1.8
6	Orange County	-0.9	8	Houston	-2.6	8	Kansas City	1.5
7	Honolulu	-1.1	9	Austin	-4.7	9	Omaha	1.5
8	Seattle	-3.9	SOUTHEAST			10	Milwaukee	1.2
9	Oakland	-5.0	1	Norfolk	5.1	11	Madison	0.9
10	Los Angeles	-5.5	2	Memphis	5.1	12	Minneapolis	-1.4
11	San Jose	-14.6	3	Richmond	4.9	13	Chicago	-4.6
12	San Francisco	-18.0	4	Greensboro	4.5	NORTHEAST/MID-ATLANTIC		
MOUNTAIN WEST			5	Lexington	3.6	1	Providence	3.8
1	Albuquerque	6.3	6	Jacksonville	3.3	2	Hartford	3.1
2	Tucson	6.2	7	Tampa	3.0	3	Long Island	2.7
3	Phoenix	4.5	8	Birmingham	2.8	4	Baltimore	2.7
4	Colorado Springs	4.1	9	Atlanta	2.1	5	Philadelphia	1.4
5	Las Vegas	3.7	10	Greenville	1.4	6	Newark	-0.4
6	Salt Lake City	1.6	11	Charlotte	1.3	7	Pittsburgh	-1.0
7	Denver	-1.8	12	West Palm Beach	1.1	8	Washington, D.C.	-4.8
			13	Louisville	1.0	9	Boston	-6.4
			14	Raleigh	0.8	10	New York	-9.7
			15	Ft. Lauderdale	-0.4			
			16	Miami	-2.8			
			17	Nashville	-2.8			
			18	Orlando	-3.0			

Note: Based on effective "same-store" rents.
Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.

- Of the six major U.S. regions, the Mountain West had the highest percentage of major markets with year-over-year rent growth, followed by the Midwest and Southeast. Five of the seven Mountain West metros recorded rent growth of more than 3% in 2020.
- In the Midwest, only Minneapolis and Chicago had rent declines. In the Southeast, rents fell only in four of the 18 markets.
- Most smaller markets had rent growth in 2020 while all gateway markets had rent losses. San Francisco had the largest decline of 18%, followed by San Jose (-14.6%), New York (-9.7%) and Boston (-6.4%).
- The larger markets (Tier I and II) with the best rent performance were the Inland Empire (8.2% rent growth), Phoenix (4.5%) Tampa (3.0%), Long Island (2.7%), Baltimore (2.7%) and Atlanta (2.1%).

FIGURE 8

INVESTMENT VOLUME REACHES NEW QUARTERLY HIGH IN Q4

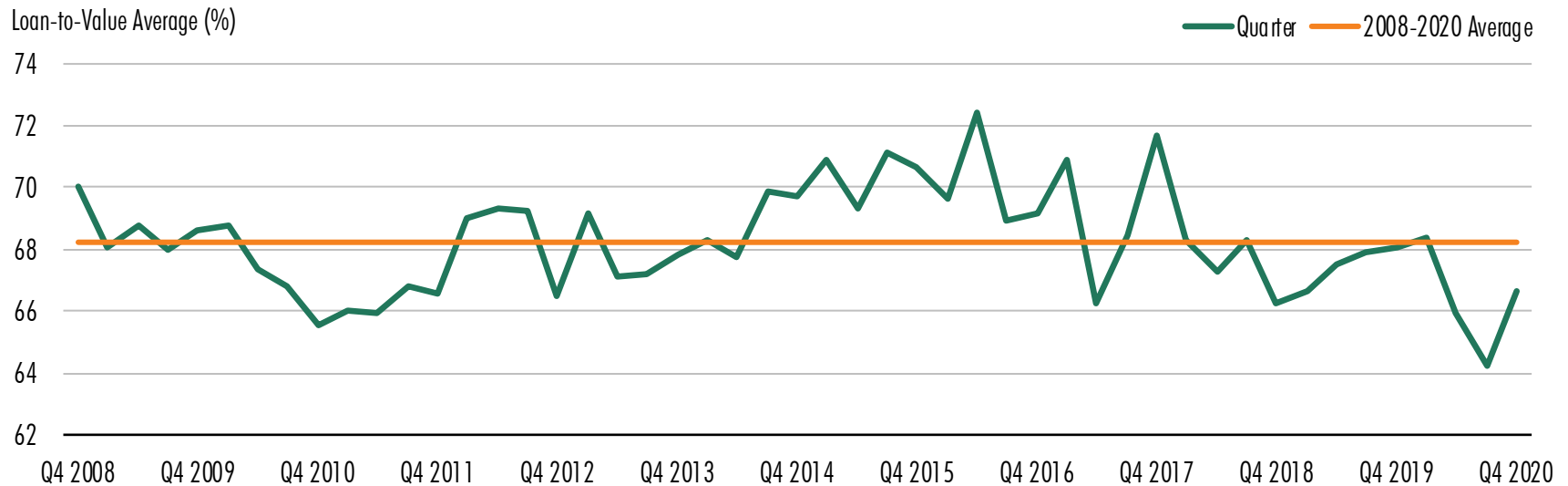


Source: CBRE Research, Real Capital Analytics, Q4 2020.

- Q4's multifamily investment total of \$56.7 billion was more than double Q3's volume and slightly more than Q4 2019, marking a new quarterly high since Real Capital Analytics began collecting sales data 20 years ago.
- Annual investment volume totaling \$138.7 billion was down by 27.6% year-over-year—a smaller drop than expected given the logistical issues of conducting due diligence and market uncertainty. Investment was strongest in the better-performing segments of the multifamily market, and transaction pricing was aided by historically low interest rates.
- Multifamily was the leading property type for investment for the sixth consecutive year. Its 34.2% market share of total 2020 investment far outpaced industrial's 24.4% and office's 21.3%.
- CBRE Research expects higher multifamily investment volume in 2021 due to sustained investor interest and more confidence in market performance, especially in the second half of the year. Increased activity by institutional investors, public REITs and international buyers also should boost activity.
- Multifamily cap rates fell 20 bps to an average 5.1% in 2020, according to Real Capital Analytics. Lower mortgage rates and asset selection favoring stronger performing assets led to the modest cap rate compression.
- Dallas/Ft. Worth was the lead metro for multifamily investment in 2020, totaling \$10.3 billion (8% less than in 2019). New York (including Northern New Jersey and Long Island) was second with \$9.5 billion.
- Atlanta had the third-highest investment volume (\$7.9 billion), followed by Greater Los Angeles (\$7.6 billion), Washington, D.C. (\$6.5 billion), Phoenix (\$6.4 billion), San Francisco Bay Area (\$6.0 billion), Denver (\$4.9 billion), Austin (\$3.8 billion), Charlotte (\$3.6 billion) and South Florida (\$3.6 billion).

FIGURE 9

AGENCY MORTGAGE PRODUCTION SOARS TO \$159 BILLION IN 2020



Note: Based on permanent, fixed-rate deals closed by CBRE Capital Markets.
Source: CBRE Research, Q4 2020.

- Long-term interest rates rose modestly in Q4. The 10-year Treasury rate climbed from 0.68% to 0.93%.
- Even with this increase, which impacted fixed-rate mortgages, multifamily borrowing costs remained low on a historical basis and agency production levels were high.
- Fannie Mae's and Freddie Mac's combined multifamily production soared to \$61.8 billion in Q4, a 73.1% year-over-year increase. Their 2020 annual production totaled \$158.5 billion, 7% higher than 2019. Multifamily loan production by all capital sources in 2020 was estimated at \$287 billion by Freddie Mac, down about 21% from 2019 but on par with the 2017 level.
- The Mortgage Bankers Association estimates that multifamily accounted for 72.9% of all commercial mortgage production in 2020.
- Q4 loan underwriting remained conservative on a historical basis but loosened from Q3. Multifamily mortgage loan-to-value (LTV) ratios rose 2.5 percentage points to 66.7%, based on CBRE's financing activity. In Q4, LTVs for multifamily loans remained well above the 58.3% average for other property types.



FOR MORE INFORMATION, PLEASE CONTACT:

Richard Barkham, Ph.D., MRICS

Global Chief Economist & Head of Americas Research

+1 617 912 5215

richard.barkham@cbre.com

Follow Richard on Twitter: [@RichardJBarkham](https://twitter.com/RichardJBarkham)

Spencer G. Levy

Chairman of Americas Research; Senior Economic Advisor

+1 617 912 5236

spencer.levy@cbre.com

Follow Spencer on Twitter: [@SpencerGLEvy](https://twitter.com/SpencerGLEvy)

Jeanette I. Rice, CRE

Americas Head of Multifamily Research

+1 214 979 6169

jeanette.rice@cbre.com

Follow Jeanette on Twitter: [@RiceJeanette](https://twitter.com/RiceJeanette)

Follow Jeanette on [LinkedIn](#)

Nathan Adkins

Senior Economist

+1 206 292 6163

nathan.adkins@cbre.com

Brian McAuliffe

President

Capital Markets

+1 312 935 1891

brian.mcauliffe@cbre.com

Kyle Draeger

Senior Managing Director

Capital Markets, Multifamily

+1 603 327 7933

kyle.draeger@cbre.com

Mitchell W. Kiffe

Senior Managing Director | Co-Head of National Production

Debt & Structured Finance

Capital Markets

+1 703 905 0249

mitchell.kiffe@cbre.com

Dan Winzeler

Managing Director

Debt & Structured Finance, Business Lending

Capital Markets

+1 407 404 5072

dan.winzeler@cbre.com