



# U.S. Multifamily Outlook

Summer 2020

## Pandemic Ends Strong Run; Worst May Be Ahead

Rent Growth Stalls in 2Q

Pandemic Slows Demand

Dollars Still Flow to the Sector



## Market Analysis

Summer 2020

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## COVID-19 Weighs on Multifamily As Rents Fall—And More Pain Is Coming

- After years of strong fundamental performance, the COVID-19 pandemic injected a huge amount of uncertainty and volatility into multifamily that the market will have to deal with for months or even years to come.
- Expectations of calamity—such as widespread non-payment of rents and loan delinquencies—did not come to pass. Tenants were subsidized by emergency unemployment aid, which ends in July. At the same time, initial hopes for a “V-shaped” recovery were too optimistic, and the effects of the pandemic will linger until the population is confident about health measures.
- The U.S. economy is in recession, although the pain is not evenly spread. More than 50 million Americans filed jobless claims between March and the end of June due to business closures, with low-wage service workers bearing the brunt. Companies began rehiring in May, but the unemployment rate remains elevated, at 11.1% in June.
- Rents turned negative in the second quarter for the first time since the aftermath of the global financial crisis. Property owners concerned with maintaining occupancy renewed leases with no rent increases. New luxury units are taking longer to lease up, as demand is concentrated on less expensive product. Rents are likely to drop further in the second half of 2020 before rebounding in 2021.
- Multifamily capital remains abundant, but deal flow has slowed as underwriting future growth has become more difficult. Fannie Mae and Freddie Mac remain active, though with more conservative terms and higher reserve requirements. Investment activity dropped sharply, but opportunistic capital is circling, waiting for signs of distressed assets.
- The pandemic will weaken the supply pipeline and delay projects that have not yet started construction. We forecast 250,000 deliveries annually in 2020 and 2021.