COVID-19
SPECIAL REPORT
April 2020
NORTHMARQ

STATE OF THE U.S. MULTIFAMILY MARKET PRE-COVID-19

To get a feel for where the multifamily market is heading, it is natural to track where conditions were prior to the economic disruption. The multifamily market ended 2019 in a very strong position. The national vacancy rate was below 5 percent—and often below 4 percent in supply-constrained coastal markets—while rents were posting annual gains of approximately 4 percent.

Several traditional high-growth markets including Phoenix, Las Vegas, Atlanta, and Dallas-Fort Worth were recording employment growth rates that were among the strongest in the country, fueling robust apartment absorption totals and sparking rapid supply growth to meet growing demand.

Rents were on the rise throughout the country, averaging approximately 4 percent. In a few markets, gains were double the national average. Rent growth and affordability was such a concern, that a handful of states—led by California—had pushed through rent control measures.

Development was on an upswing throughout much of the country and 2020 was originally forecast to be a year of record highs for new apartment development. These conditions put the multifamily market in an extended expansion mode prior to the shutting down of the economy that began in the second half of March.

UNPRECEDENTED LEVELS OF GOVERNMENT INTERVENTION TO SUPPORT THE ECONOMY

The government and the Federal Reserve have responded quickly and dramatically to inject liquidity and support into the economy, given the forced economic contraction brought about by business closures and self-quarantine programs. In late-March, the Congress passed and the President signed into law the $2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act, a far-ranging set of programs intended to support businesses and workers harmed by the pandemic. Some of the provisions of the new legislation are outlined below.

Direct Payments to Individuals

One aspect of the CARES Act that has already begun to provide immediate relief to millions of taxpayers is the provision for direct payments to individuals. Direct deposits began to be sent in the middle of April, and millions of checks will be sent in the coming months. While not everyone will qualify for a direct payment, estimates are that nearly 80 percent of tax filers will get some relief. The general program is outlined below.

FILING STATUS AND INCOME LEVELS	REBATE AMOUNT
Individual Income Under $75,000	$1,200
Individual Income Between $75,000-$100,000	Phases Out
Joint Income Under $150,000	$2,400
Joint Income Between $150,000-$200,000	Phases Out
Qualifying Child	$500 per Child

Unemployment Assistance

A second component of the CARES Act designed to support individuals is a significant increase in the amounts paid in weekly unemployment benefits. While unemployment is administered at the state level, the federal government is supplementing benefits.

CARES Act Impact on Unemployment Benefits:

While the states administer unemployment insurance programs, the CARES Act adds an additional $600 per week to recipients to the existing state benefits through the end of July. Benefits vary by state, with most states averaging approximately $400 per week before the supplement.

The CARES Act also extends eligibility to some gig economy workers like Uber and Lyft drivers, and independent contractors. Each state administers its own unemployment program, and filing for benefits is typically done online or over the telephone. With layoffs occurring at record-setting levels all at once, many states are having trouble keeping up with the volume and there have been reports of delays in getting benefits paid.

Programs for Small Businesses

Approximately half of U.S. employees work for small businesses (fewer than 500 employees), and companies with fewer than 100 employees are responsible for more than one-third of total employment. These small businesses account for a large share of economic activity (and growth), but have fewer resources to access in downturns than larger companies.

There are two programs that are being rolled out that are geared toward small businesses. There is a grant program being administered by the Small Business Administration and there is a Paycheck Protection Program (PPP) that is designed as a loan that will not need to be repaid if the business does not lay off workers between now and June 30.

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MEASURES UNDERTAKEN BY THE FEDERAL RESERVE

While the CARES Act was designed to get money to small businesses and individuals, the Federal Reserve has undertaken several measures to inject liquidity into the financial markets. Since the Fed does not need to go through the typical Congressional wrangling, the central bank can act much more quickly to infuse cash into the financial system and restore confidence.

Interest Rates Cut to Zero

The Fed has taken several steps in the past month to stabilize the markets. The first was a move to cut short-term interest rates essentially to zero, a move that was done over a weekend to give markets an infusion of cheap money and confidence. The move also set a tone that the Fed would be proactive and aggressive in this downturn.

Quantitative Easing to Inject Liquidity to the Markets

The Fed did not stop at simply cutting rates. The central bank also reinstituted the Quantitative Easing plan that had been implemented during the Great Recession. The QE program increases liquidity by having the Fed buy assets—typically government bonds and other securities.

In mid-March, the Fed announced plans to purchase at least $500 billion in Treasury securities and at least $200 billion in agency mortgage-backed securities. Later in the month, the Fed expanded purchases to include commercial mortgage-backed securities, and announced essentially that there was no upward limit to future purchases saying it would purchase "in the amounts needed to support smooth market functioning."

Money Markets, Repurchase Agreements, and Commercial Paper

Money markets do not typically fall under the Federal Reserve's coverage, but are vital to liquidity and confidence in the markets. The Fed announced plans to cover up to $10 billion in money market losses as investors redeemed assets and there was a crunch from financial firms to sell commercial paper to keep pace with redemptions.

Repurchase agreements—or repos—are where firms borrow and lend cash and securities to each other, usually on an overnight basis. The Fed has stepped in and dramatically increased the amount of short-term loans it is making available in a way to support the repo market so firms can maintain their day-to-day liquidity requirements.

Another short-term liquidity market that the Fed is supporting is the commercial paper market, which is generally used by firms to fund day-to-day operations. The Fed now has the capacity to buy commercial paper, thus ensuring that there will be a buyer for commercial paper as firms increase cash reserves during periods when revenues from operations are stalled.

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Corporate Bond Purchases and Direct Lending

While many of the Fed's initial moves involved government debt and agency mortgage-backed securities, the central bank expanded its reach by establishing new facilities to support corporations. Through the Primary Market Corporate Credit Facility, the Fed is able to lend directly to corporations through loans or by buying new bond issuances.

A second program, the Secondary Market Corporate Credit Facility, allows the Fed to conduct purchases on the secondary market, where the bulk of the trading occurs. Through this program, the Fed can buy existing corporate bonds and exchange-traded funds. The scale of the program is massive, with a capacity to reach as much as $750 billion and cover up to $75 billion in potential losses.

States and Municipalities

The Fed is stepping in to support states and local governments feeling the strain of accelerating unemployment claims and a loss in sales tax and other revenues. The Fed is offering to buy up to $500 billion in municipal notes tied to future tax revenues.

U.S. EMPLOYMENT MARKET

In early April, the government released the initial reading on the national employment market for March. The report was weaker than expected, and the losses that will be recorded in the next few months will likely be much more severe than what was reported initially.

Timing played a big role in the figures that were reported—the data released is only through March 12, so job losses recorded in the second half of the month are not reflected in the report.

Job losses totaled 701,000 positions in the March data release, and the unemployment rate rose from 3.5 percent to 4.4 percent. This marked the first month of net job losses at the national level in nearly 10 years; September 2010 was the last time the market recorded a month of job losses. This also marked the most extreme job losses since late-2008/early-2009, when there was a six-month stretch where job losses averaged 707,000 per month.

While several employment sectors recorded modest job losses, the bulk of the cuts was recorded in the leisure and hospitality sector, which includes restaurants and bars, hotels, and other entertainment options. Job losses in the leisure and hospitality sector totaled 459,000 in March, accounting for more than 65 percent of all losses across all industries recorded this month.

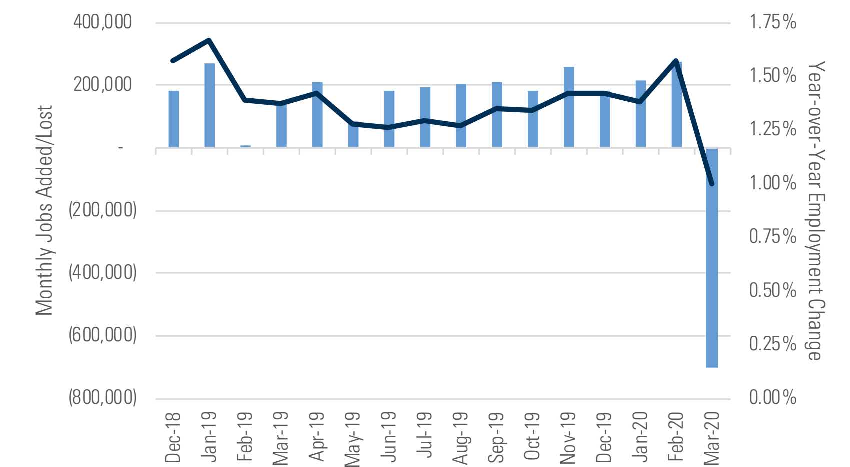
Within the leisure and hospitality sector, the food services and drinking places category (restaurants and bars), slashed 417,000 positions in March. This represents about 3.5 percent of that industry, showing there is room for additional cuts in the coming months. There were modest cuts recorded in other industries. Retail (goods, not food and beverage) lost 46,000 jobs, professional and business services slashed 52,000 positions—nearly all of these were temporary workers—and healthcare and social assistance contracted by 61,000 positions.

One sector that expanded was government, and markets with high concentrations of federal workers such as Washington, D.C., Denver, San Antonio, Tucson, Albuquerque and San Diego may prove to be less volatile in the months ahead.

The other item in the release is the unemployment rate, which rose 90 basis points to 4.4 percent. This marked the largest monthly increase since 1975, and nearly every forecast shows the rate going into the double digits in the next month or two. In addition, the number of workers that reported being on temporary layoff nearly doubled from the previous month, and the number of workers working part-time who would prefer to be working full-time rose by more than 30 percent. These two measurements are likely to continue to spike in the next few months.

There are a few primary takeaways from the March data release. The first is that the latest reading is incomplete; the end point on the data collection occurred just as the pace of job losses was ramping up. The second is that losses in this month's report were concentrated in just a handful of industries, and the likelihood is that we will see deeper and more wide-ranging cuts in the coming months.

U.S. Monthly Employment Trends



INITIAL UNEMPLOYMENT CLAIMS:

Weekly Initial Unemployment Claims: Late March/Early April

Claims for unemployment insurance spiked at the end of March and started April on a similar trajectory, as part of the fallout from an economy that was shutting down at an unprecedented pace. The initial jobless claims report is released weekly.

This is an unprecedented pace of layoffs never before seen in the U.S. The first week of severe layoffs was the period ending March 21, when more than 3.3 million initial claims for unemployment were filed. This was a then record; the previous high had been 695,000. As recently as one month ago, the weekly average was about 225,000.

After the initial reading, there have been three subsequent data releases. There were two weeks where claims topped 6.5 million, before signs of a modest slowdown were recorded in the period April 11.

INITIAL UNEMPLOYMENT CLAIMS:

Weekly Initial Unemployment Claims: Late March/Early April (continued)

In the latest release, the weekly total for new claims was approximately 5.2 million. More than 70 percent of the states posted week-over-week declines in new claims for unemployment insurance, with many Midwest states posting the most significant reductions. Colorado and New York posted significant weekly increases.

The states that are going to lead the way from week to week will be based on how large the state is, how long it took for the states to go into lockdown, and how quickly they are processing and reporting the claims. The table below gives totals by state for the past four weeks.

STATE	WEEK ENDING 4/11	WEEK ENDING 4/4	WEEK ENDING 3/28	WEEK ENDING 3/21
California	660,966	918,814	1,058,325	186,333
Georgia	317,526	390,132	133,820	12,140
Michigan	219,320	388,554	304,335	128,006
New York	395,949	344,451	366,595	79,999
Texas	273,567	315,167	276,185	155,426
Pennsylvania	238,357	277,640	404,677	377,451
Ohio	157,218	226,191	274,288	196,309
New Jersey	140,600	214,836	206,253	115,815
Illinois	141,049	201,041	178,421	114,114
Washington	150,516	171,252	182,849	129,909
Florida	181,293	169,885	228,484	74,313
Massachusetts	103,040	139,647	181,423	148,452
North Carolina	137,934	137,422	172,145	94,083
Indiana	118,184	127,010	139,174	59,755
Missouri	95,785	91,458	104,291	42,246
Kansas	30,796	49,306	54,330	23,563
U.S. TOTAL	**5,245,000**	**6,615,000**	**6,867,000**	**3,307,000**

IMPACT ON THE MULTIFAMILY MARKET

April Rent Collection

NMHC Rent Tracker

With millions of people losing their jobs—at least temporarily—and with economic relief yet to arrive, there will be an impact on people's abilities to pay bills. The National Multifamily Housing Council (NMHC) has been tracking the payment rates for April apartment rents.

In a study of more than 11 million apartment units, NMHC found that 69 percent of households had paid their April rent as of April 5. This compared to a payment rate of 81 percent as of March 5, and 82 percent one year earlier.

Rental collections gained significant momentum in the subsequent period. By April 12, the NMHC showed apartment rent collections in April had strengthened, rising to 84 percent, down just 6 percentage points from the same period one year earlier. With more households expected to receive government stimulus checks and unemployment payments beginning to filter into the system, it is safe to assume the April rent collection figures could trend higher in subsequent weeks.

This initial look at the impact of unprecedented job losses on the apartment market will be worth monitoring as the downturn—and subsequent recovery—progress.

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NORTHMARQ SURVEY

NorthMarq is closely tracking the impact of the economic slowdown on multifamily property performance. In reaching out to property owners that we work with, April rent collections for the period ending April 8 checked in at 89 percent.

We will continue to track multifamily operating and investment conditions throughout the coming weeks and months. May will likely give greater clarity on the impact of the changing economy on multifamily property performance. Layoffs may have already peaked, and if not will likely crest in April.

Renters are likely just now beginning to feel the impact of lost income, but the measures the government has taken to help shore up the economy--including one-time stimulus checks, expanded unemployment benefits, and relief to businesses–are just beginning to work their way into the economy. The outlook will continue to evolve as there is already some conversation of how, where and when the economy will begin to reopen.

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