Mick Law P.C. – Multifamily & Self Storage
Sector Updates (May 27, 2021)

Multifamily Update

Despite forecasts from mid-year 2020, which had foretold a multi-year substantial decline in multifamily occupancy, occupancy rates rose by just 50 basis points between the first quarter of 2020 ("Q1 2020") and the first quarter of 2021 ("Q1 2021"). The Q1 2021 national vacancy rate was 4.7%, which is a low level of vacancy historically. In addition, apartment unit turnover, the percentage of total units not renewed, fell from 47.5% in 2019 to 42.1% in 2020, the lowest level over the past 20 years. Please note that turnover costs can vary between 50% to a full months' worth of rent, or 4% to 8% of annual revenue for a particular unit. The net result for many landlords is that the net income from their properties did not change materially because of the COVID-19 pandemic. Looking forward, CBRE anticipates a decline in vacancy during the second and third quarter of 2021 due to stronger seasonal leasing during the spring, summer, and fall months, as well as a strengthening U.S. job market.

The average rental rate fell approximately 4.2% between Q1 2020 and Q1 2021. Three gateway markets (i.e., New York, San Francisco, and San Jose) led the decline. Removing these three key markets, the national decline in rental rate was just 1.1%, a much better reflection of the resilience of the multifamily market during the COVID-19 pandemic.

Construction starts are expected to slow dramatically in 2021. The combination of higher lumber prices and decreasing skilled labor availability are forecast to lower new construction starts. As of the end of Q1 2021, construction starts were down 11% year-over-year and permit activity was down 19.9% year-over-year. Furthermore, investors are dealing with higher lending prices as the 10-year Treasury topped 1.50%, up 100 basis points from the mid-2020 lows.

Self-Storage Update

While the self-storage sector was not immune to the market disruption caused by the COVID-19 pandemic, the sector recovered quickly in the second half of 2020 and reached a new vacancy low. More demand has come from college students who had to pack up their dorms early and return home, and from office workers who now require greater space needs because they work from home. To make space for these changes, more people are utilizing separate storage units to store their personal belongings. Widespread sequestering has also temporarily brought family and friends who do not normally live together into the same household. These factors have put space at a premium, bolstering the self-storage sector amid a broader health crisis and economic downturn. Between May and December 2020, the national vacancy rate fell 280 basis points to 7.3% as of year-end 2020. Many metros achieved record-low vacancy rates. The low vacancy rate is anticipated to remain low.

New construction within this space ground to a halt in early 2020. Temporary work stoppages and new safety procedures substantially slowed the pace of construction from March through June. Less than 14 million square feet ("SF") of space was delivered in the second quarter of 2020, the lowest quarterly delivery since mid-2017. Construction picked up again heading into fall of last year, and total completions for 2020 reached 60 million SF, down 14% from 2019 and short of the record 70 million square feet delivered in 2018.

Entering 2020, multiple years of strong construction weighed on rent growth as operators leveraged lower asking rates to support occupancy. During the pandemic, operators were reluctant to raise rents, creating a slight decline in rental rates during the second quarter. This trend reversed during the balance of 2020, as rental rates grew 3.5% for the year.