

The Northeast as the Epicenter: Multifamily and CRE in the Age of COVID-19

Agenda

1. Welcoming Remarks
2. COVID-19 – Thinking Through Economic Scenarios
3. COVID-19 – Northeast Property Markets
4. What's Next, and What Can We Really Know?
5. Questions & Answers

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Welcoming Remarks

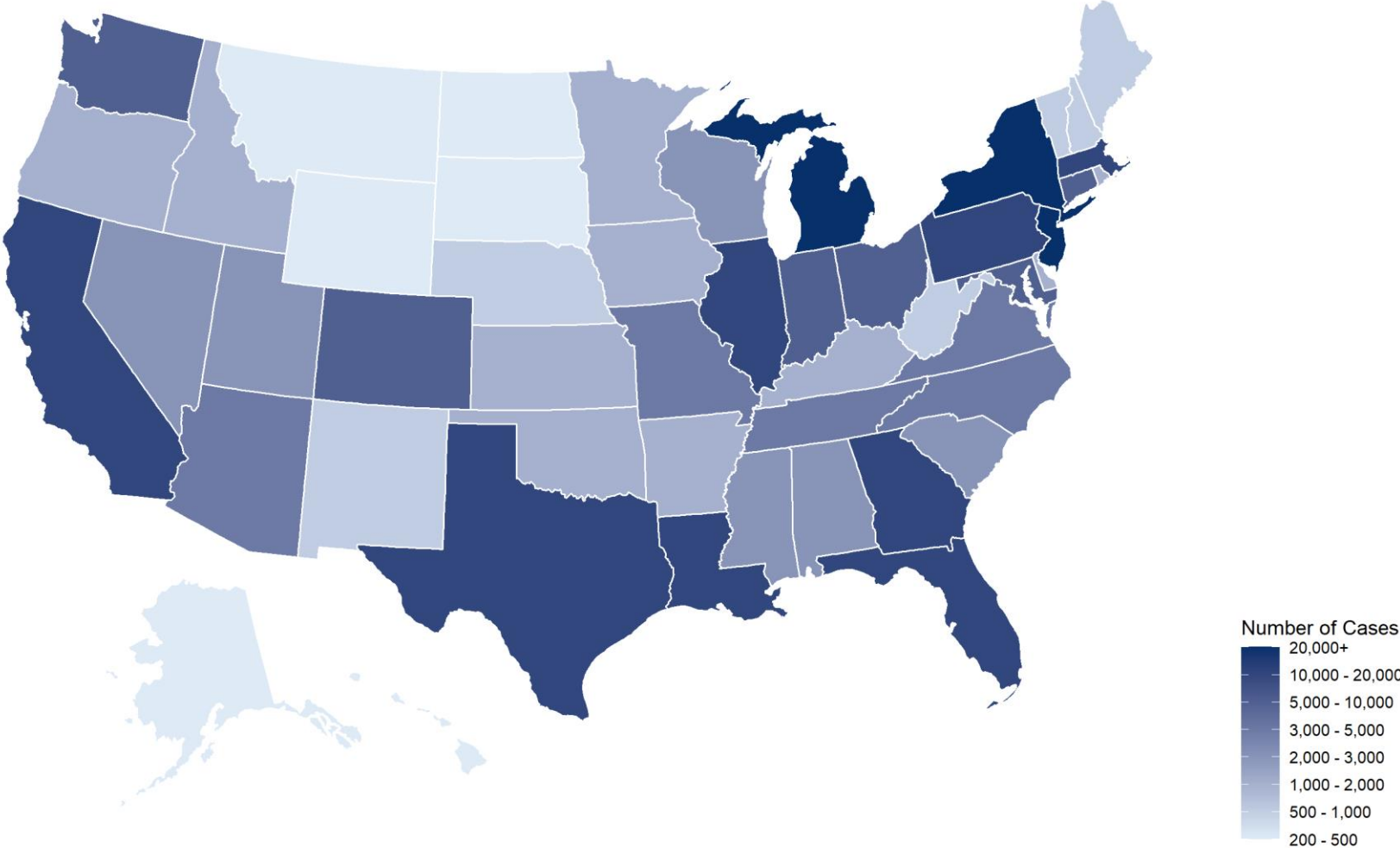
Cristina Pieretti, *Managing Director | Head of REIS*
Moody's Analytics

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COVID-19 – Thinking Through Economic Scenarios

Victor Calanog PhD, *Head of CRE Economics*
Moody's Analytics

Concentration Risk Apparent Given Identified Cases



Source: US CDC, as of April 13, 2020

COVID-19 Economic Transmission Channels

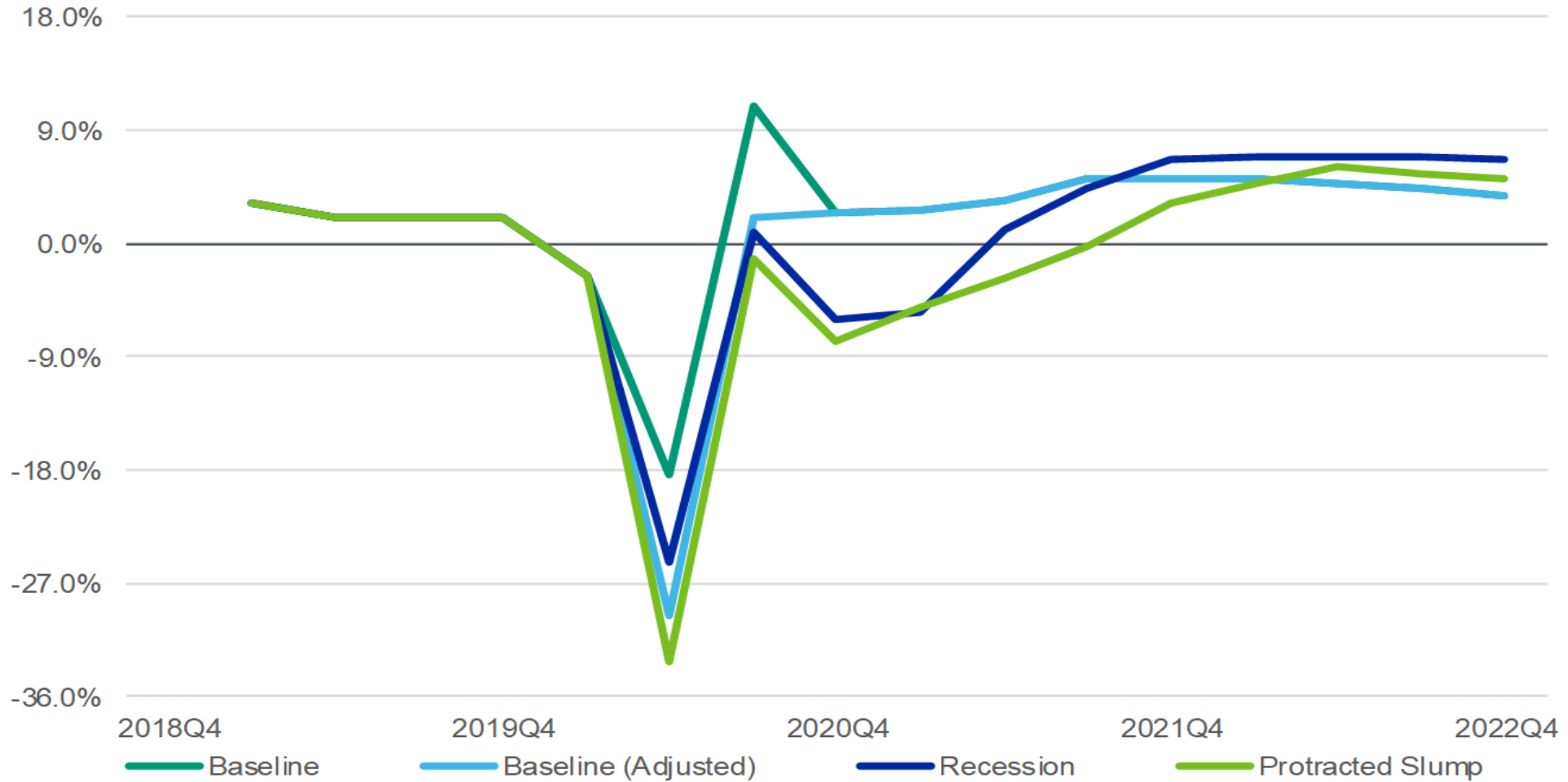
1. Tourism/Leisure/Hospitality
2. Trade
3. Commodity prices
4. Financial markets
5. Confidence

Combination of Supply and Demand
Shocks Complicates Forecasts



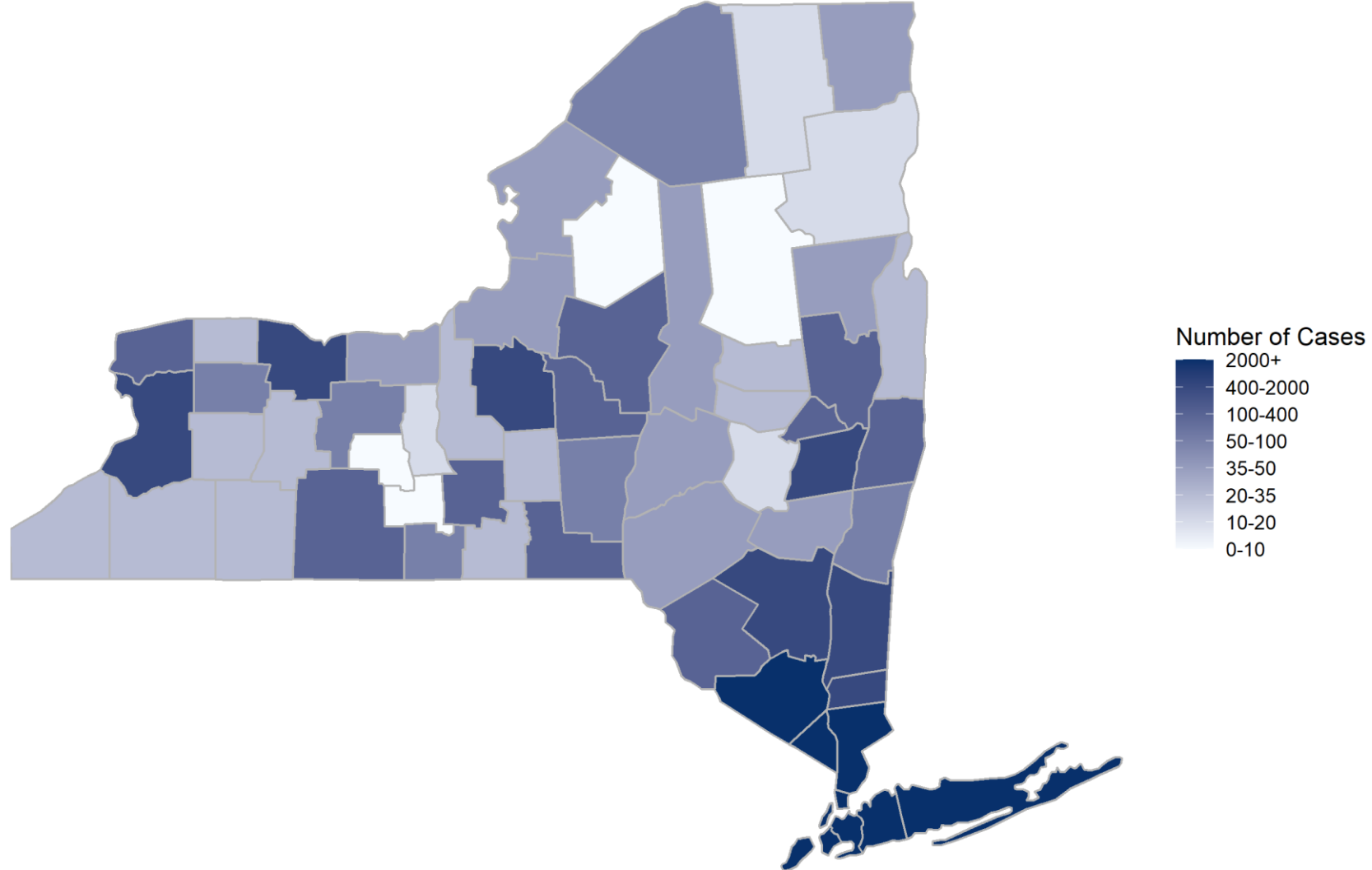
What Does the Crystal Ball Say (Today?)

Real GDP, annualized quarter/quarter growth rate



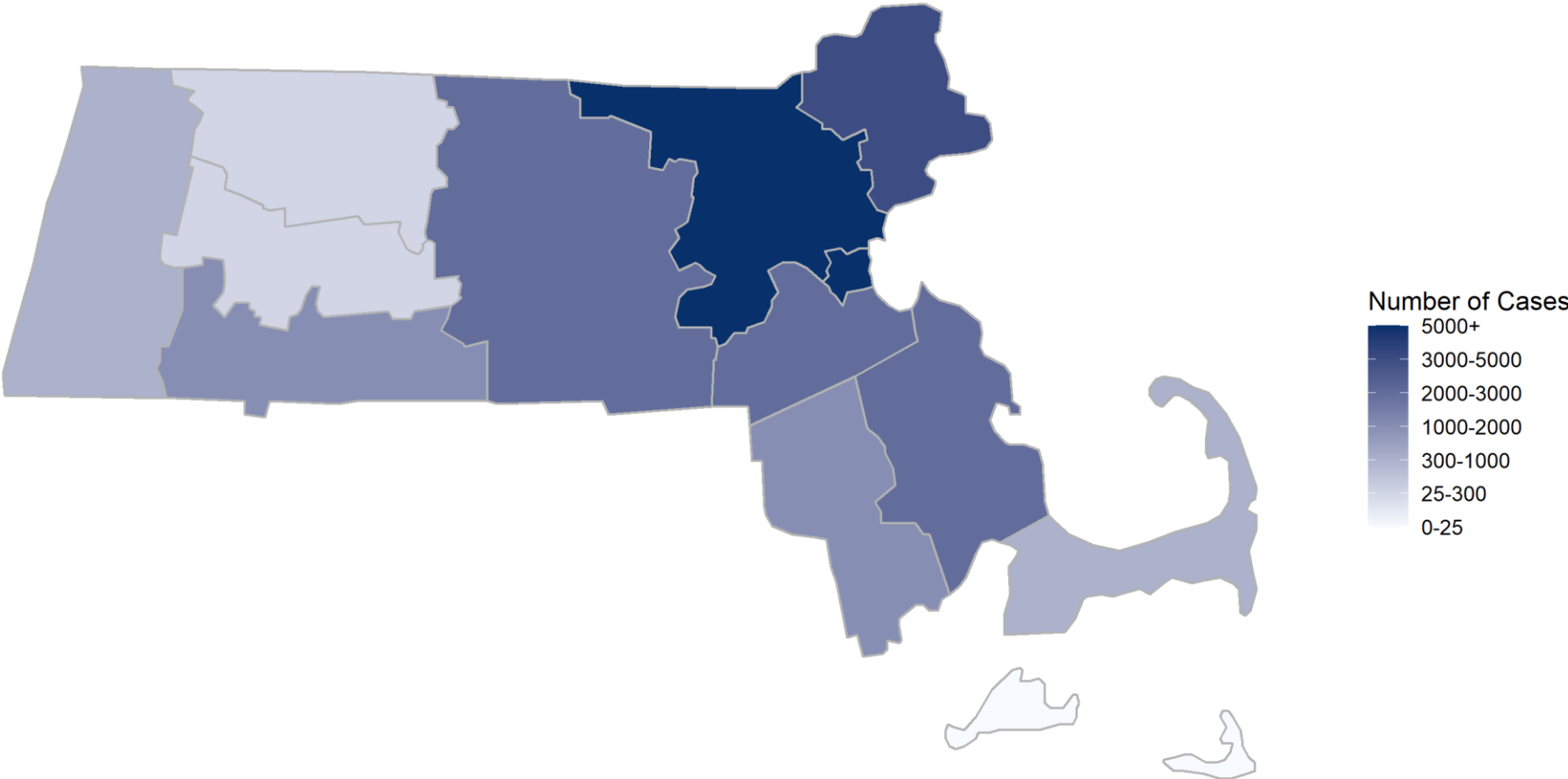
Sources: BEA; Moody's Analytics

The Northeast Situation: New York



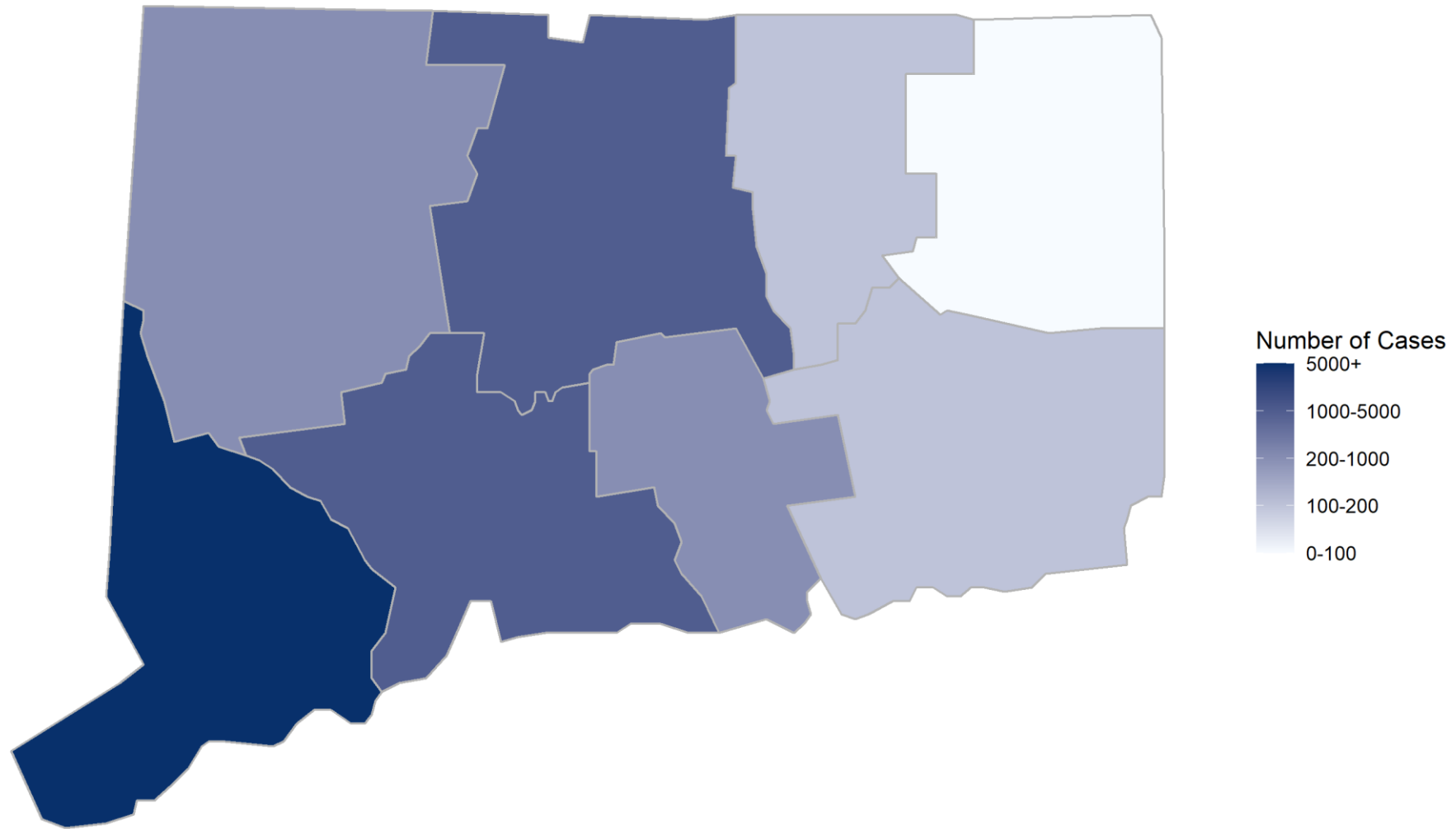
Source: NYC Department of Health, data as of April 13, 2020.

The Northeast Situation: Massachusetts



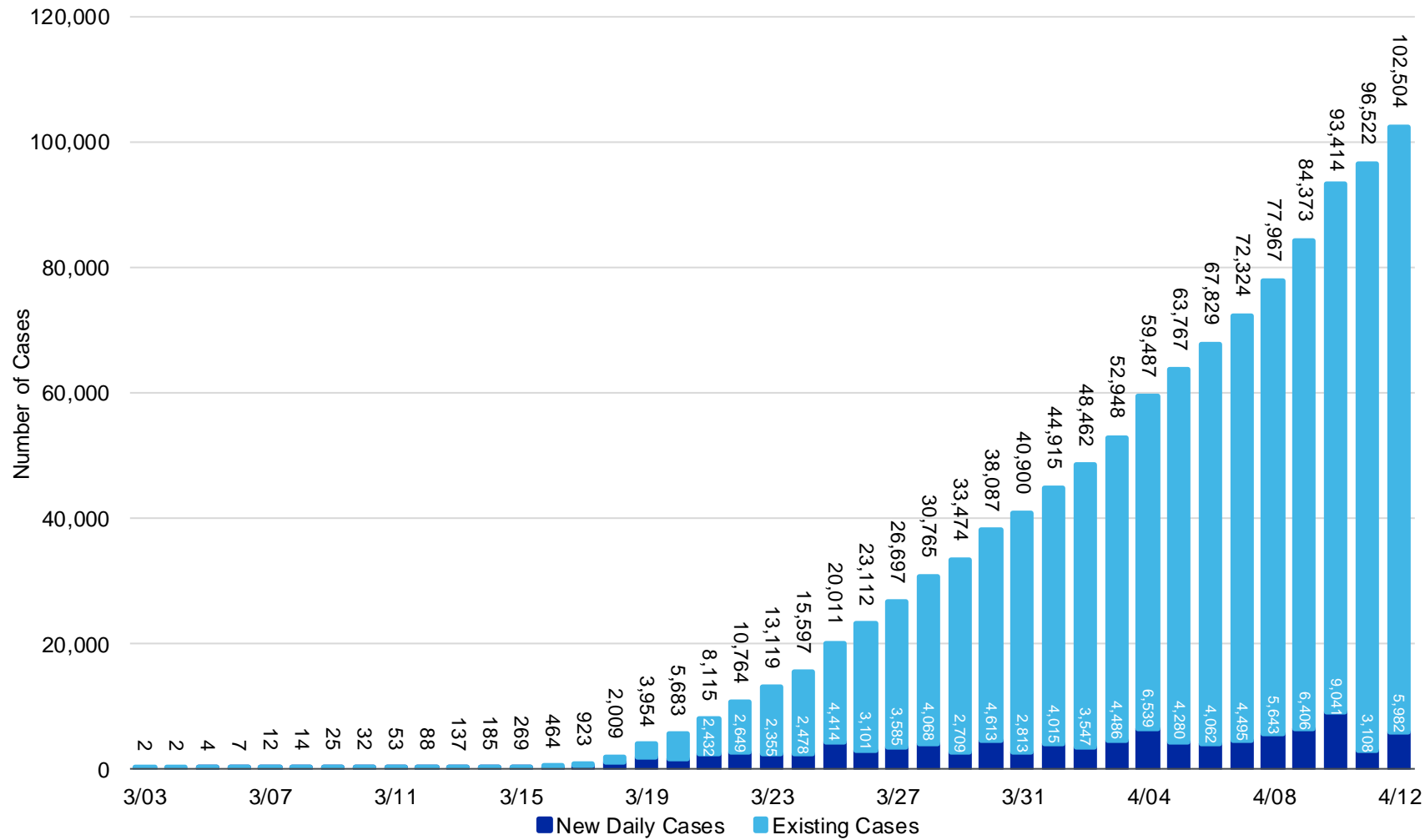
Source: MA Department of Health, data as of April 13, 2020

The Northeast Situation: Connecticut



Source: CT Department of Health, data as of April 13, 2020.

New York City is the COVID-19 Epicenter (for the US)



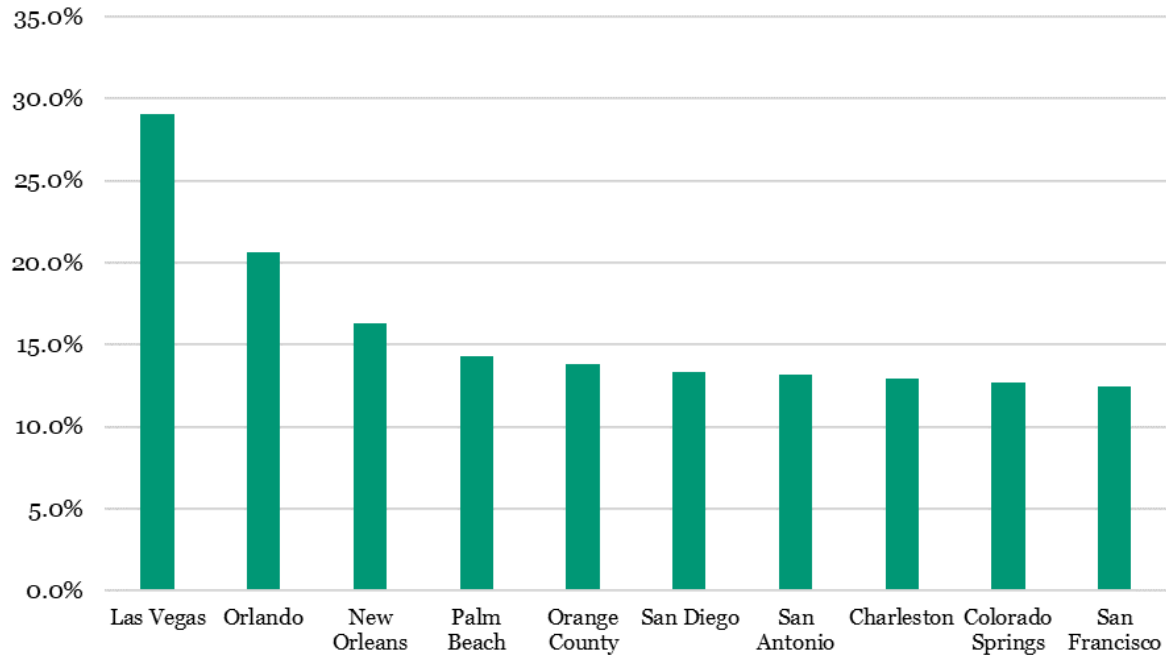
Source: New York City Department of Health, April 13, 2020

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Northeast Property Markets

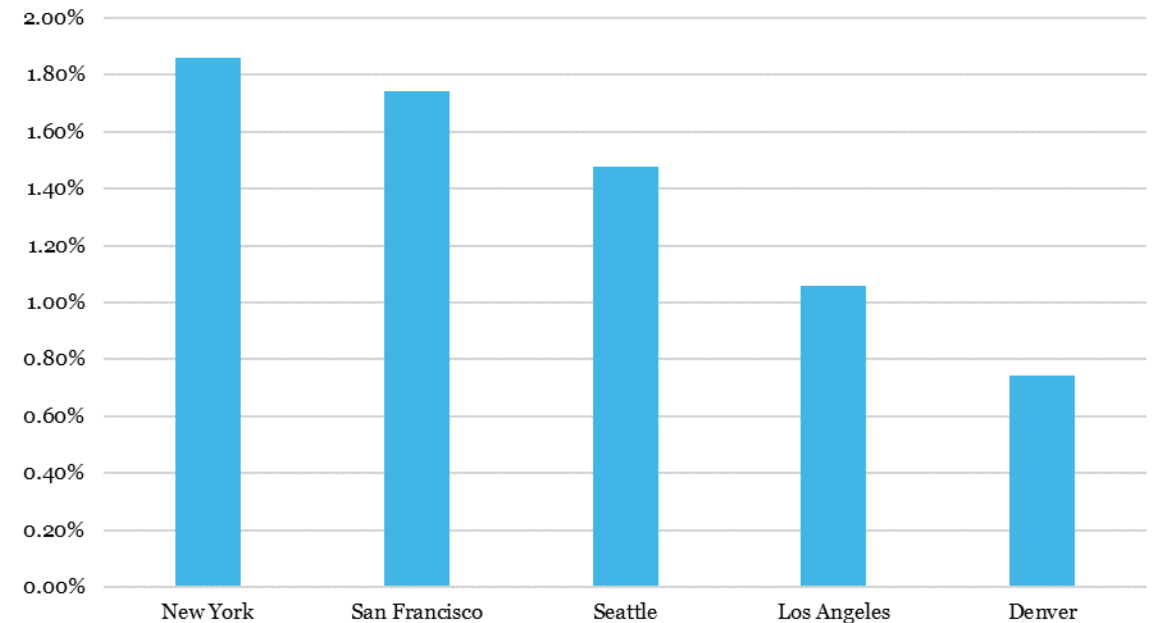
Shorter Lease Lengths = The Front Lines

Share of Leisure and Hospitality Employment



Source: Moody's Analytics

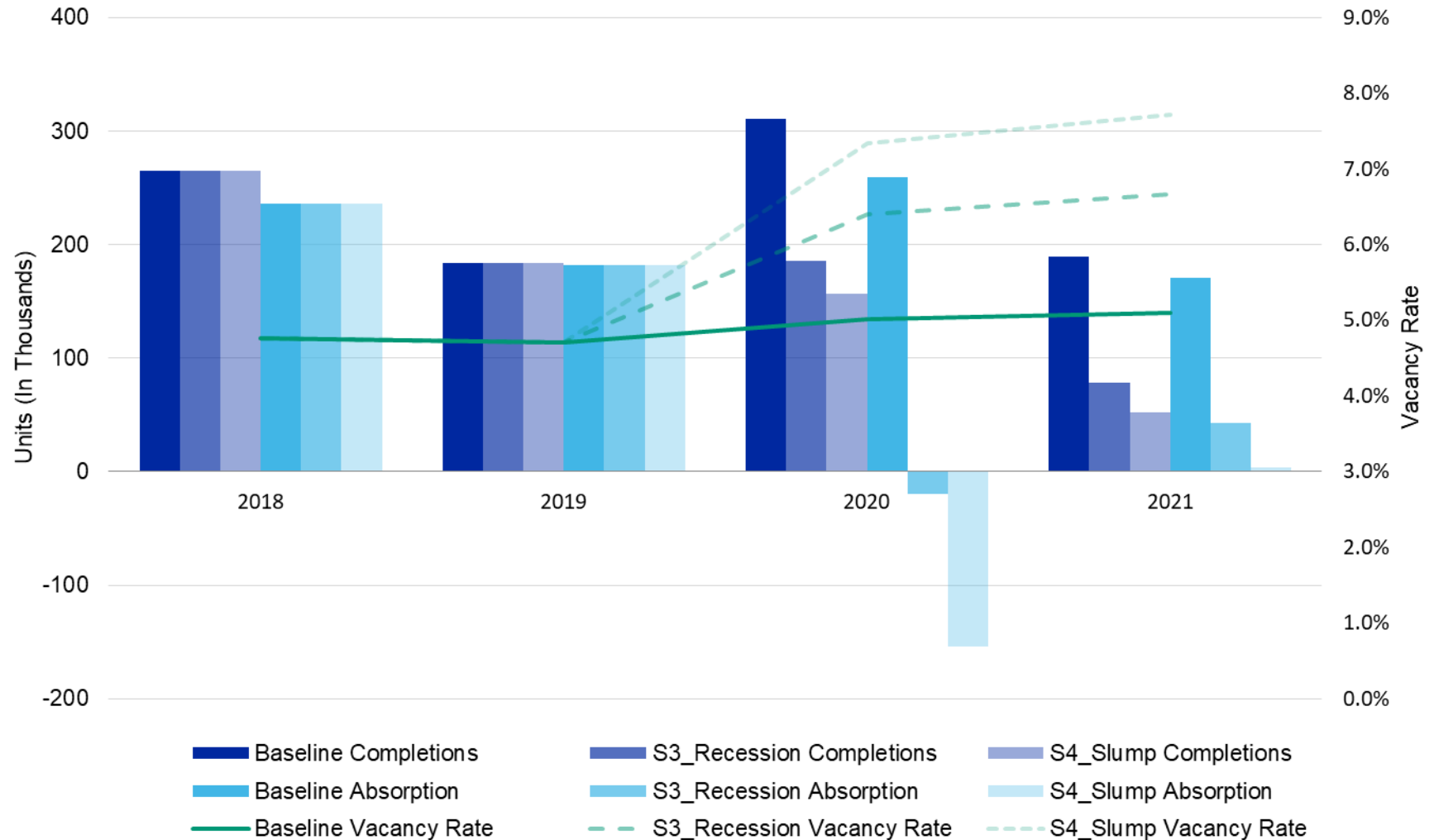
Largest WeWork Leases Relative to Metro Inventory



Source: Moody's Analytics REIS; CompStak

Recession & Protracted Slump | Multifamily

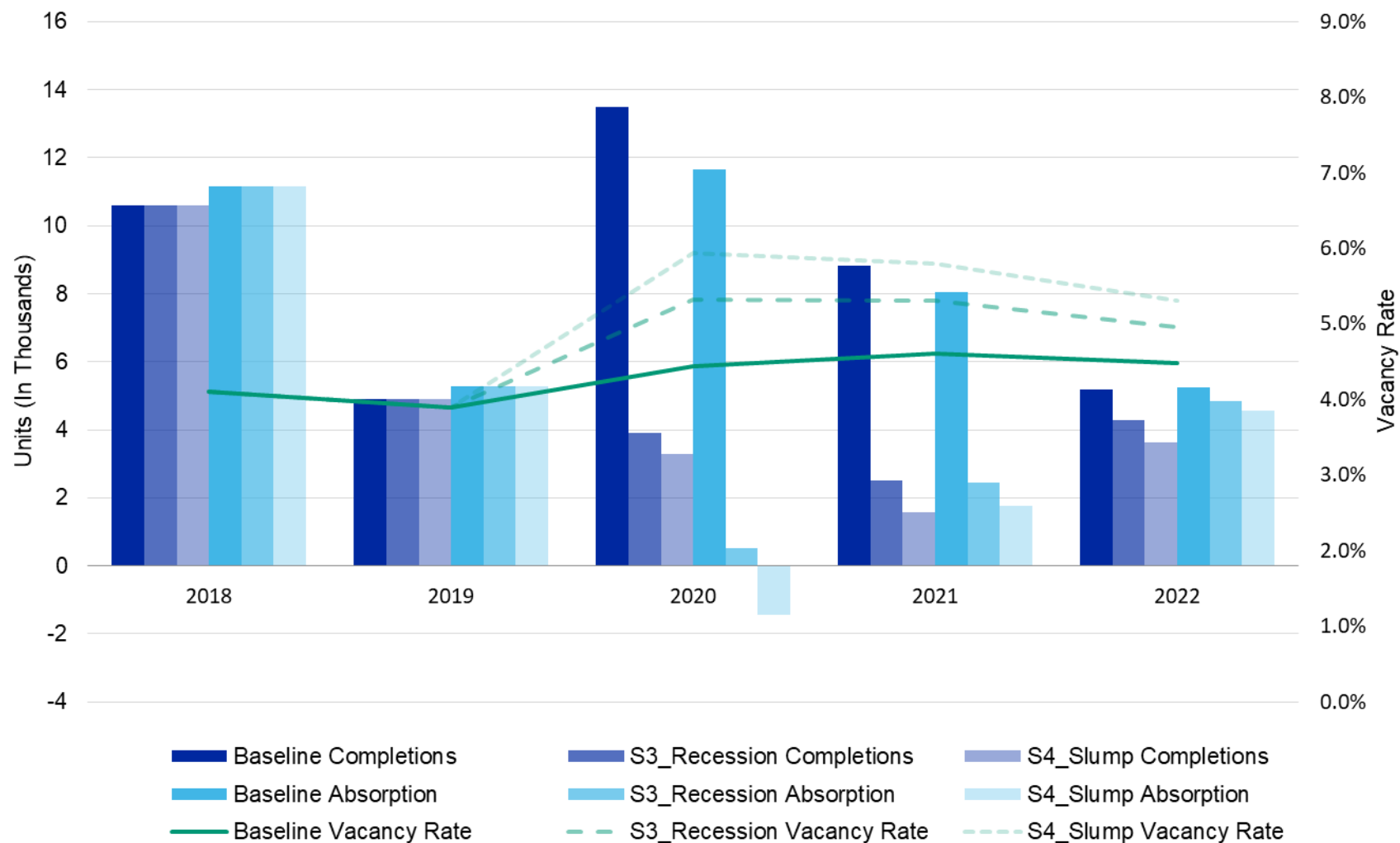
- Baseline expected a record high in terms of deliveries for 2020: over 300,000 new units.
- Recession and protracted slump scenarios produce an increase in vacancies, but construction pullback is a countervailing effect.



Source: Moody's Analytics REIS

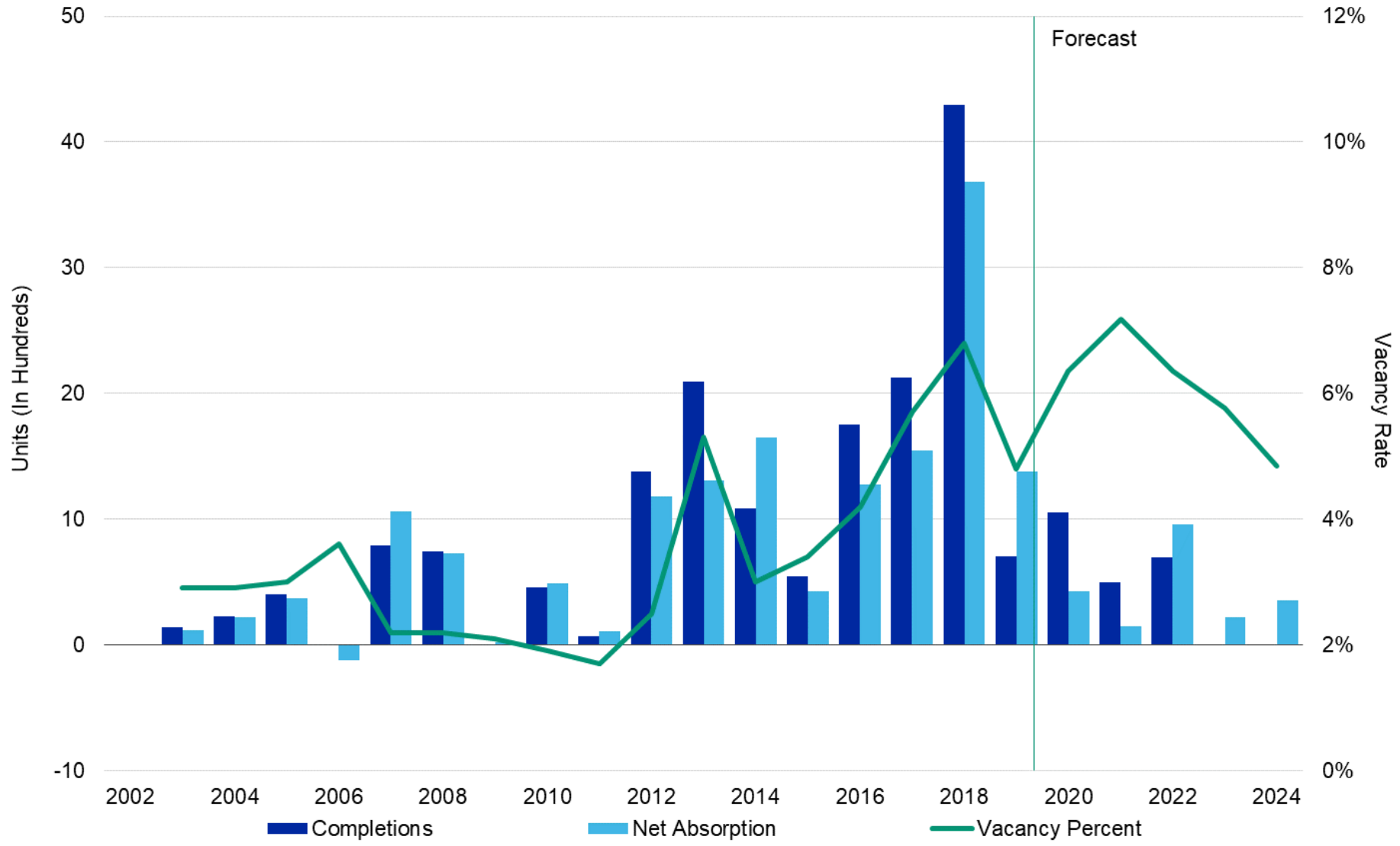
Recession & Protracted Slump | New York

- For New York, we were expecting about 13,500 new units to come online by year-end 2020 (some of the highest figures since the late 1980s)
- 71% supply growth pullback for Recession, and 76% pullback for Protracted Slump means vacancies still rise, but not as much.



Source: Moody's Analytics REIS

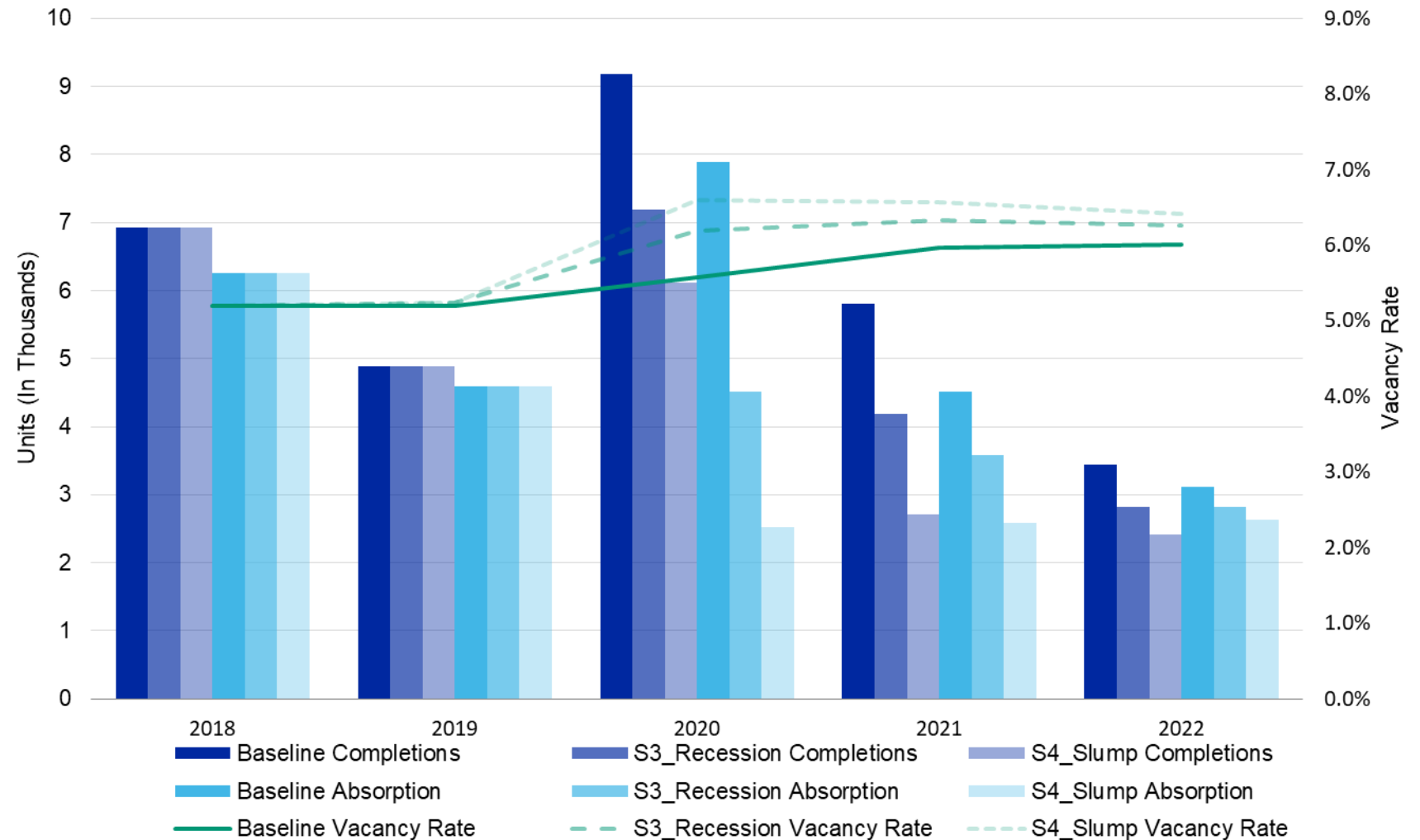
Protracted Slump | Queens County



Source: Moody's Analytics REIS

Recession & Protracted Slump | Boston

- For Boston County, record (and near record) deliveries of 6,000+ per year from 2018 through 2020 means a sharper vacancy spike.
- Vacancies top out at 6.6% in 2021 before recovering somewhat in 2022.



Source: Moody's Analytics REIS

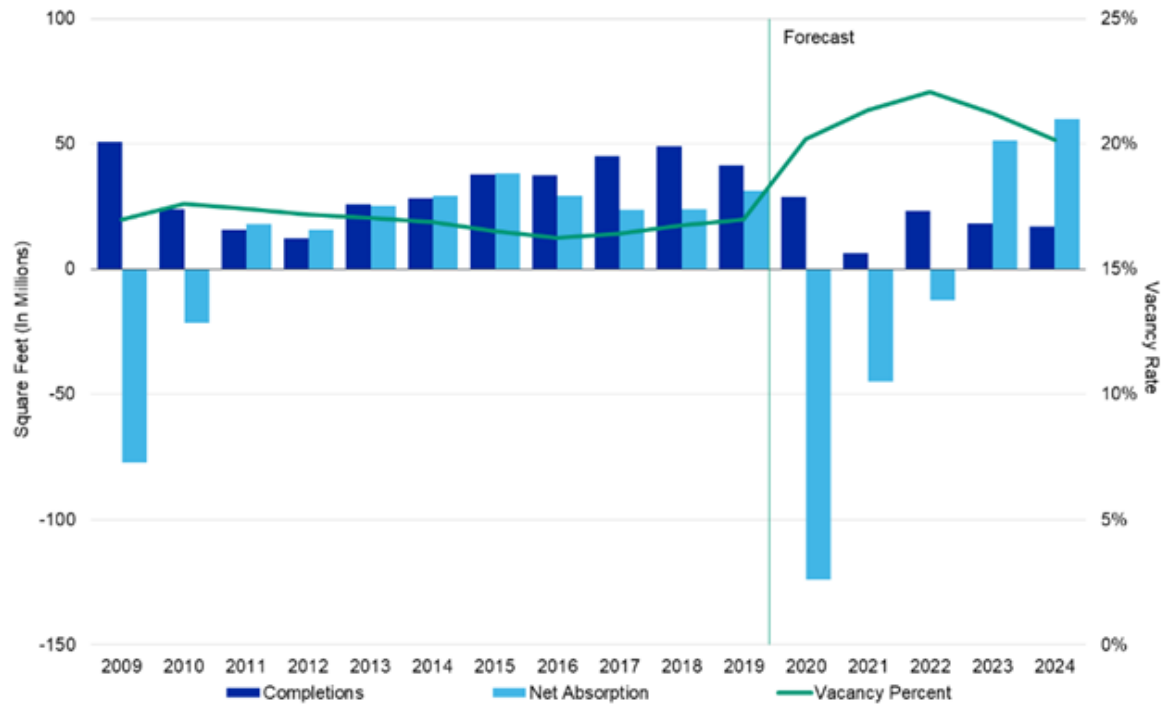
Protracted Slump | Major Northeast Multifamily Markets

- Historical reaction functions to downturns determine the relative focus and magnitude of distress in various property types and geographic markets.
- Recent record of oversupply will position any geographic market for distress, if demand pulls back abruptly (as per a severe pandemic or protracted slump scenario).
- Recent record of poor performance, particularly when vacancies have been rising and/or rent growth has been moderating, suggests markets will not fare as well in a downturn.
- Westchester takes the hit in occupancies, but New York and Fairfield County tend to be more volatile in terms of effective rent declines.

MSA	State	Year	Vacancy Increase (BPS)	Vacancy Level (2020)	Effective Rent Decline
Westchester	NY	2020	380	8.4%	-3.4%
Northern New Jersey	NJ	2020	270	7.5%	-4.2%
Buffalo	NY	2020	264	5.8%	-2.0%
Hartford	CT	2020	215	6.2%	-1.8%
Philadelphia	PA	2020	207	6.0%	-1.8%
New York	NY	2020	205	5.9%	-5.8%
Fairfield County	CT	2020	204	8.4%	-4.6%
Providence	RI	2020	197	5.8%	-4.3%
Rochester	NY	2020	155	5.7%	-1.8%
Syracuse	NY	2020	153	6.2%	-1.6%
Pittsburgh	PA	2020	147	5.3%	-2.6%
Boston	MA	2020	135	6.6%	-4.4%
Long Island	NY	2020	126	4.7%	-2.7%
Central New Jersey	NJ	2020	77	3.4%	-3.0%
New Haven	CT	2020	33	5.8%	-2.5%

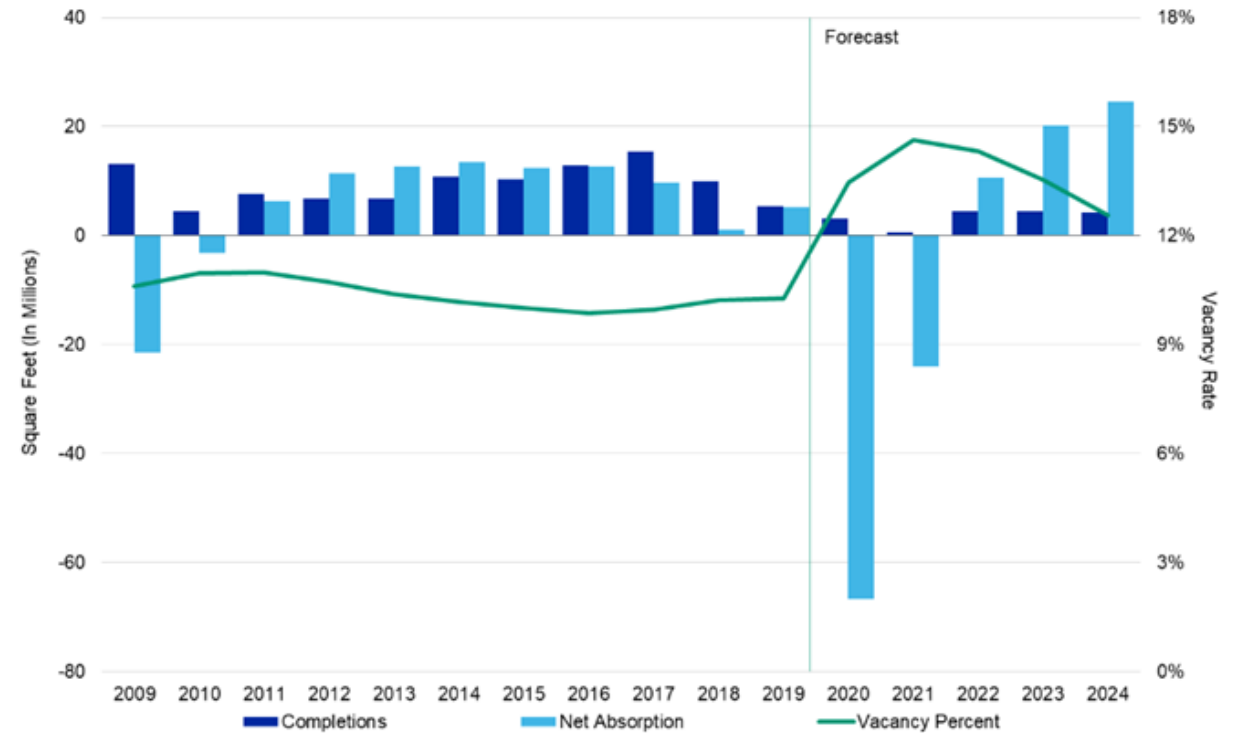
Office & Retail Do Not Fare as Well

Office Fundamentals | Protracted Slump



Source: Moody's Analytics REIS

Retail Fundamentals | Protracted Slump



Source: Moody's Analytics REIS

Northeast Markets in a Protracted Slump: Office

MSA	State	Year	Vacancy Increase (BPS)	Vacancy Level (2020)	Effective Rent Decline
Fairfield County	CT	2020	349	27.0%	-3.2%
Westchester	NY	2020	344	26.5%	-2.0%
Central New Jersey	NJ	2020	344	25.2%	-2.0%
Northern New Jersey	NJ	2020	344	25.4%	-1.7%
Hartford	CT	2020	339	21.6%	-2.0%
Pittsburgh	PA	2020	338	23.1%	-2.5%
New Haven	CT	2020	338	21.8%	-1.5%
Rochester	NY	2020	338	22.6%	-1.9%
Providence	RI	2020	336	20.5%	-1.2%
Buffalo	NY	2020	336	19.4%	-1.7%
Philadelphia	PA	2020	335	17.1%	-2.2%
Syracuse	NY	2020	334	18.2%	-2.0%
Long Island	NY	2020	332	16.6%	-2.1%
Boston	MA	2020	331	16.0%	-6.9%
New York	NY	2020	330	11.4%	-6.7%

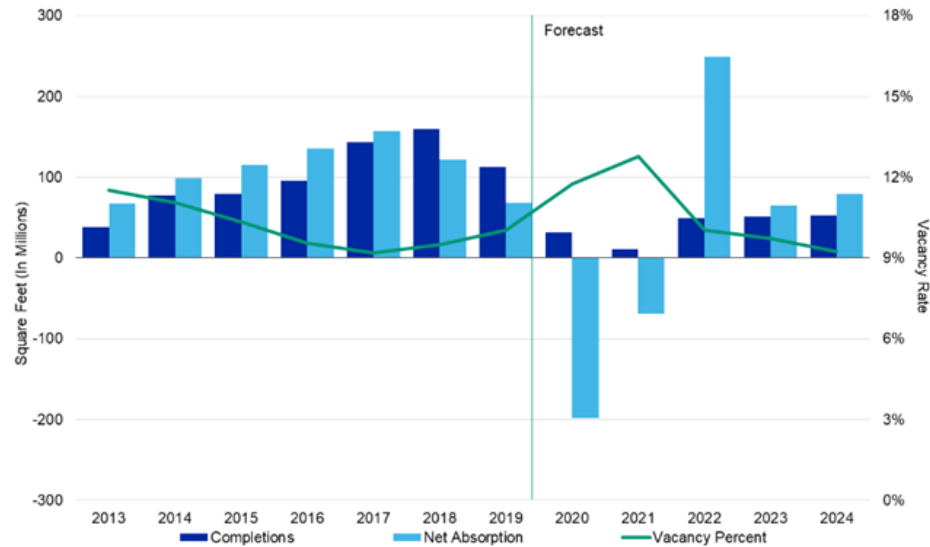
Source: Moody's Analytics REIS

Northeast Markets in a Protracted Slump: Retail

MSA	State	Year	Vacancy Increase (BPS)	Vacancy Level (2020)	Effective Rent Decline
New Haven	CT	2020	337	18.9%	-3.7%
Rochester	NY	2020	335	16.6%	-4.4%
Central New Jersey	NJ	2020	333	15.5%	-4.5%
Providence	RI	2020	333	14.4%	-3.7%
Buffalo	NY	2020	332	17.0%	-3.7%
Philadelphia	PA	2020	331	14.6%	-4.6%
Syracuse	NY	2020	331	19.1%	-4.2%
Pittsburgh	PA	2020	329	14.4%	-3.1%
Westchester	NY	2020	328	12.7%	-4.0%
Hartford	CT	2020	328	12.8%	-4.8%
Northern New Jersey	NJ	2020	328	12.0%	-5.2%
Long Island	NY	2020	326	12.0%	-3.1%
Boston	MA	2020	326	10.9%	-3.1%
Fairfield County	CT	2020	325	10.2%	-4.7%

Source: Moody's Analytics REIS

Northeast Warehouse/Distribution Markets



Source: Moody's Analytics REIS

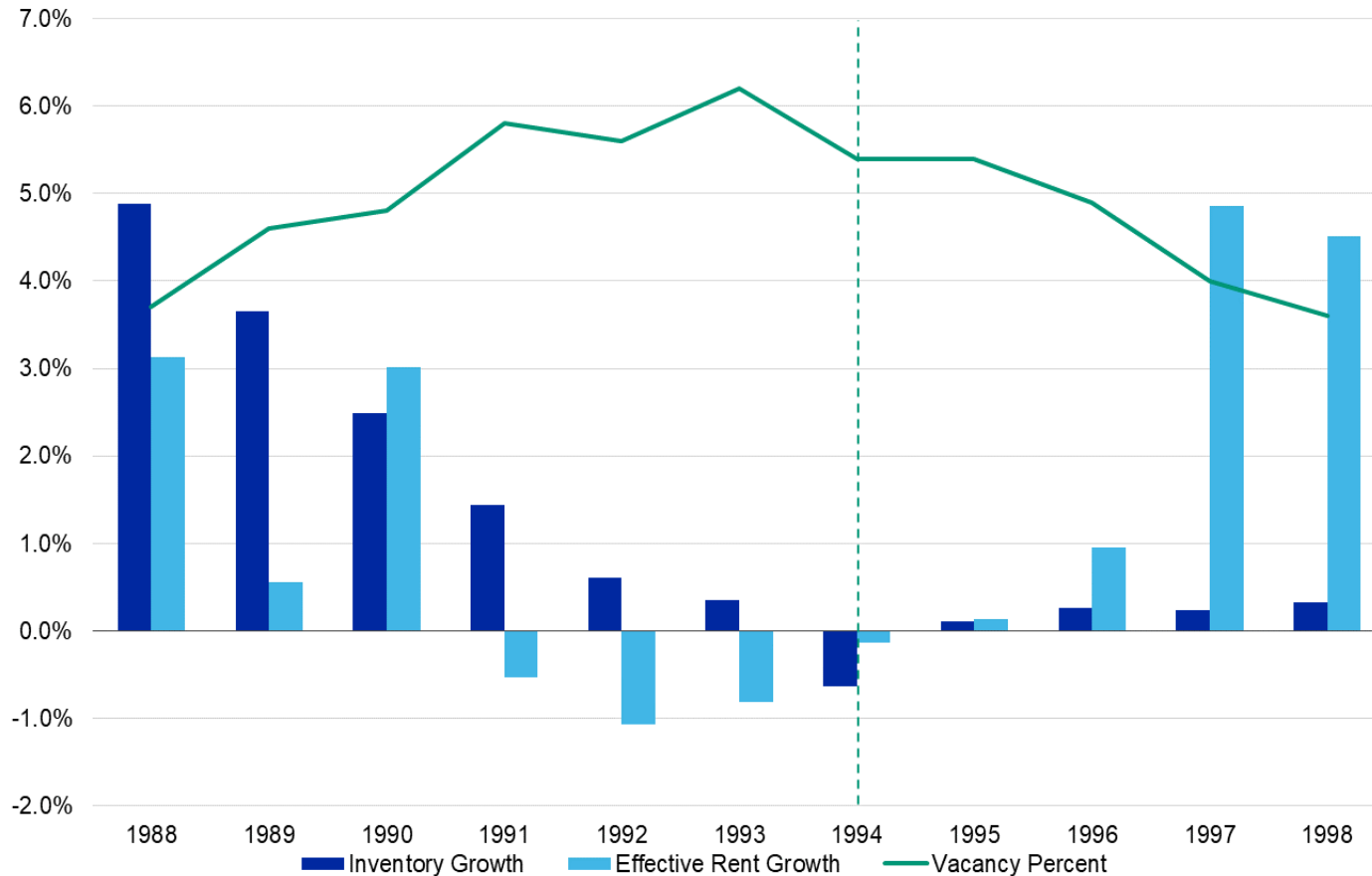
MSA	State	Year	Inventory Change (2015-2019)	Vacancy Increase (BPS)	Vacancy Level (2020)	Effective Rent Decline
Central New Jersey	NJ	2020	9.9%	325	10.7%	-4.3%
Philadelphia	PA	2020	3.5%	327	11.3%	-3.7%
Northern New Jersey	NJ	2020	2.7%	333	12.8%	-4.5%
Pittsburgh	PA	2020	1.9%	323	12.1%	-6.0%
Boston	MA	2020	1.2%	326	11.1%	-5.1%
Long Island	NY	2020	0.2%	331	13.5%	-4.0%

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What's Next, and What Can We Really Know?

Idiosyncratic Shocks? Some Experience

Los Angeles Multifamily Fundamentals, 1988 to 1998

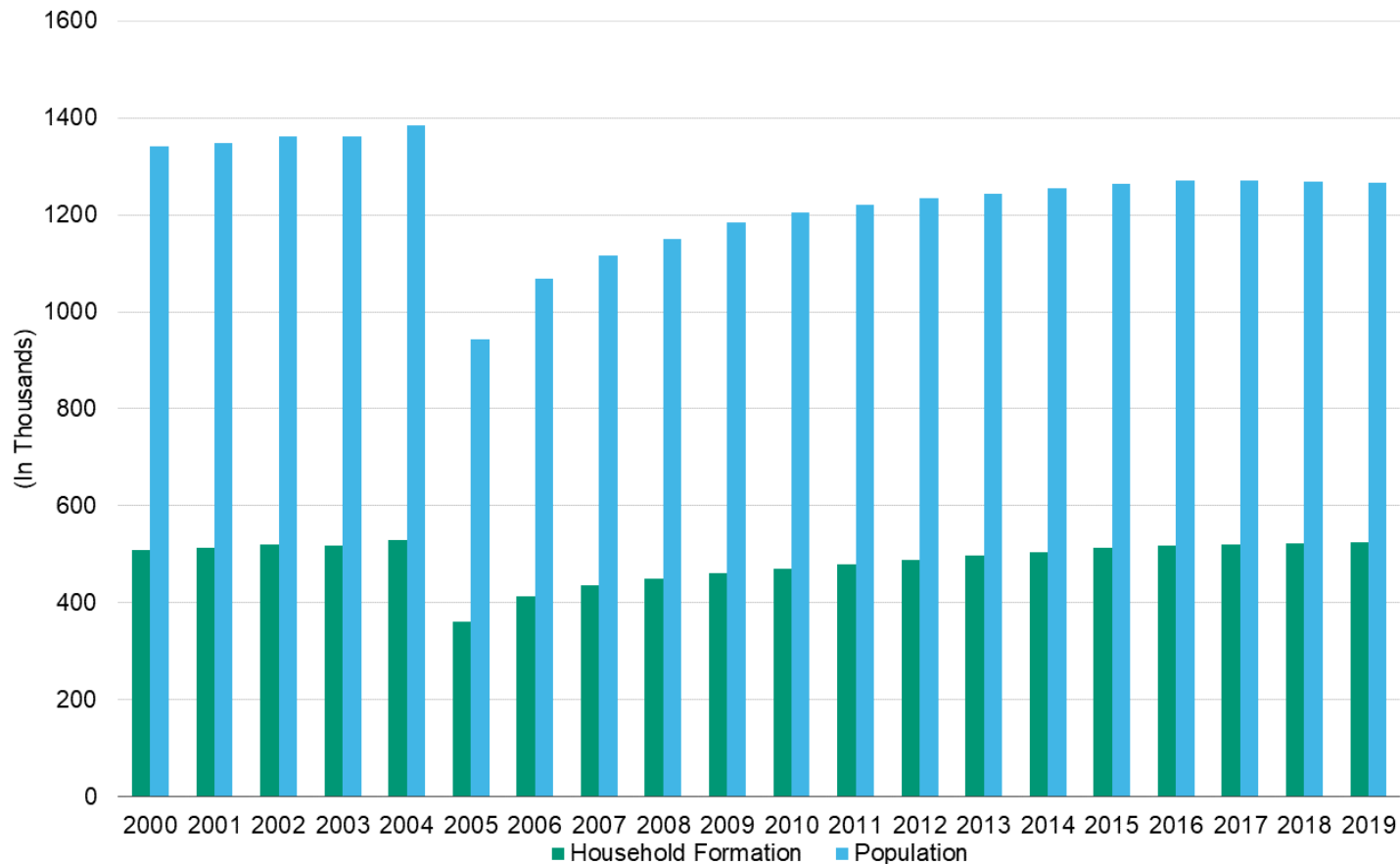


Source: Moody's Analytics REIS

- The Northridge Earthquake of 1994 remains the costliest earthquake on record in the US (\$26.4 billion in damages, 2018 dollars)
- *Net positive* for Los Angeles multifamily fundamentals – but *why?*
- This is the optimistic case: that demand remains strong in urban areas where multifamily properties tend to cluster.

Idiosyncratic Shocks? Potential Negatives

New Orleans Demographics, 2000 to 2019

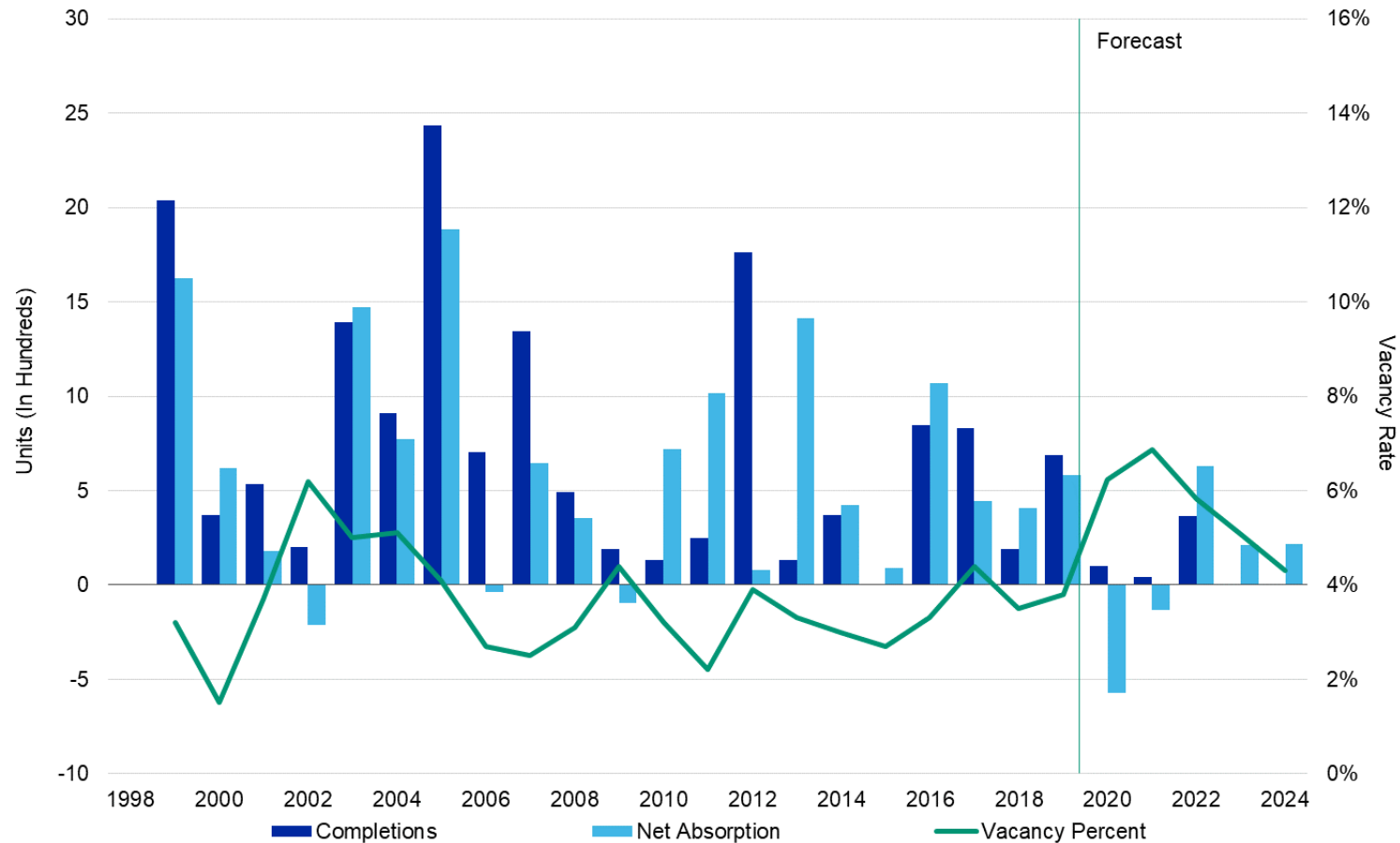


Source: Moody's Analytics

- Hurricane Katrina in 2005 devastated New Orleans and the area suffered a permanent shock to demand
- Multifamily fundamentals received a temporary boost because of destroyed units, but over the long run weaker demand did not sustain occupancies.
- What will happen post-COVID-19?

Downtown NYC: 9/11 and Its Aftermath

Downtown NYC Multifamily, 1999 to 2024



Source: Moody's Analytics

- Downtown NYC vacancies spiked in 2001 after 9/11 and took a few years to recover – but it did recover.
- Over 60,000 households moved to downtown NYC and helped transform it into a residential neighborhood (not just office).
- What will happen post-COVID-19?

Questions & Answers

Today's Speakers



Cristina Pieretti
MANAGING DIRECTOR / HEAD OF REIS



Victor Calanog
HEAD OF CRE ECONOMICS

Thank You

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