Flaherty & Collins Properties has begun development of The Ascent at Top of the Hill in Ohio's Cleveland Heights.

MULTIFAMILY INDUSTRY VOWS TO STAY ON TOP OF COLLECTIONS

Landlords educate tenants on available resources, accept credit card payments all while leasing out units via virtual tours.

By Kristin Hiller

Michael Barron, senior managing director with the Institutional Property Advisors division of Marcus & Millichap, has these words of advice for multifamily landlords during the coronavirus pandemic: "Stay on top of collections because most people will pay rent."

By the end of April, 94.6 percent of apartment households had made a full or partial rent payment for that month, according to the National Multifamily Housing Council. For the month of May, 87.7 percent of apartment households made a full or partial rent payment as of May 13. A rent estimate study from J Turner Research predicts that owners can expect an additional 6.3 percent to be paid by the end of May.

"It is encouraging that apartment residents continue to meet their rent obligations, whether that's with the support of the federal relief funds, credit cards or alternative, flexible options provided by the industry's owners and operators," says Doug Bibby, president of NMHC.

Barron, who is based in Cleveland, says owners need to ask the hard questions. "If people says they can't pay rent, ask why. Prove that they've been laid off and have them file for unemployment," he says. "Educate tenants who don't know that money's

see MULTIFAMILY page 19

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MULTIFAMILY from page 1

available or how to access it."

Since mid-March, 38.5 million Americans have filed jobless claims due to the COVID-19 outbreak, according to the U.S. Department of Labor. As part of the federal stimulus package, those who qualify for unemployment will receive an additional $600 per week on top of their state's payment.

Landlords can weather the storm caused by the virus by educating their existing tenant base and continuing to show and lease out apartments, say sources.

The concern for owners is that if they offer rent relief, there isn't mortgage or property tax relief to offset those losses, explains Paul Tsakiris, president with Chicago-based First Western Properties Inc. "It's a very difficult situation for landlords," says Tsakiris. "They can't be late on mortgage payments because they risk triggering a default."

In late March, Freddie Mac and Fannie Mae enacted programs that enable their borrowers to defer monthly payments for up to 90 days by showing hardship as a consequence of COVID-19 and by gaining lender approval. Program participants must also agree to not evict their renters who are facing financial hardship due to the health crisis.

Tsakiris says he is advising owners to send letters to tenants with information about filing for unemployment and available resources. What is encouraging, according to Tsakiris, is that owners are still leasing out apartments.

Changes for the sector

Due to social distancing guidelines, a major obstacle is how to complete property tours. More and more property managers are completing virtual tours. Such increased reliance on technology may continue even after the virus is contained.

"There was already a big shift toward technology such as virtual tours and leasing, and that will only accelerate now that those tools are being more widely used due to COVID-19," says Blas Puzon, chief investment officer with Chicago-based Draper and Kramer Inc. "Prospects want to do more of their own research and experience a property online before even visiting the leasing office."

Other changes that may remain intact after the spread of the virus abates include increased cleaning protocols and accepting credit cards for rent payment.

The Wall Street Journal reported that the number of tenants paying rent with a credit card during the first week of April rose 30 percent compared with the same period in March, according to data from Zego Inc. Landlords have historically not been eager recipients of credit card payments, but that has changed in recent years, according to the newspaper. Some tenants are willing to pay the extra transaction fee, and having the option of credit helps reduce late payments.

What's the outlook?

What's encouraging for the apartment market is that strong real estate fundamentals were in place prior to the onset of the coronavirus pandemic. Sources are optimistic that the multifamily sector will not endure the same economic blow as other property types such as retail or hospitality.

First-quarter data didn't reflect the distress caused by COVID-19, says real estate data firm Reis. The furloughs and layoffs didn't come until later in March. The national vacancy rate remained unchanged at 4.7 percent. Absorption was just under 25,000 units, suggesting that most landlords that brought new units to market did not have trouble finding tenants, according to Reis.

The Yards, a $41 million luxury apartment development, opened in Kansas City's Stockyards District in May. Prospective residents could earn two months of free rent. Flaherty & Collins was the developer. (Photo by KEM Studio)

"One of the fundamental principles driving multifamily housing is that people will always need a place to live," wrote Marcus & Millichap in a special health crisis report for the multifamily sector published in mid-April. "The global pandemic will not push prospective renters toward single-family housing as the payment gap between renting and owning a home remains significant."

Multifamily is a preferred method of living for young professionals entering the workforce and older generations who are tired of the additional cost and work of owning a home, says Patrick Holleran, vice president with St. Louis-based HDA Architects. "I don't think that mindset will change and I do think the economy will rebound."

Barron of Marcus & Millichap does expect investment sales transaction volume to be lower this year than in 2019 because the virus served as a "gut check" and killed some transactions. But if interest rates stay low and the fundamentals stay solid, he is optimistic for a healthy outlook for the apartment market for the remainder of the year.

Tsakiris also is optimistic about the outlook for the apartment sector, but he emphasizes that the stock market is much more liquid than real estate. As such, there's a lag and not a direct correlation between equities and real estate. Total returns for apartment REITS were down 26.3 percent, according to Nareit's April edition of REITWatch. But in December 2019, returns were up 26.3 percent for the year.

"I'm optimistic, but it's just naïve to assume everything will rebound and we won't be adversely affected by the pandemic," says Tsakiris.

Puzon remains positive as well, but says the reality is that 2020 will be a significantly worse year than 2019 based on collections in March, April and May. Plus, there's the possibility of a further economic retraction later this year if another wave of infection materializes.

For now, Puzon says Draper and Kramer will stick with its strategic approach to acquisitions, which has "proven resilient" because it prioritizes properties in growth markets with strong fundamentals. "That's not to say we'll come away unscathed, but it's encouraging that we've already positioned ourselves to better withstand this type of shock to the market." ■

The Pizzuti Cos. and Capital University have formed a joint venture to develop the third phase of Library Park in Columbus, Ohio. Plans call for a six-story building with 145 apartment units, rooftop amenity space and ground-floor restaurant space.