## Yardi<sup>®</sup> Matrix

## Economic and Coronavirus Update National Multifamily Report

February 2020



## Coronavirus Likely to Cause Technical Recession

- The spread of COVID-19 has brought a technical end to the 11-year bull market in equities, forced a European travel ban and sent Treasury rates to historic lows.
- Travel, hotel, restaurant and trade industries will likely be hurt the worst, as business travel grinds to a halt and as leisure travel declines.
- The multifamily industry may feel the impact of the domestic spread of COVID-19, although the majority of the industry remains well capitalized and strong enough to weather a modest slowdown. Owners and operators may face short-term rent collection issues if there is a tightening in the employment market, and value-add projects will likely slow. However, most real estate investors are poised to sustain their operations, and may see an investment opportunity as the market shocks continue.

The 2019 coronavirus, or COVID-19, has taken over headlines and public policy and shocked global markets. On March 11, Donald Trump implemented a 30-day travel ban against all European citizens entering the U.S., and even more drastic measures have taken place in Italy and Wuhan, China, the site of the initial outbreak. The virus' rapid spread has led to major disruption in airline traffic, conference schedules and cultural activities, including sporting events and festivals.

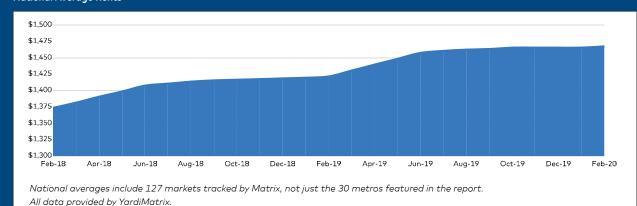
It seems inevitable that the U.S. economy will experience a technical recession. Business travel has all but stopped and personal travel has slowed considerably, leading the airline industry to be one of the hardest-hit sectors. Restaurants and tourism will also feel significant pain as trips are canceled and social distancing increases.

While the data has yet to reflect the impacts of COVID-19 (February employment growth was very strong, jobless claims did not increase, and

rent growth continued its steady increase), the coming weeks and months are likely to show employment cuts and a slowdown in trade.

But what impact will the current shock have on the multifamily industry? Short term, owners and operators may face rent collection issues from tenants who have either fallen ill or lost their jobs, and some flexibility with impacted tenants may be required. From an investment perspective, however, most real estate portfolios remain well balanced and not over leveraged. We expect the impacts of coronavirus to last three to six months, before a steady recovery boosts the economy once again. Given the short-term nature we anticipate, this could offer an investment opportunity for owners with ample cash available. Borrowing rates remain at all-time lows and financial institutions are well capitalized, marking a significant difference between the current shock and the 2008 financial crisis.

## **National Average Rents**



Matrix National Multifamily Report | February 2020 | 02