LMC Insights

4Q 2020

LMC A Lennar Company

Inside Look

Public Market Returns

	3Q20	1 Year	3 Year
S&P 500	8.93%	15.14%	12.27%
Dow	7.63%	3.21%	7.43%
Nasdaq	11.02%	39.61%	19.79%
FTSE NAREIT[1]	1.19%	-12.15%	3.42%
Barclays Agg	0.62%	6.99%	5.25%
10-yr Treasury[2]	0.69%	1.68%	2.33%

Private Market Returns

	3Q20	1 Year	3 Year
NCREIF Property Index			
Total Return	0.74%	2.00%	5.11%
Income	1.02%	4.30%	4.48%
Appreciation	-0.28%	-2.22%	0.61%
Multifamily	0.51%	2.31%	4.67%
Office	0.31%	2.81%	5.38%
Industrial	3.04%	10.14%	12.64%
Retail	-0.52%	-6.27%	-0.41%
Hospitality	-4.17%	-22.89%	-4.70%

Source: NCREIF, Morningstar.
(1) FTSE NAREIT All Equity REITs Index.
(2) Represents current yield at the end of 3Q20, 3Q19, and 3Q17, respectively.
(3) Time frame is from February 2020 to October 2020.
(4) Durable goods are goods that have an average useful life of at least 3 years; Nondurable goods are goods that have an average useful life of less than 3 years; Services are commodities that cannot be stored or inventoried and that are usually consumed at the place and time of purchase.

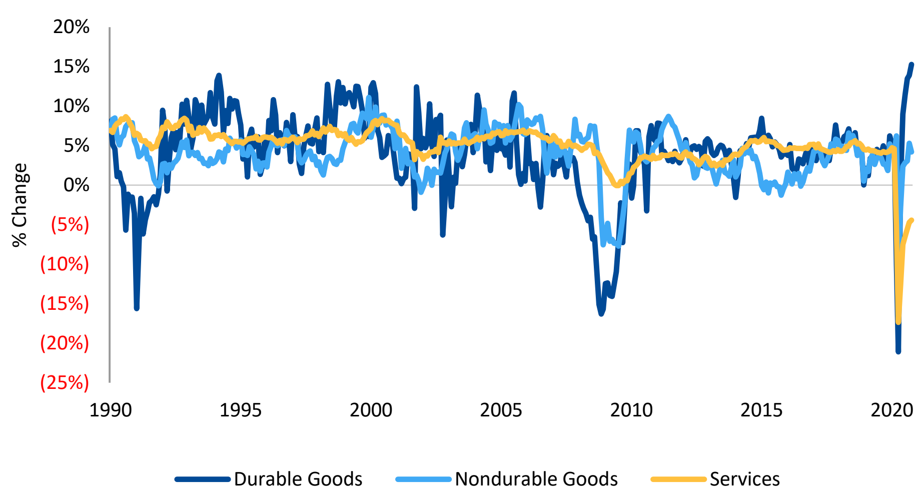
COVID-19 continues circulation as news of vaccine and stimulus weigh in the balance

State of the Economy

While Coronavirus wreaked unprecedented damage on the U.S. in the second quarter of 2020, a nascent recovery began to form in the third quarter as states reopened and economies adjusted to the reality of the pandemic. GDP increased at an annualized rate of 38% in the third quarter, making up roughly two-thirds of the output lost in the second quarter. The labor market has also shown a better-than-expected recovery, clawing back 11.5 million jobs since April, roughly half of the total jobs lost in the spring lockdown shock. Still, as Jerome Powell said after the Federal Reserve's July meeting, the path of the economy is very closely linked to the virus. Cases have surged in the southern and western U.S. and nine states have been forced to roll back reopening plans. Economic data showing retail visits and driving mobility has moderated, and in some of the worst affected areas, declined.

The virus will continue to circulate until a vaccine is released and as the winter sets in, outdoor activity that helped support businesses like restaurants will suffer. Consumer spending historically has accounted for two-thirds of U.S. GDP. Throughout this crisis, goods consumption has been the foundation of continued overall consumption strength and should continue to hold up as consumers have shifted away from spending money on services. Even as durable goods consumption surged 15.2% above pre-crisis highs[3], services spending was down 5.8%. Remarkably, it is the only time services spending has declined year-over-year by more than 0.1% in the last 60 years.

Consumer Spending[4]



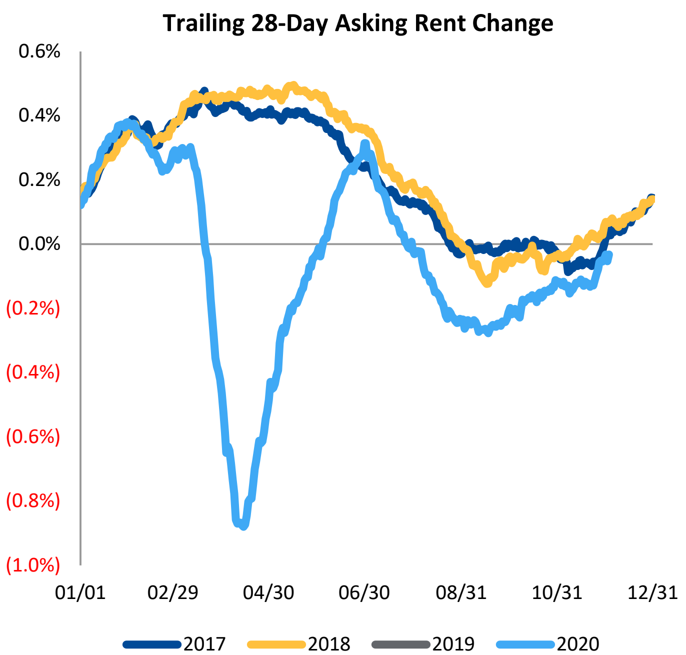
Source: CoStar Advisory Services, Bureau of Economic Analysis

As of October, 2020

A new stimulus bill, or lack thereof, will have a significant effect on the economic recovery. Congress remained gridlocked over additional aid in the run-up to the election and benefits including enhanced unemployment benefits have expired. This is especially concerning for lower income renters. Recipients of relief aid through the previous stimulus bill in the form of both the checks and additional unemployment benefits mostly spent the money on important expenses like food and rent. As of the end of October, renter households making below $75,000 a year were three times more likely to say they were unlikely to be able to make rent than renters making above $75,000. With the election behind us, attention has turned towards the passing of an additional bill and its role in fostering a strong economic recovery.

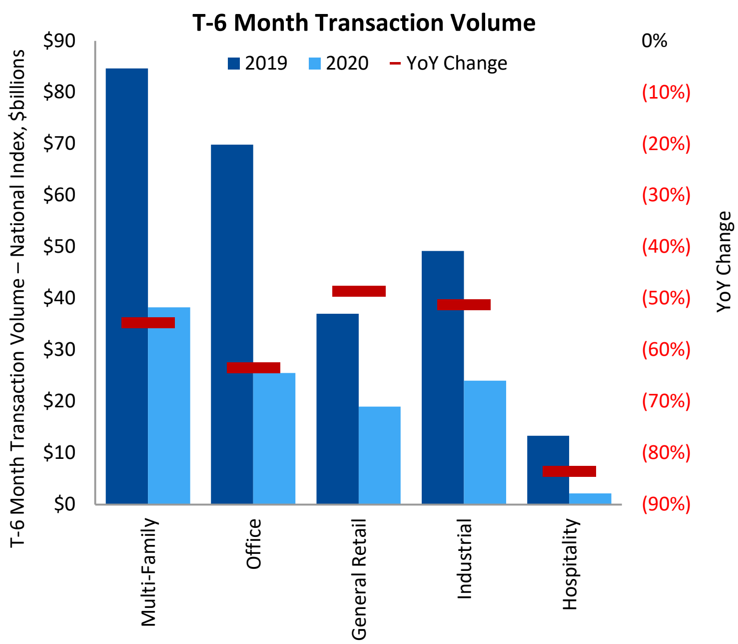
Multifamily Investment Outlook

Given that the lapse in stimulus aid following the end of July was greeted by a deadlocked Congress, an uncertain few months are ahead for multifamily investors keeping an eye on rent collections. Further delay for any new stimulus is likely set to extend into January and perhaps beyond as control of the Senate remains in the balance. A much more positive wrinkle in the pandemic saga was the 110,000+ multifamily units absorbed in the third quarter, far and away the best third quarter on record.



Source: CoStar Advisory Services As of 12/3/2020

National multifamily rent growth has typically dropped into flat or negative territory during the third quarter, and that trend was slightly more pronounced in 2020. The massive dip from March and April however is the main reason why apartment rents are entirely flat year-over-year in the third quarter. Consistent with our analysis on the fortunes of suburban and urban multifamily last quarter, suburban rents have steadily risen since May, and now exceed pre-Covid levels. Urban rents, meanwhile, have fallen by 5% since mid-March, and have dropped at roughly the rate of 1% per month since June.

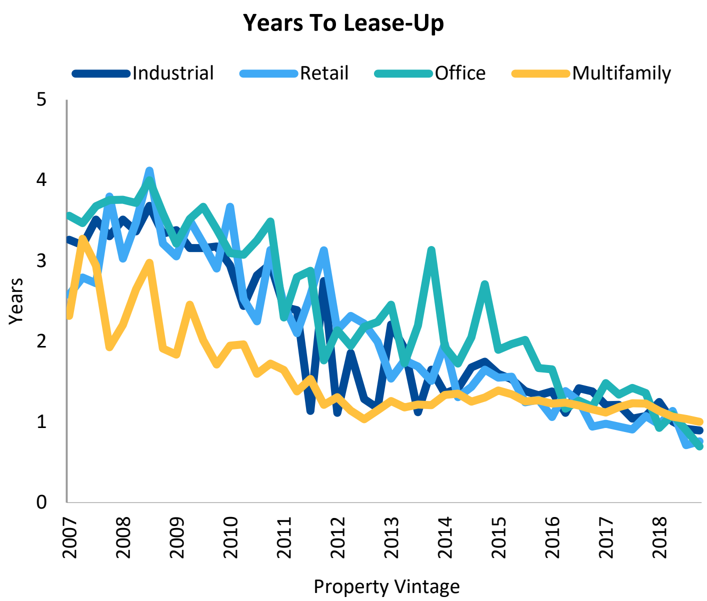


Source: CoStar Advisory Services As of 12/3/2020
Note: Constrained by date entered in previous years for accurate comparison; limited to top 54 markets in the country

Transaction activity for multifamily remains well off the pace from previous years, with $136 billion in trailing-twelve-month sale volume. That's down 31% from the same metric a year ago and represents the lowest trailing-twelve-month total for a third quarter since 2014. On a relative basis however, appetite for multifamily assets against other property types remains very strong, with more than $20 billion in transactions over the last three months, easily outpacing all other single property types for volume during that time.

In Focus: If You Build Multifamily, Renters Will Come

Uncertain times can create a sense of unease particularly for real estate development. Economic downturns can depress demand for months, making lease-up risk a major concern for all property types and contributing to a feeling that developers might be taking on additional risk by starting new projects late in an economic cycle. Not all leasing risk is created equal however, and multifamily has proven to be a top performer among the major property types no matter the condition of the economy as a whole, the number of units a project delivers, or whether it is a high-rise, garden-style, or anything in between.



Source: CoStar Advisory Services As of 12/3/2020

The remarkable consistency of multifamily lease-up is best illustrated by the metric of years to full lease-up of projects from the four major property types over the long term. Between 2007 and 2018 for example, multifamily projects consistently averaged 1.5 years to stabilization. For industrial and retail projects, stabilization averaged closer to 2 years, while office projects lagged behind with an average of 2.4 years. This outperformance extended throughout the duration of the Great Financial Crisis in 2008 and 2009, when stabilization time for multifamily rose to an average of 2.2 years. In contrast, the three other property types ranged between 3.3 and 3.6 years during the same span. During the later years of the analysis, the lease-up time for multifamily projects hovered closer to one year despite deliveries of hundreds of thousands of new units, a testament to the deep reservoir of renter demand. Other property types came down sharply as well, driven in large part by a few factors. Numbers of new retail and office projects were well below long term averages, so new projects often faced fewer competitive challenges and leased-up quickly. Industrial projects have continued to ride along on exceptional demand tailwinds from e-commerce tenants.

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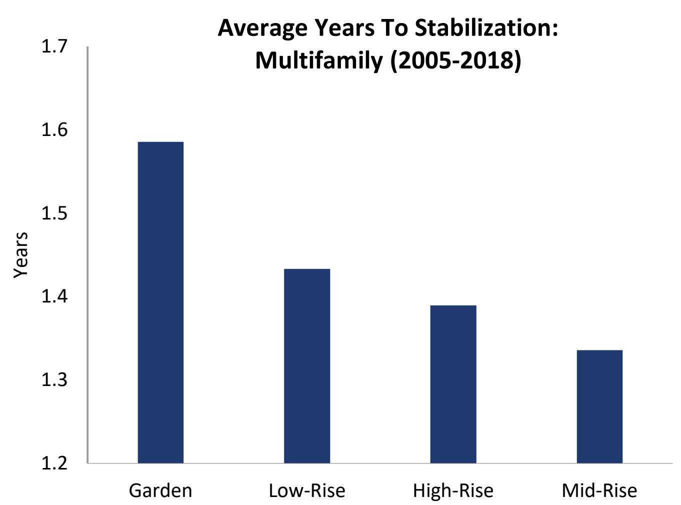
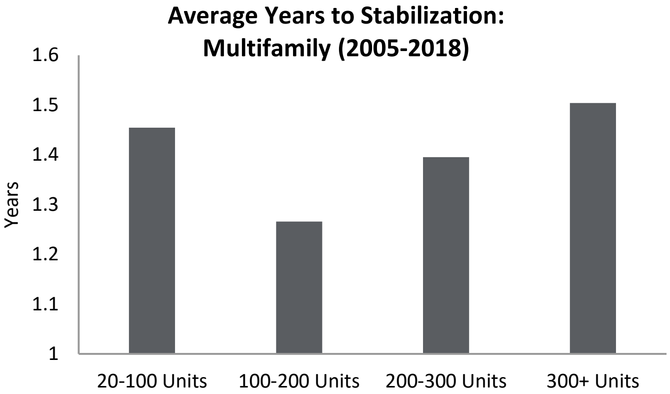


Source: CoStar Advisory Services As of 3Q 2020
Note: Stabilization reflects occupancy higher than 75%

Examining lease-up in multifamily more closely, it is notable that neither the style of the asset being developed nor the size of the development seem to play much of a role in stabilization. There have been subtle differences in average time however, as garden-style and low-rise apartments have typically been slightly slower to lease-up than either mid-rise or high-rise assets. Garden is the outlier of the four, averaging close to 1.6 years for stabilization. That's only a full quarter more than the best performer, mid-rise assets, which average slightly more than 1.3 years.

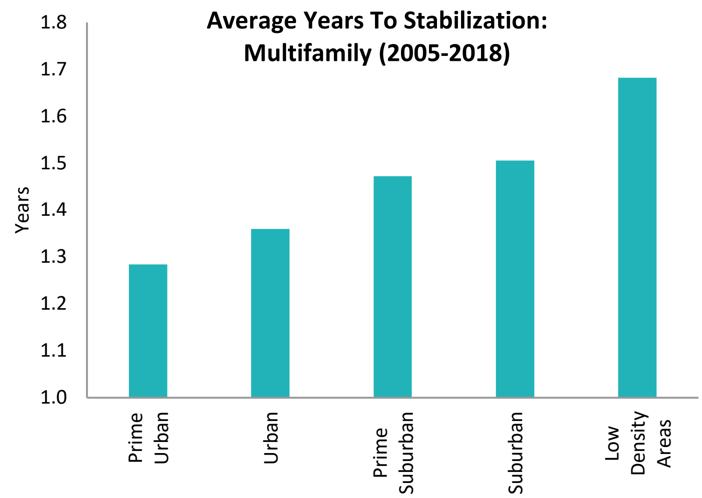


Source: CoStar Portfolio Strategy As of Q3 2020

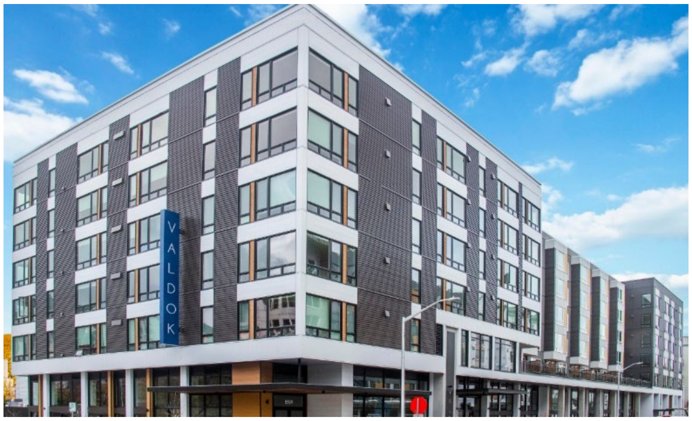
Size of development has similarly only a small effect on stabilization, though an interesting barbell effect seems to hold for this particular analysis. Smaller projects between 20 and 100 units and the very largest projects of 300 units or more, have tended to take the longest time to stabilize at 1.5 years or so. Projects of varying size in between, either 100 to 200 units or 200 to 300, were slightly quicker to lease up at 1.3 years and 1.4 years respectively. A couple plausible explanations could create this effect. The smaller developments are somewhat more likely to fall in suburban areas, a softer demand environment during the last decade, while the sheer number of units in the larger projects likely led to the added delay in stabilization.

There is probably also little surprise given the secular trend toward urban living during the past decade that urban lease-up pace was exceptional between 2005 and 2018. Both prime urban, or CBD, multifamily and urban multifamily easily outpaced suburban and prime suburban stabilization by nearly two months. Meanwhile exurban or rural projects took an average of nearly two years to fully stabilize. Given current pandemic-driven suburban demand shifts however, the urban versus suburban lease-up duration could balance out in future iterations of this analysis.

Though minor differences in time to stabilization are apparent when multifamily is placed under the microscope, the ultimate conclusion seems clear: Multifamily assets lease up with extraordinary consistency no matter the size, type, locale, or vintage of the development. While fluctuations during recessionary periods are not uncommon given the heavy stressors on demand, multifamily continues to outperform other property types during these moments. Likewise even significant amounts of oversupply seem to only create temporary blips for the sector before demand catches up fully. For multifamily investors seeking to soothe frayed nerves as an unpredictable 2020 draws to a close, the steady drumbeat of renter demand might be a good place to start.



Source: CoStar Portfolio Strategy As of Q3 2020



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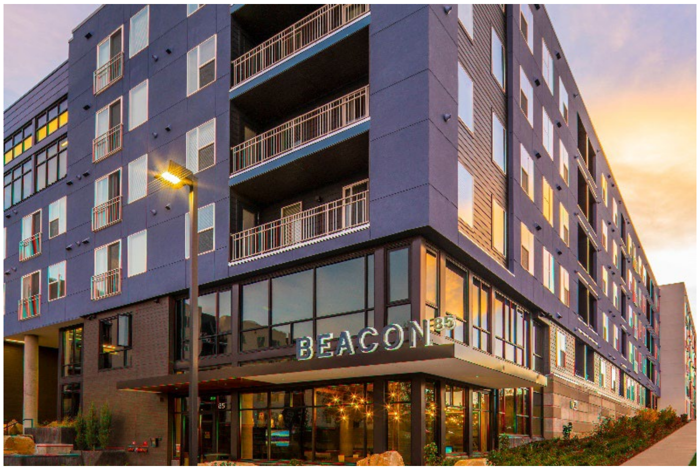
About LMC

Lennar Multifamily Communities, LLC ("LMC") is a vertically integrated multifamily real estate investment firm focused on developing, acquiring and operating Class A apartments in the United States. A wholly owned subsidiary of Lennar Corporation ("Lennar"), LMC combines the financial strength and entrepreneurial spirit of Lennar, the nation's largest homebuilder and acquirer of land, with the increasingly favorable apartment demand fundamentals nationwide. LMC currently employs over 600 professionals across 14 offices nationwide. With approximately $8.8 billion of gross assets under management[1], we offer multifamily investment strategies to a diverse set of institutional investors including pension funds, sovereign wealth funds, insurance companies, private equity companies, banks, and high net worth individuals.

(1) AUM as of 12/31/2019



Disclaimers