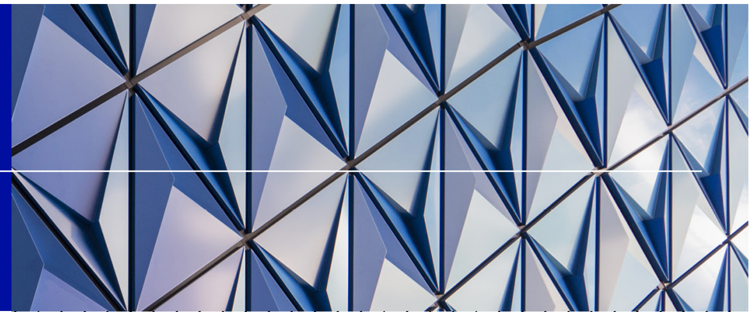


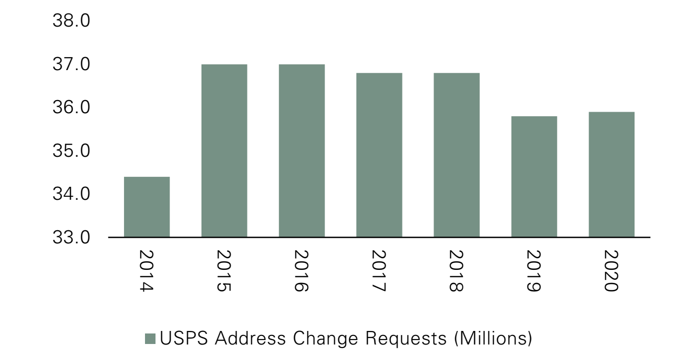
The Great Pandemic Migration… and Return

One of the enduring storylines to emerge from the pandemic is that of a massive migration out of urban areas; particularly expensive global gateway markets. Early in the crisis, some pundits questioned whether cities like New York or San Francisco would survive. During the pandemic, this narrative was often conflated with longer-term trends of Sunbelt migration and the movement of companies and high-wealth individuals to tax haven states. Examination of the data suggests a more nuanced story; urban dwellers that moved largely relocated to local suburbs. Q1 multifamily data suggests that many of these moves were temporary; signs of recovery are emerging in some of the hardest-hit metros.

Unfortunately, answering the question of which cities lost and gained the most can't be solved by 2020 census data just yet. Initial totals released in April don't include local metadata (that data won't be available until fall). What this data shows is that the U.S. recorded its second-lowest decennial growth rate in history as the population climbed just 7.4% to 331.4 million, however, 2020 change of address (COA) data from the U.S. Postal Service (USPS) provides some critical insights as to who moved where.

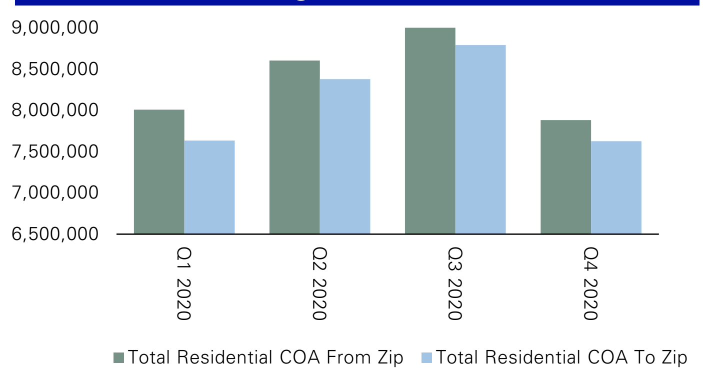
The USPS processed roughly 35.9 million COA requests in 2020, up only 0.3% from 35.8 million in 2019 and below the five-year average (2015 to 2019) of 36.7 million. Not surprisingly, the greatest numbers of COA requests were processed in Q2/Q3 as the nation emerged from initial lockdowns.

USPS Change of Address (COA) Requests



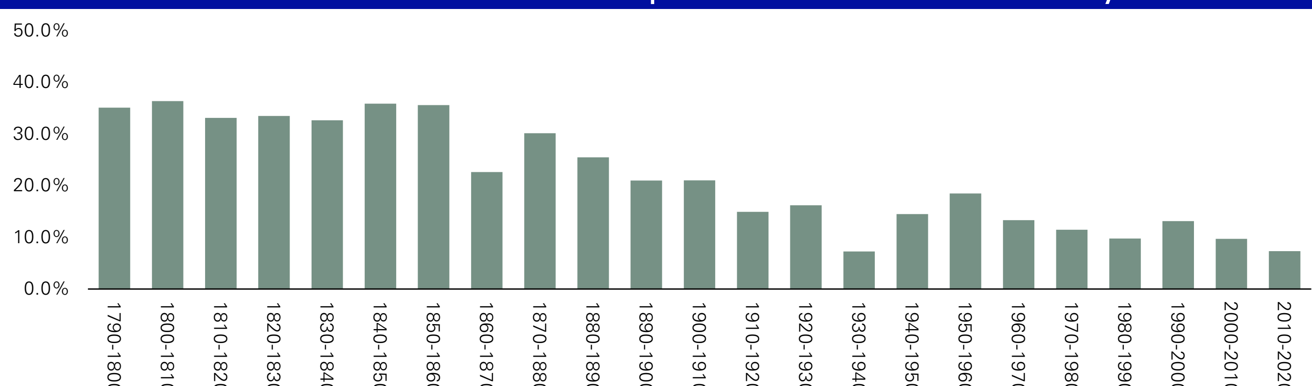
Source: Newmark; USPS

USPS Address Change From/To



Source: Newmark; USPS

The 2010s: Second Lowest Population Growth Rate in US History



Source: US Census Bureau

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Where Did They Go?

There are limitations to using USPS COA data in place of census data. There is no way of knowing how many people were within the households that relocated. True clarity likely won't come until metadata is released later this year, however, combining USPS COA data with residential and commercial real estate data points to some reliable conclusions.

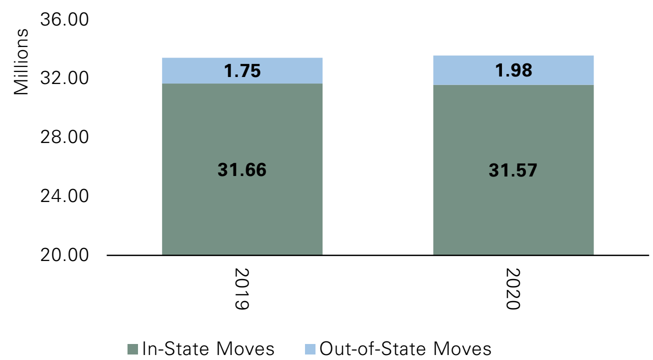
5.2% of all COA requests in 2019 reflected out-of-state moves. That number edged up to 5.9% in 2020. While this reflects a 13.5% annual increase, it translates into roughly 237,000 more COA requests across the entire United States. That number hardly justifies the common narrative of a mass exodus across regions.

Existing home sales in the US surged in 2020. At its peak (October 2020) sales volume was up 26.6% annually according to the National Association of Realtors (NAR). This uptick in activity extended into early 2021 until record low inventories and skyrocketing prices began to slow momentum. One year into the pandemic (March 2021), the NAR reported the median price for existing single-family homes (SFR) had soared 18.4%. The vast majority of SFR inventory is in suburban locales. Meanwhile, though it has since rebounded into positive territory, urban condo pricing was the only residential product type to drop in 2020. According to Redfin, the low-water mark for condos was in July 2020, when pricing had fallen -5.1% annually. Incidentally, first-time homebuyers accounted for 36.0% of 2020 purchases (28.0% in 2019) and millennial home ownership now stands at 48.0%, compared to 40.0% three years ago.

Multifamily data shows the same urban/suburban divide. We analyzed apartment markets across major markets on the West Coast and compared performance. While the K-shaped nature of pandemic impacts disproportionately hit renters, multifamily product within cities experienced greater increases in vacancy and sharper rent declines than those in the suburbs.

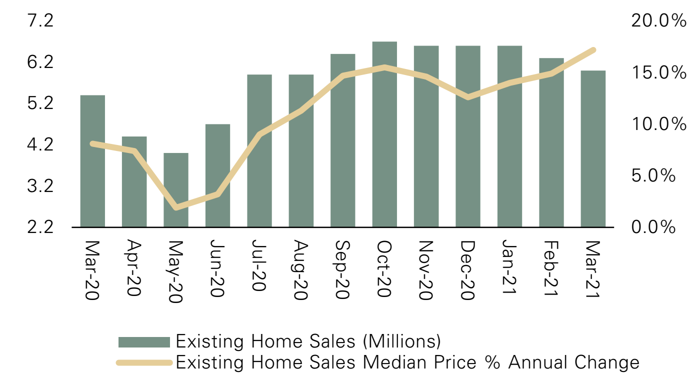
The migration of 2020 was driven by untethered workers; either those displaced by the pandemic or those, *at least temporarily*, freed from geographic constraints by work-from-home (WFH) policies. Higher earners, particularly millennials, took advantage of record low interest rates to make the jump to home ownership, but the data overwhelmingly suggests most of those moves were local. The real question going forward is whether, and when, those renters that relocated to less expensive locales during the pandemic will return. Ultimately, that will be determined by the progression of vaccinations, economic recovery and greater clarity around long-term WFH policies. But Q1 2021 multifamily data suggests that the return is already underway…

2020 Local Vs. Out-of-State Moves



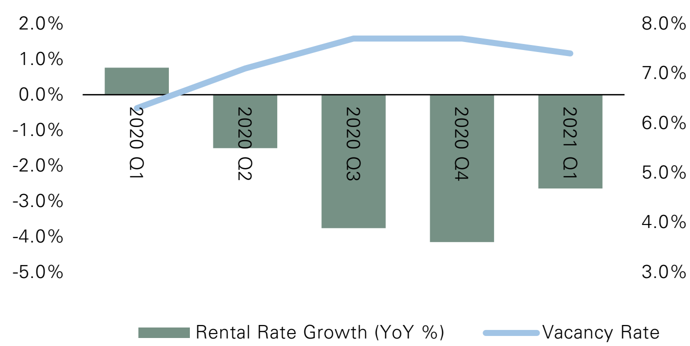
Source: Newmark, USPS

Existing Home Sales/Median Price YoY Change



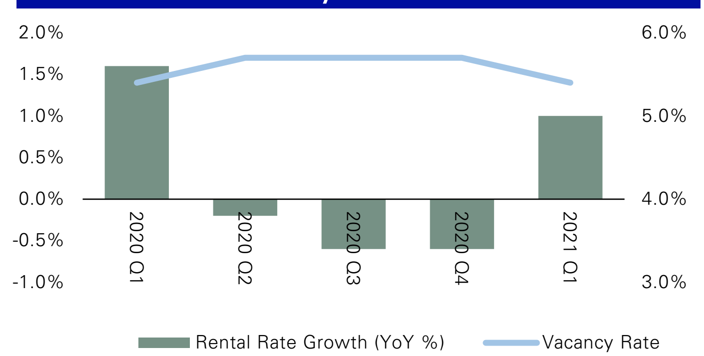
Source: National Association of Realtors

West Coast Multifamily: Urban



Source: Newmark, Costar Group

West Coast Multifamily: Suburban



Source: Newmark, Costar Group

SF Bay Area: The Return Has Begun…

The USPS processed nearly 56,000 more residential COA requests for residents leaving San Francisco County than arriving in 2020, making it one of the nation's hardest-hit cities in terms of out-migration during the pandemic.

Against the Census Bureau's 2019 population estimate of 882,000 people, this would reflect a potential decline of at least -6.3% last year. Keep in mind that USPS COA data does not show the size of households that have relocated.

84.2% of the COA requests processed represented local moves. The greatest movement appears to have been to suburban San Mateo County; the Peninsula accounted for 31.2% of relocations. Marin County followed; 27.6% of moves landed in this North Bay submarket. Alameda County garnered 21.3% of relocations.

There were over 29,000 more outgoing COA requests for Santa Clara County (San Jose) than incoming. Notably, 72.8% of the moves were within the immediate Bay Area; 23.0% were either for neighboring San Benito County to the south or to California's Central Valley.

While Alameda County (Oakland) was a top-five destination for most Bay Area markets, it still posted more outgoing COA requests than incoming in 2020 (just under 18,000). Contra Costa County accounted for 55.3% of outgoing moves.

Contra Costa County likely saw the biggest regional influx of population; nearly 3,100 more incoming COA requests were processed by the USPS in 2020.

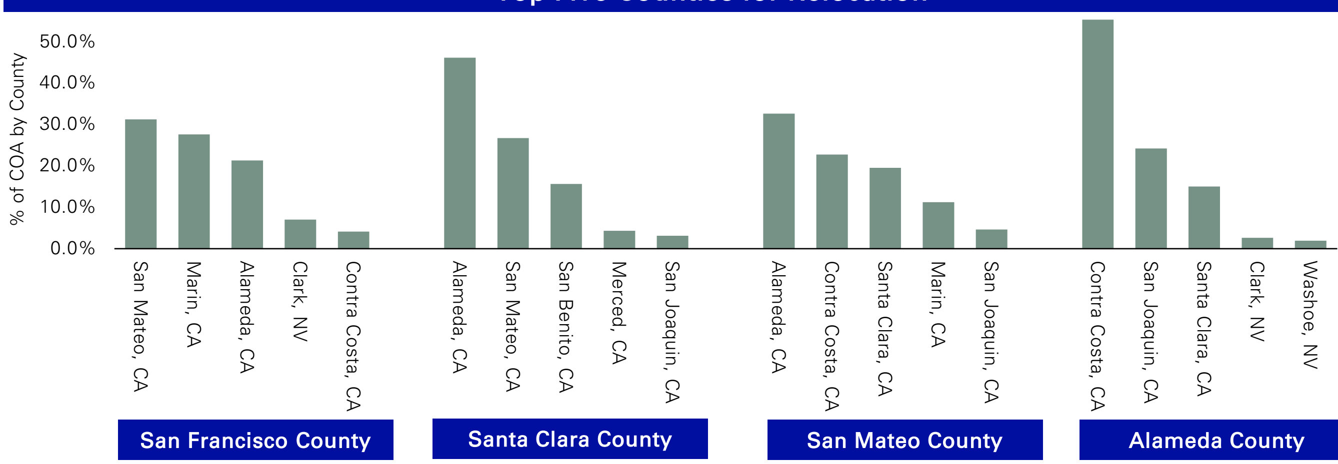
The data suggests that Marin and Sonoma Counties registered modest growth 2020, while marginal losses may have been incurred by Napa and Solano Counties. However, with net incoming or outgoing COA requests for these markets below the 2,000 threshold, the data is inconclusive. Remember that one of the limitations of utilizing COA data is that there is no way of knowing the size of households that have relocated. Nor would these include households that simply didn't use the service, those who may have become homeless (with no forwarding address). It may also possibly undercount households that doubled up (roommates) or younger people that may have moved back in with parents at previous addresses they held (assuming they didn't use this USPS service). But the latest multifamily statistics paint a picture consistent with USPS COA data regarding to out-migration. They also demonstrate that many of those that left, likely did so temporarily.

USPS Address Change Requests/Census

County	2020 Net COA Requests	US Census Population (thousands)	Net COA as % of Population
Alameda	-17,797	1.7M	-1.06%
Contra Costa	3,061	1.2M	0.27%
Marin	1,098	259K	0.42%
Napa	-159	138K	-0.12%
San Francisco	-55.899	882K	-6.34%
San Mateo	-13,502	767K	-1.76%
Santa Clara	-29,355	1.9M	-1.52%
Solano	-1,424	448K	-0.32%
Sonoma	788	494K	0.16%

Source: Newmark, USPS; US Census Bureau

Bay Area: Where Did They Go?
Top Five Counties for Relocation



Source: Newmark, US Census Bureau

By 2019, a combination of new deliveries and slowing demand had already been driving modest upticks in vacancy in the San Francisco multifamily market. Rent growth, which had been a constant since 2004 had already begun to slow by Q4 2019. At that time, vacancy stood at 5.9% and the average asking rate stood at $4.48 per square foot (PSF). Then, the pandemic hit.

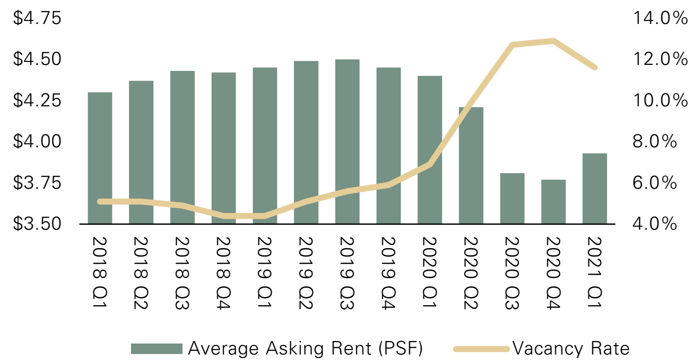
Vacancy began to climb in Q1 2020, and rents slid downwards; a trend that would continue over the course of the entire year. Over 2020, roughly 5,700 apartment units went vacant. By year-end, the vacancy rate stood at its highest level this century (12.9%) and asking rents had reset to their lowest level since 2013 ($3.86 PSF). This has emerged as the market's low point.

The market set a single quarter record for positive net absorption in Q1 2021; 1,495 units were occupied in three months. Vacancy reversed a seven-quarter downward slide; moving from 12.9% to 11.6%. Rents rebounded as well; climbing from $3.86 to $4.00 PSF. The return has begun; leasing remains brisk and net absorption is on track to match Q1 numbers. If the current pace is sustained, 2020 losses may be reversed by early 2022.

Not surprisingly, the region's most affordable apartment market, Alameda County, recorded the smallest decline in rents (the average rate of $2.96 PSF in Q1 2020 fell to $2.82 PSF by Q4). Rents here climbed slightly (to $2.84 PSF), though vacancy held steady at 9.1%.

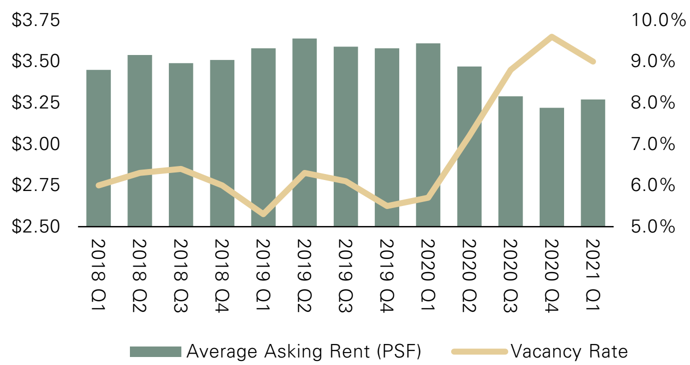
All other markets followed the same pattern as San Francisco, though none were as negatively impacted during the pandemic. All posted significant upticks in vacancy in 2020 and declining rents. All saw a significant uptick in net absorption during Q1, declines in vacancy and incremental increases in asking rents. The most reasonable conclusion is that a significant portion of the region's out-migration during the pandemic was temporary and that we are in the early stages of the return of these residents.

San Francisco County Multifamily



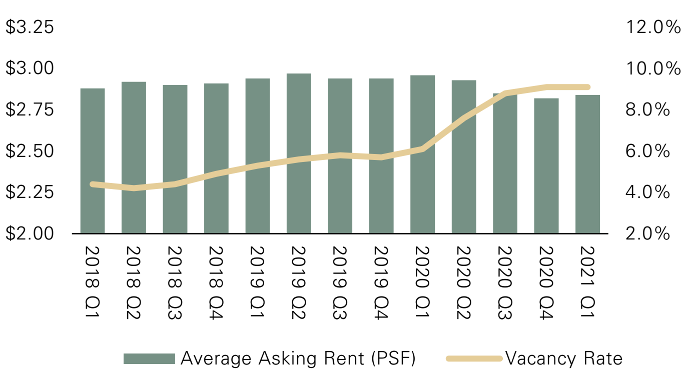
Source: Newmark; Costar Group

San Mateo County Multifamily



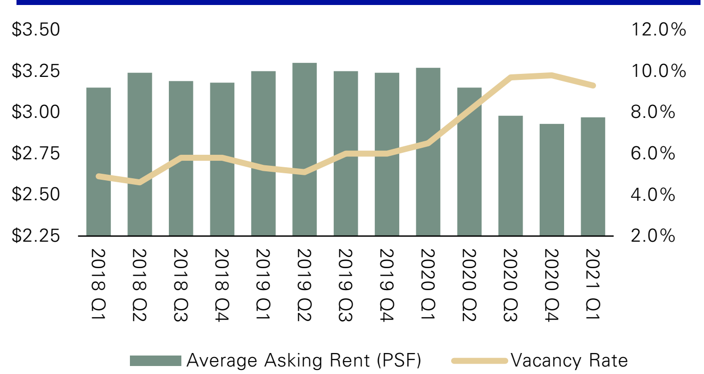
Source: Newmark; Costar Group

Alameda County Multifamily



Source: Newmark; Costar Group

Santa Clara County Multifamily



Source: Newmark; Costar Group

SoCal: Inland Empire Growth Accelerated

The USPS processed nearly 106,000 more residential COA requests for residents leaving Los Angeles County than arriving in 2020. There are nearly 10.0 million people in the nation's largest single county. Against the total population, this reflects a potential decline of at least -1.1% in 2020.

83.0% of these moves were within the Greater Southern California region. San Bernardino County accounted for 30.2% of all moves. Neighboring coastal counties also landed much of this out-migration. Orange County garnered 17.6% of these relocations while Ventura County landed 16.8%. Kern County also saw its share of Los Angeles transplants; 15.8% of outgoing moves were to the Bakersfield area.

USPS Address Change Requests/Census

County	2020 Net COA Requests	US Census Population (thousands)	Net COA as % of Population
Los Angeles	-105,662	10.0M	-1.05%
Orange	-7,982	3.2M	-0.25%
Riverside	20,546	2.5M	0.83%
San Bernardino	520	2.2M	0.02%
San Diego	-15,503	3.3M	-0.46%
Ventura	1,352	846K	0.16%

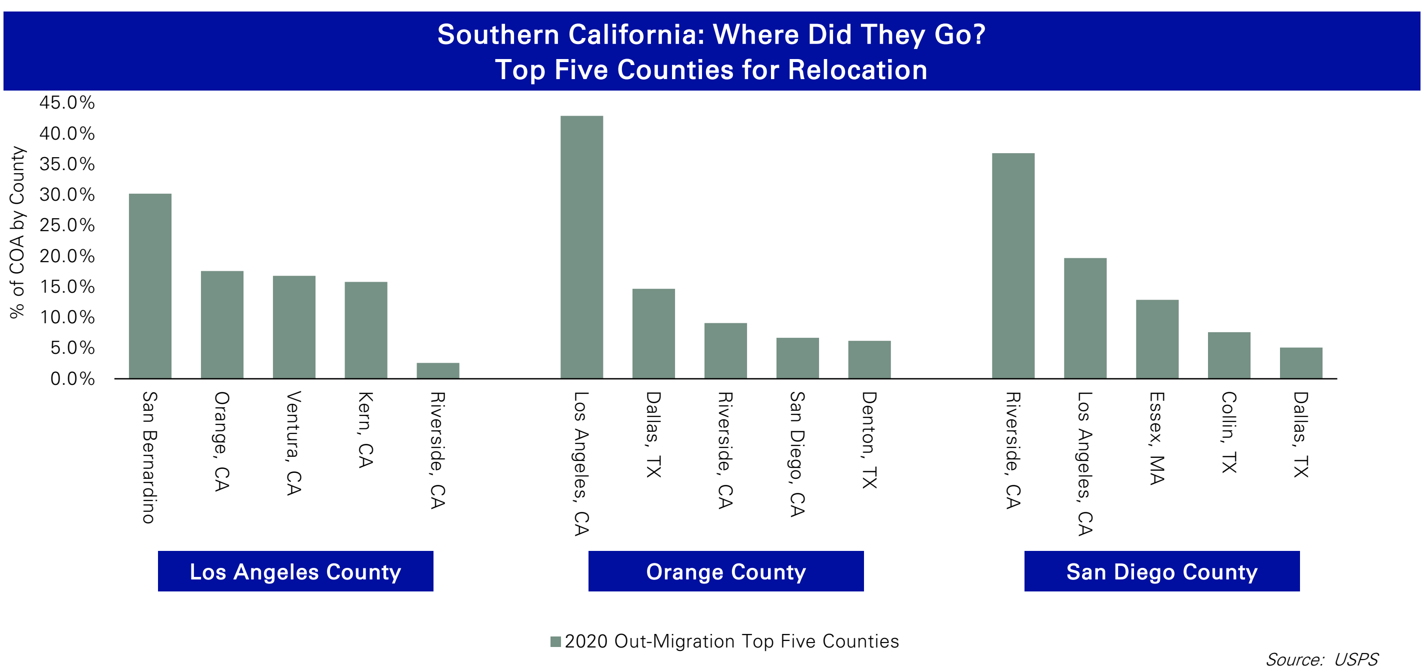
Source: Newmark, USPS; US Census Bureau

Across California, nearly all inland markets gained population during the pandemic. From the Sacramento and the San Joaquin Valley to the north, to Central Valley markets (Modesto, Fresno, Bakersfield) and the Southland's Inland Empire (Riverside, San Bernardino), the trend of coastal Californians migrating inland in pursuit of housing affordability and lower cost of living is hardly a new trend. But, like so many other trends, the pandemic accelerated it.

Riverside County was likely the big winner. Nearly 21,000 more incoming COA requests were processed by the USPS in 2020 than outgoing. In-migration from Los Angeles, Orange and San Diego Counties were the primary drivers.

In San Diego County, the USPS recorded just under 16,000 more outgoing COA requests than incoming last year. Against a population of 3.3 million people, this does not reflect substantial movement. While Riverside County was the destination of 36.8% of these moves, 25.6% of relocations were out of state. Likely reflecting the interplay of San Diego and the Boston markets as prime life sciences hubs, 12.9% of outgoing moves were to Massachusetts. Texas markets garnered 12.7% of outgoing relocations according to COA data.

Orange County also saw Texas out-migration; to the tune of 20.9% of outgoing moves. Against a total of roughly 8,000 outgoing COA requests in 2020, this equates to roughly 2,000 individuals or households. If there is a Texas migration story, Southern California is likely driving it. But the numbers are far from overwhelming. Most movement out of Orange County was local; 42.9% of it went to Los Angeles, 9.1% to Riverside and 6.7% to San Diego Counties.



Los Angeles County multifamily product entered 2020 in a relatively strong position. Vacancy stood at 4.9% and the average asking rent of $2.53 PSF had been posting incremental increases for 29 consecutive quarters. This trend halted with the arrival of the pandemic; over 5,000 apartment units went vacant during the first half of 2020. By Q2 vacancy stood at 5.9%. Over the final half of the year, net absorption had turned positive (3,945 units). This suggests occupancy losses early in the crisis were driven more by the immediate economic impacts of the pandemic than by significant out-migration. Vacancy peaked in Q3 at 6.1%; rents hit their low-water mark by Q4 ($2.47 PSF).

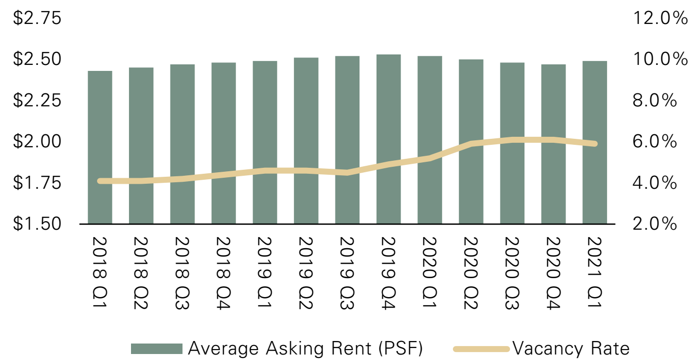
Recovery began in Q1; 4,188 units were occupied (the quarterly average from 2016 to 2019 was 1,579 units). Vacancy fell to 5.9% and rents climbed modestly to $2.47.

The pandemic was hardly a blip for the Orange County apartment market. As of the end of 2019, vacancy stood at 5.4% with an average asking rent of $2.36 PSF. By Q2, vacancy stood at 6.9% with asking rents at $2.32 PSF, yet this was driven by new construction—net absorption remained in positive territory throughout 2020. By Q1 2021, rents were higher than pre-pandemic levels and vacancy stood at 4.0%. This suggests that if out-migration did occur, renters were not a significant factor.

The San Diego and Riverside County markets grew during the pandemic. San Diego vacancy fell from 5.3% in Q4 2019 throughout 2020 to 4.1% by the end of the year as rents climbed from $2.22 to $2.29 PSF. Q1 saw stronger growth; vacancy now stands at 3.6% with an average asking rate of $2.29 PSF.

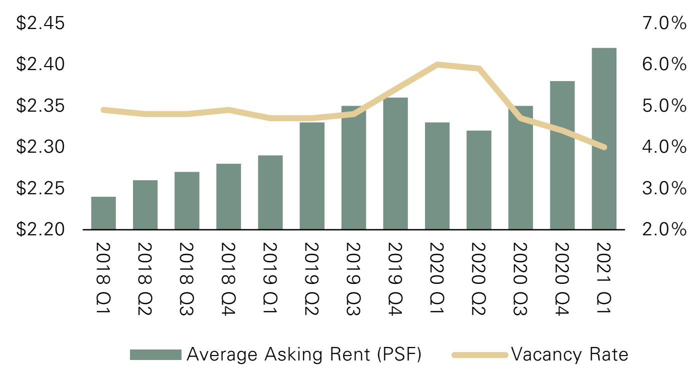
Riverside County was the greatest beneficiary of them all; supporting the thesis that most of the out-migration from Southern California coastal markets landed in the Inland Empire. From 2012 through 2019, this market had averaged annual net absorption of 175 units. In 2020, it recorded occupancy growth of 769 units. Riverside entered 2020 with a vacancy rate of 5.8% and an average asking rent of $1.69 PSF. By year-end, these metrics respectively stood at 2.9% and $1.80 PSF (a 7.3% annual growth rate). They surged further in Q1 2021, closing at 2.6% and $1.87 PSF (+10.7 Y-o-Y).

Los Angeles County Multifamily



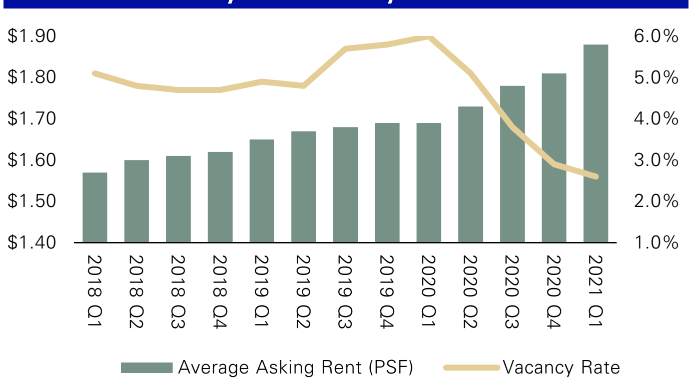
Source: Newmark; Costar Group

Orange County Multifamily



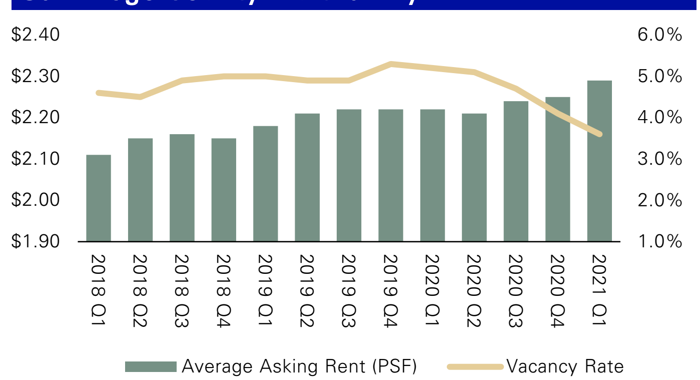
Source: Newmark; Costar Group

Riverside County Multifamily



Source: Newmark; Costar Group

San Diego County Multifamily



Source: Newmark; Costar Group

PNW: Suburban Bounce/CBD Rebound

USPS COA data reflects modest out-migration in 2020 for both Seattle and Portland, but hardly an exodus. Moves in both cities were overwhelmingly from the urban core to local suburban markets.

There were nearly 32,000 more outgoing COA requests than incoming in Seattle's King County, however, local moves dominated. To the north, suburban Snohomish County accounted for 71.5% of all relocations. Pierce County (Tacoma) and Seattle's southern suburbs landed 25.8% of transplants. Across the Puget Sound, Kitsap County was the destination for 1.8% of outgoing COA requests. The two out-of-state destinations to make Seattle's to make the list of outgoing destinations were Riverside County, California and Oklahoma County, Oklahoma. Together, they accounted for less than 1.0% of moves combined.

Portland experienced a similar trend. Only one out-of-state locale made the Rose City's list of top-five destinations, Atlanta's Fulton County accounted for 1.4% of COA address changes. Against the roughly 14,000 net outgoing COA requests logged by the USPS in 2020, this would translate into less than 200 individuals or households.

The overwhelming majority of Portland out-migration (96%) landed in the suburbs. On the Oregon side of the Columbia River, Clackamas County drew 57.9% of outgoing COA requests. Washington County accounted for 35.8% of out-migration. Portland's northern suburbs in Clark County, Washington drew another 1.0% of out-migration.

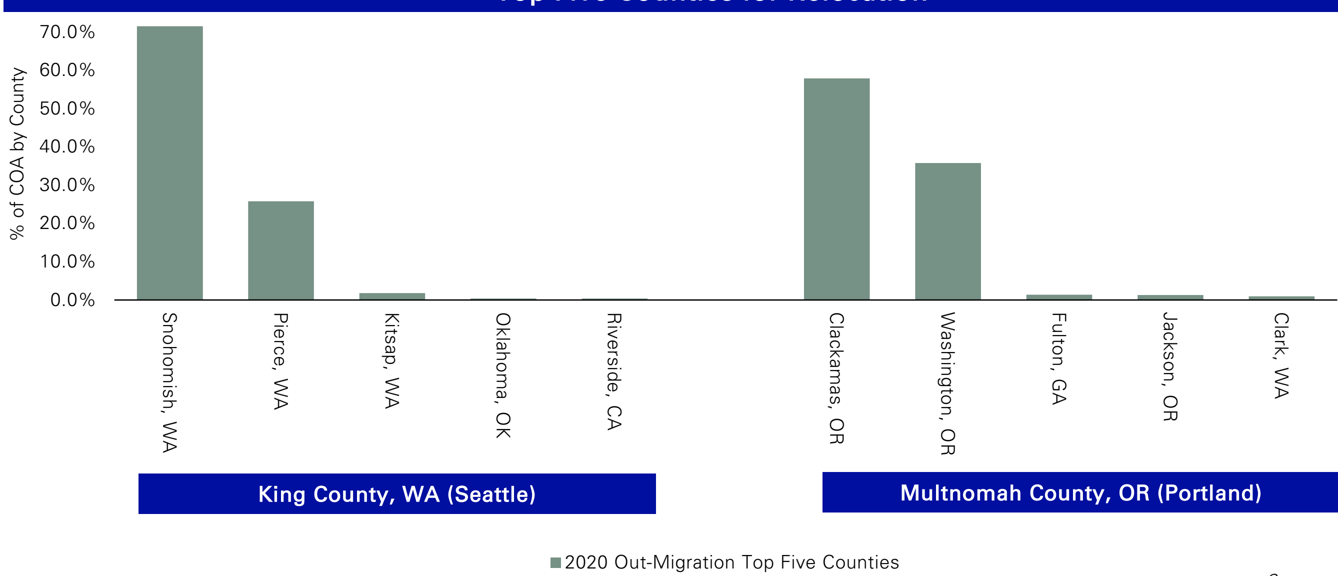
USPS Address Change Requests/Census

County	2020 Net COA Requests	US Census Population (thousands)	Net COA as % of Population
Portland Metro			
Clackamas	313	418K	0.07%
Clark	2,842	488K	0.58%
Multnomah	-13,857	813K	-1.70%
Washington	-466	602K	-0.08%
Seattle Metro			
King (Seattle)	-31,544	2.3M	-1.40%
Pierce	-4,694	905K	-0.52%
Snohomish	364	822K	0.04%

Source: Newmark, USPS; US Census Bureau

In the Pacific Northwest's two largest metros, the data suggests a clear trend. During the pandemic, urban apartment markets lost ground (albeit modest compared to some major U.S. cities), while local suburban markets gained. The data also demonstrates that Central Business District (CBD) markets have already begun to recover, likely indicating that much of the out-migration that occurred was temporary.

Pacific Northwest: Where Did They Go?
Top Five Counties for Relocation



Source: USPS

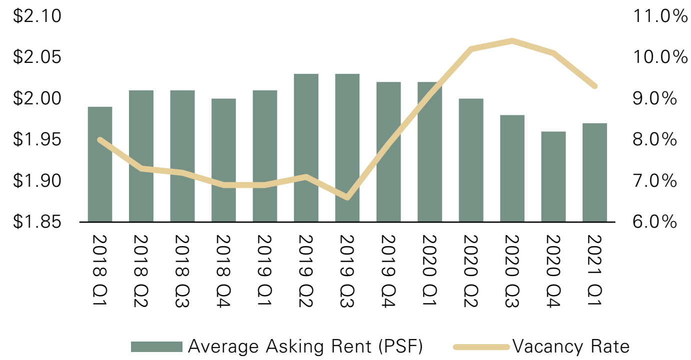
Portland's CBD multifamily markets ended 2019 with a vacancy rate of 7.9% and an average asking rent of $2.02 PSF. Vacancy levels peaked in Q3 at 10.4%. Asking rents bottomed out in Q4 at $1.89 PSF even as vacancy moved back downward to 10.1%. In Q1 2021, both metrics reflected signs of improved demand. Vacancy fell further (9.3%), while rents increased for the first time since the pandemic to $1.92 PSF.

Conversely, Portland's suburban apartment markets experienced declining vacancy levels and continued rental rate growth in 2020. Posting a 5.7% combined vacancy rate at the close of 2019, this metric gradually decreased over the course of the year to 4.7%. The average asking rent registered incremental growth during this period, climbing from $1.49 PSF to $1.52 PSF by Q4 2020 as 3,006 units were absorbed. Q1 2021 was even more robust; occupancy growth totaled 1,082 units while vacancy fell to 4.4%. The average asking rate increased to $1.56 PSF (+4.8% Y-o-Y).

Seattle's CBD markets posted negative net absorption to the tune of 2,199 multifamily units in 2020. Vacancy here at the close of 2019 was 5.3%. It had soared to 9.3% by Q4 2020. Asking rents during that period fell from $2.71 PSF to $2.51 PSF (-7.2%). However, the same pattern of initial recovery began to play out here in Q1. Positive net absorption totaled 1,880 units, surpassing the quarterly average growth recorded from 2013 to 2019 (1,618 units per quarter). Vacancy decreased to 8.9% while rents began to rebound ($2.57 PSF).

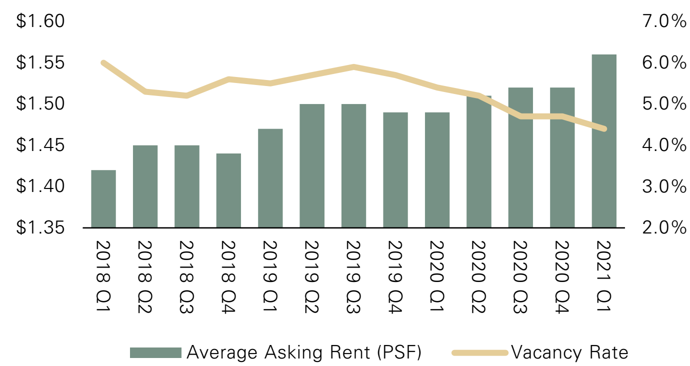
Seattle's suburban apartment market closed 2019 with a 6.3% vacancy rate. Net absorption remained positive (3,532 units) throughout 2020 despite the pandemic. It closed 2020 with an overall vacancy rate of 5.9%. Asking rents during that time climbed from $1.76 to $1.79 PSF. In Q1 this growth accelerated ($1.84 PSF) as the market absorbed an additional 1,486 units. However, vacancy held at 5.9% as roughly that same amount of new product came online.

Portland CBD Multifamily



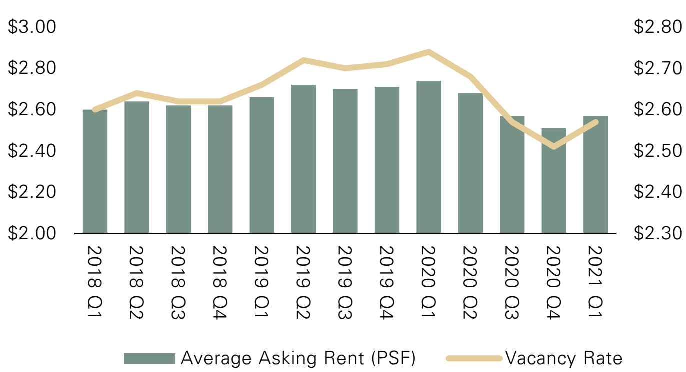
Source: Newmark; Costar Group

Portland Suburban Multifamily



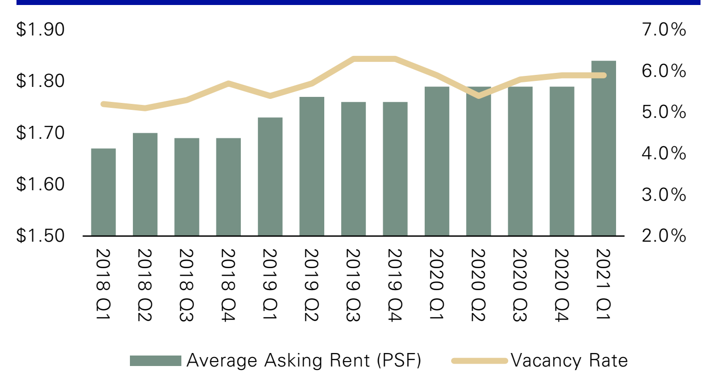
Source: Newmark; Costar Group

Seattle (CBD) Multifamily

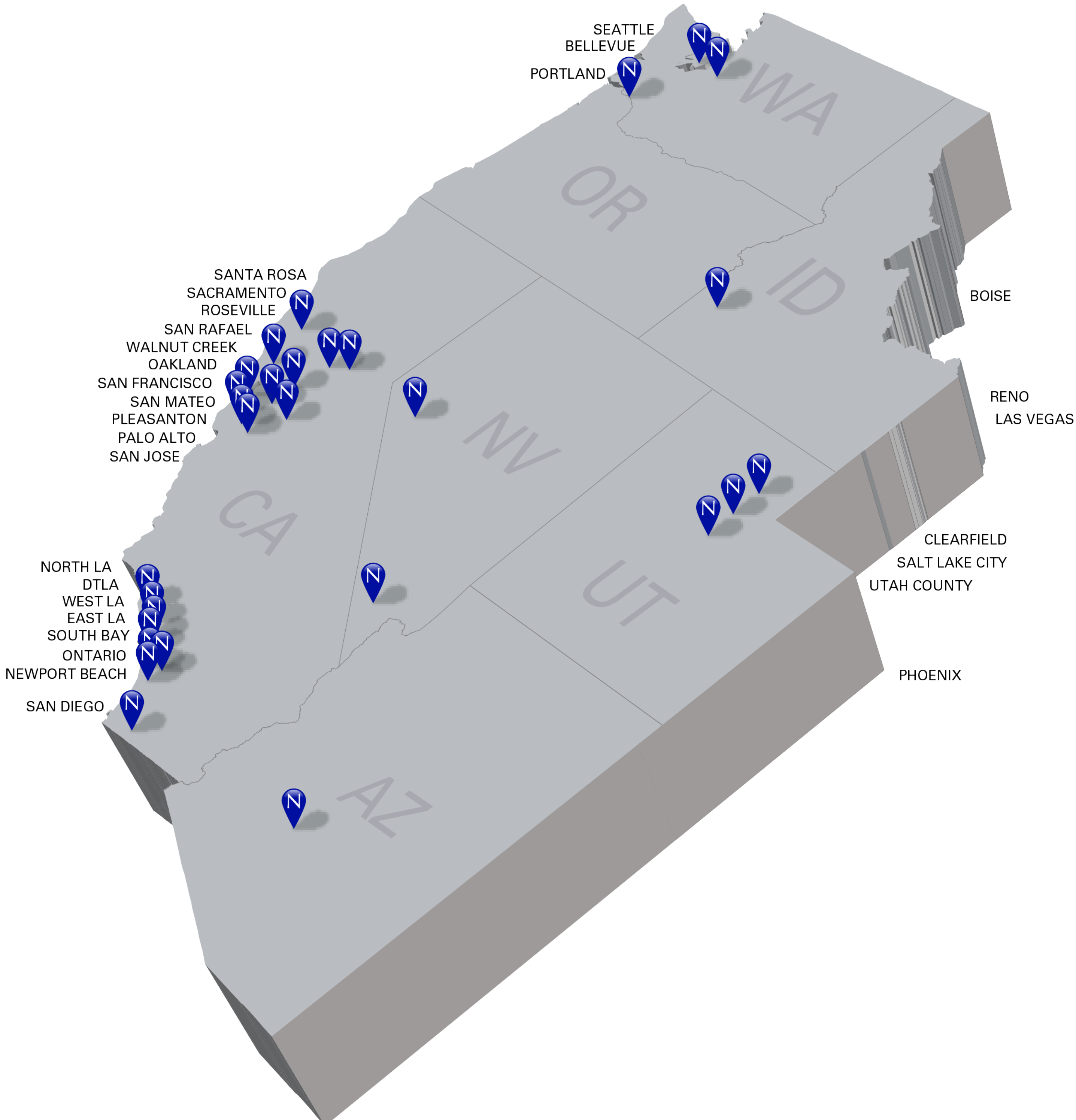


Source: Newmark; Costar Group

Seattle (Suburban) Multifamily



Source: Newmark; Costar Group



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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

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