Uncovering Rent Payment Tracking Data

What are rent payment tracking surveys really telling us?

Starting in April, the multifamily industry has been inundated with headlines regarding how much rent is or is not being collected due to the COVID-19 pandemic. Never before has there been the technology in place to provide real time data on rent payments, especially during an unprecedented slowdown as steep and severe as the pandemic. However, sometimes the headlines can be more volatile than the actual data. While the industry has gotten better at reporting real time information, there are still gaps which may not provide us with the full picture. In this report, we explore what these numbers tell us and how to interpret this valuable information.

In the first few months after the pandemic first started impacting the economy, rent payment behavior was healthier than some market participants expected. This strength can be partially attributed to the CARES Act, including a one-time stimulus payment along with enhanced unemployment benefits, which expired the end of July. These provisions provided many financially stressed households the ability to make rent payments. Since the enhanced unemployment benefits of the CARES Act expired and there has not yet been a longer-term replacement, tracking rent collection data will be even more valuable going forward. As we continue to track this data, readers should understand the strengths and weaknesses of the different reports. Some of the key considerations include:

- How is the data gathered? Is it a survey or a measure of actual payments made?
- What population is reflected in the data? Does it include only renters, or homeowners as well? Is it professionally managed properties or a broader universe?
- For rental units, what property sizes are reflected? Does it capture single-family rental, small multifamily properties and/or larger properties?
- At what time of the month is the data collected? Is it reasonable to expect rents to be collected by that time? Did weekends or holidays impact the timing of rent collections in a specific month relative to others?
- How does the current data compare with previous reports? Are the results comparable with pre-pandemic times for context? Also, do they report the same metrics each month or change survey questions?

The four surveys discussed

While there are many sources tracking rent payment data, the four resources examined in our analysis are:

- National Multifamily Housing Council (NMHC): This survey tracks roughly 11 million units of professionally managed apartment units across the United States, covering more than half of the nation’s total of 19 million multifamily renter households. The survey compiles data from five different property management companies. The data is updated weekly, cumulative throughout the month and is comparable with previous year and previous month results. The survey captures if rent was paid in full or partially but does not differentiate between the two, and does not include very small partial rent payments. Partial payments are only counted once during the month, even if multiple payments are made.
- The Household Pulse Survey: This weekly/biweekly survey is performed by the United States Census Bureau. The first phase of the survey was experimental and set up to run for 90 days, which expired July 29. The second phase of the survey started on August 19 and will run through October 2020. The data is

released every two weeks in phase 2. The survey sample size varies but has averaged around 90,000 respondents across both single-family and multifamily households.[1]

- Apartment List: This is a participant survey of 4,000 people, comprising both owners and renters. It is distributed on the third day of the month.
- National Association of Real Estate Investment Trusts (NAREIT): This is a monthly survey from multiple equity REITs across six commercial property sectors. In April, May and July, the survey results were combined with publicly disclosed data, compared with survey-only results in June, August and September. NAREIT reports results do not significantly change when these differences are taken into account. Over the past six months, the surveys represent 53% to 72% of the FTSE All REITs[2] total equity market capitalization for those property sectors. It is the only approach that compares results across different commercial real estate industries, including health care, office, industrial retail (freestanding and shopping center), and multifamily.

What is being missed?

These surveys differ across a few major variabilities:

- Timing: Typically leases allow for a five-day grace period before a payment is considered late. Given the unprecedented nature of this recession, renters may delay payments based on reduced working hours or delays in unemployment benefits. While most payments are made early in the month, payments do continue to flow in throughout the month. To understand changing market conditions, it is important to keep in mind the difference in timing among these reports, in order to make accurate comparisons.
- Survey size: The size of the survey may also skew results. While surveys can be normalized to match the national averages, too small of a sample size could cause results to be misrepresented, whereas the closer to the full population, the more accurate the results.
- Who is sampled: NMHC and NAREIT are primarily geared toward institutional investors, so they may not pick up smaller rental properties that don't use professional management software. Apartment List and the Pulse Survey poll individual households on their payments, but may not break out single-family renters, small unit rental properties and the larger unit rental properties.
- Whether partial payments are included: Some surveys include full payments only while others include both full and partial payments.

While survey and collection types differ across all the surveys, they can provide the industry with valuable information. Many of the surveys take place at the beginning of the month or at the end of the month. Larger institutional data providers have data from 2019, allowing for the comparison between current and pre-pandemic time periods. Other surveys break out the data into more detailed characteristics, such as payment by income

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[1] Between the two phases, the question used to determine if a household had paid their monthly rent changed. In phase 1, the question asked survey respondents if they paid their last month's rent or mortgage on time. We interpreted this to be the prior month's payment rate, assuming the week of the survey did not cross over two months. For example, the Week 12 results from July 16-21 are used to inform June's rent payment rate. In phase 2, the question asks if the household is currently caught up on rent payments. This can lead to some difference in answers when comparing across the two questions, especially if the timing of the survey falls within the first week of the month when rent may not yet be due for the current month. Here we use results form Week 13 from August 19-31 to measure August's rent payment and Week 14 results from September 2-14 to measure September's rent payment. However, the September number could be misleading since rent may not yet have been due the first few days of September.

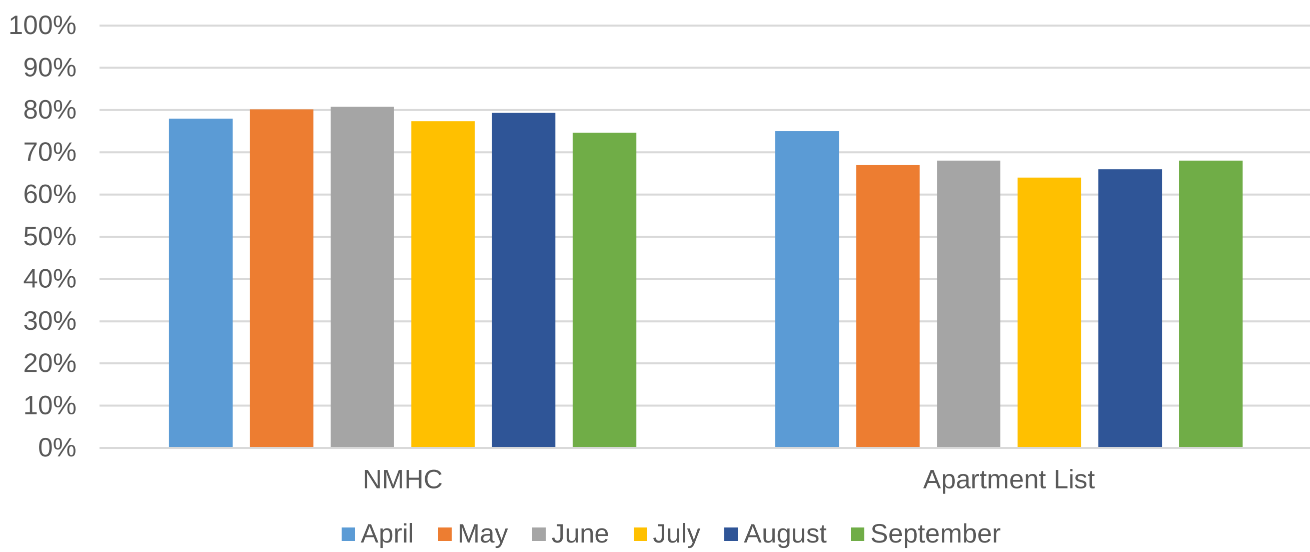
[2] Financial Times Stock Exchange (FTSE) All Real Estate Investment Trusts (REITs)

level, property class and geography. However, since these surveys cover different sample sizes, sample methods, time periods and payment plans, the results can be very different if not lined up appropriately.

Understanding survey timing – first week and end of month comparisons

In September, the NHMC reported the payment rates started slower than in previous months. For the week ending September 6, 76.4% of renters had made a full or partial payment. This represents the lowest level since inception of the tracker in April. Over the past five months, the first week payment rate had ranged between 77.4% to 80.8%, seen in Exhibit 1. Meanwhile, Apartment List reported 68% of renters made an on-time payment the first week of September but did not include partial payments, which are included in NHMC's numbers.[3] Apartment List shows more volatility in payments, with on-time payment rates upward of 75% in April but down to 64% to 68% in May through September.

Exhibit 1: Percent of Renters Who Paid in the First Week of the Month



Sources: NMHC, Apartment List, Freddie Mac

There are several differences between NMHC and Apartment List survey methods. Apartment List's survey is conducted on the third day of the month, which is a few days less compared with NHMCs week ending the 6th of the month. Likewise, Apartment List's survey of roughly 4,000 respondents is divided into single-family and multifamily rental but makes no further distinction for smaller or larger multifamily properties. NMHC's survey population covers the larger institutional properties, which typically does not pick up smaller multifamily properties.

Rental market stakeholders are interested in early reporting on conditions each month, to determine if trends will change. But given that payments are collected throughout the month, early reporting is just a piece of the story. The first week of the month may be skewed due to holidays during that time. While Labor Day fell on September 7 this year, and outside the first week reported by NMHC and Apartment List, holidays may impact the payment rates during certain weeks. NMHC reported by the end of September, rent payments had caught up with August levels at 94.6% compared with 94.5% the prior month.

Comparing the first week collection rates with month end, we see a substantial number of renters were able to make up missed payments throughout the month. NMHC reports that on average, the first week to the end of month payment rate increased 16.7 percentage points from April to September. At the same time, Apartment List

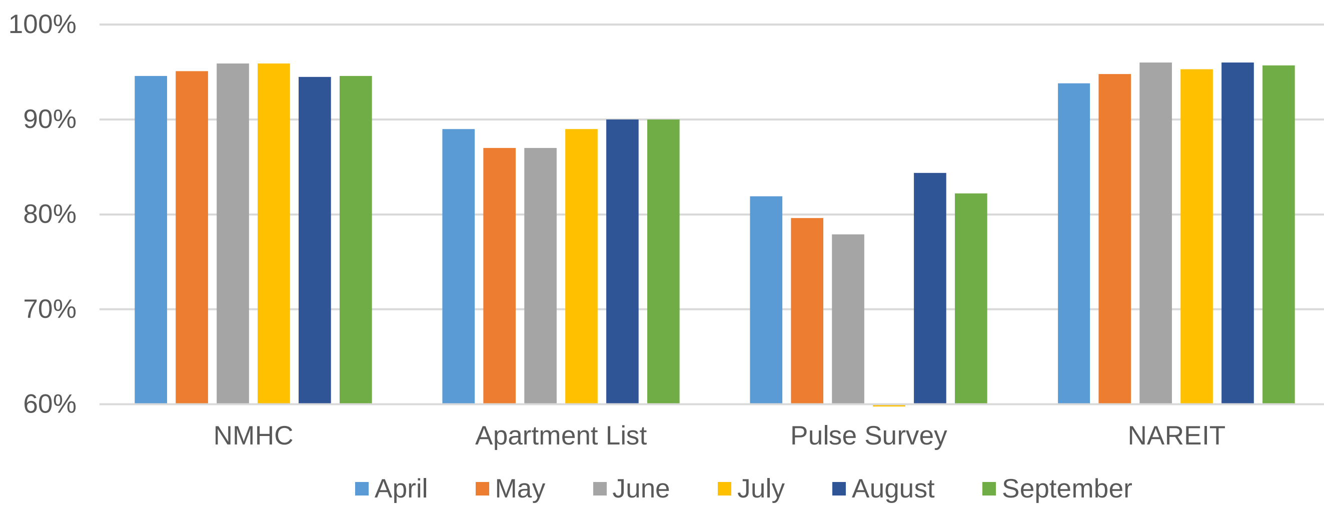
[3] In prior months, from April to July, Apartment List has reported partial rent payments between 11% to 15%.

reports in the first week of the following month, 10% to 13% of renters had still not paid their prior months' rent in full over that same time period.

NAREIT and the Household Pulse Survey also provide month-end results, seen in Exhibit 2. Since April, NMHC and NAREIT show a similar trend of improving payments from April to June, with a slight slowdown in July. NAREIT reported August collections came in higher than in July while NMHC saw lower collections in August. Meanwhile, Apartment List and the Pulse Survey show deteriorating rent payments April to June, with improving conditions starting in July. NMHC and NAREIT show more constant month-end results, while the other surveys show more variation across months.

The differences can be attributed to several differences between the surveys. NAREIT compares collections reported with what should have been collected, which in theory should pick up partial payments, lining up with NMHC's inclusion of partial payments. Whereas the Pulse and Apartment List surveys do not include partial payments. Furthermore, NMHC and NAREIT focus on the institutional property types, while the Pulse and Apartment List are surveys across individual participants.

Exhibit 2: Percent of Renters Who Paid by End of Month



Sources: NMHC, Apartment List, Household Pulse Survey, NAREIT, Freddie Mac
Note: Apartment List month-end results were taken from the percentage of renters who had still not paid full rent by the first week of the following month. The Household Pulse Survey results used for the August observation are from the Phase 2 Week 13 results from August 19-31. The September observations are from Phase 2 Week 14 results from September 2-14. Therefore, there is no July result due to the gap between Phase 1 and Phase 2. The April through June results were from Phase 1, which took the last week of the subsequent month (not including overlapping weeks). For May's observation, we used the Week 9 results from June 25-30.

What can we know about partial payments?

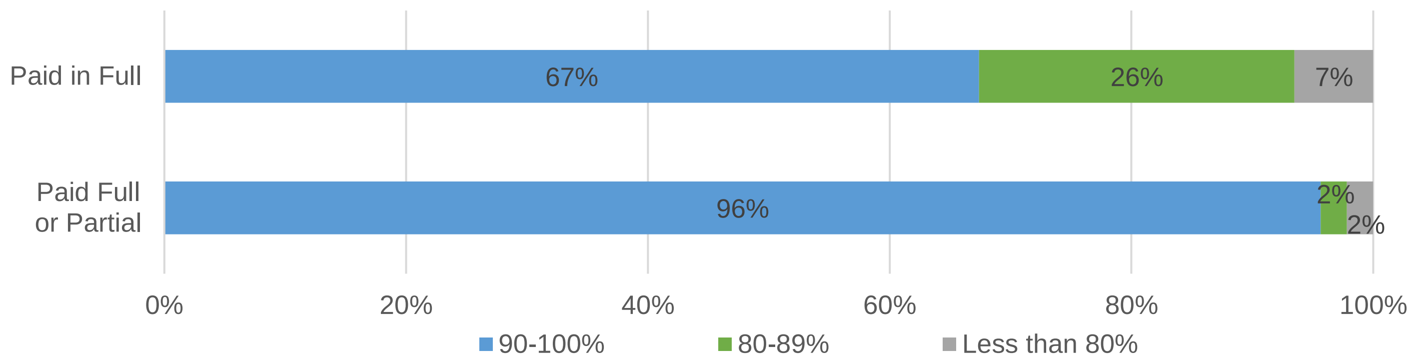
The concentration of partial payments is lost in some of the analysis, as some surveys differentiate while others do not. Understanding the number of partial payments provides insight into how robust the rent payment trends have been since April. If a large portion of payments are partial, properties may be experiencing more hardship than the numbers would suggest.

While NMHC does not distinguish partial from full rent payments, RealPage, one of the five firms contributing to the NMHC reporting, and NAREIT provide some discussion on the topic of partial payments. They looked at dollars billed compared with what is collected and the results are consistent with previous findings. If partial payments were a big part of their numbers, their results would look very different from what was reported by NMHC, but they found little difference between the two measurements. That is the most direct evidence that partial payments are not a significant issue in the institutional-owned sector of the industry.

Given the concern about partial payments, we surveyed approximately one-third of our top borrowers in July regarding their payment rates of full, partial or no payments in their portfolios. Across those respondents, 90.5% reported payments in full for the month of July. Meanwhile, 3.3% of payments were partial with either a plan in place or no plan. Combining the two, 93.8% of payments were full or partial, largely consistent with results from the NHMC surveys.

While this is the average across all respondents, we can break the data down into the distribution of payments. Exhibit 3 represents the percentage of respondents who experienced payment rates less than 80%, 80% to 90%, and 90% to 100% of units. We see about two-thirds of respondents, or 67%, reported 90% to 100% of tenants had paid full July rents. When partial rents are included, that share of respondents increased to 96%, who reported 90% to 100% of tenants paid full or partial rents in July.

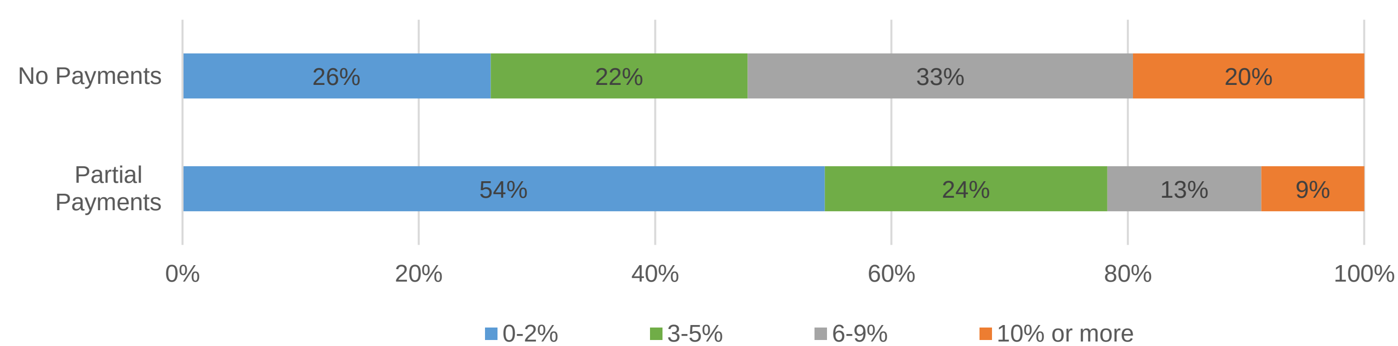
Exhibit 3: Distribution of Survey Responses by Rental Payments in Full or Partial



Source: Freddie Mac

Over half of the respondents reported partial payments only made up 0%-2% of their total payments, while 24% of respondents saw partial payments made up 3%-5%, seen in Exhibit 4. We did see a relatively even distribution of no payments across respondents, implying that while some only saw a low number of no payments, most did see some level of no rental payments in July. While our borrower survey is a small representation of the full market, it lines up with reports from RealPage that partial payments do not represent a large share of their payments. Therefore, the data and surveys suggest that a high percentage of payments are full rental payments.

Exhibit 4: Distribution of Survey Responses by No Payments and Partial Payments

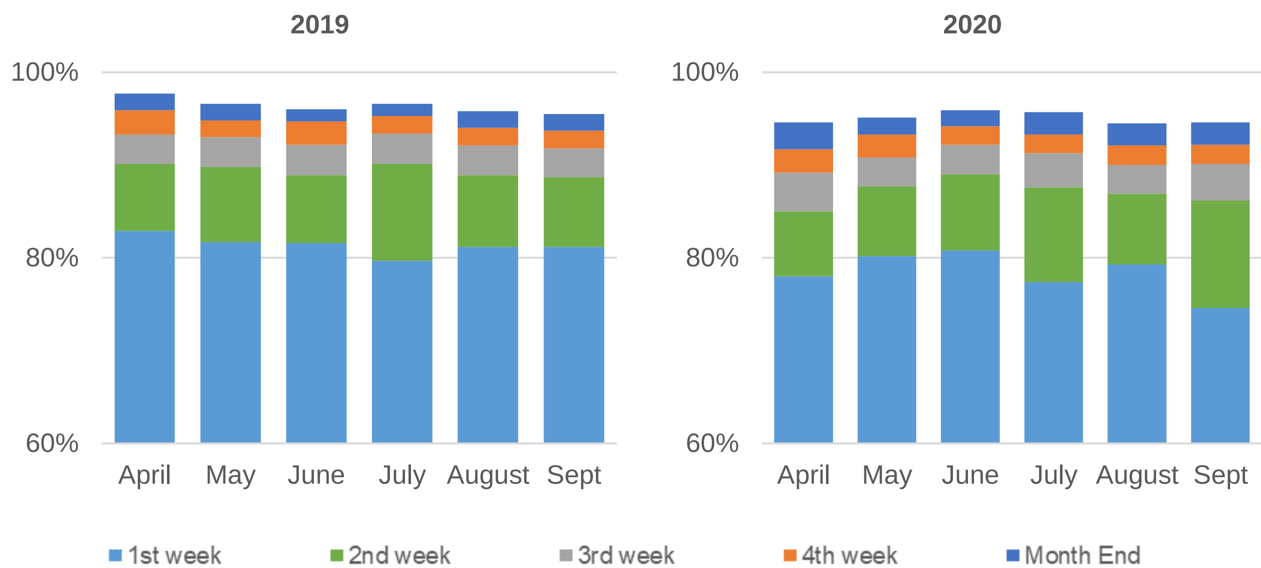


Source: Freddie Mac

Pre-pandemic to Current Payment Rates Comparison

The NMHC, with its robust sampling of data, provides insight into how these trends change each week of the month and compare with last year's trends. Exhibit 5 shows the weekly payment data from April through September in 2019 and 2020. In 2019, which was a relatively strong year for the multifamily industry with rent growth above average and vacancy rates below average, rent payments were between 96%-98%. Meanwhile, payments this year have tracked slightly lower at 94%-96%. Despite larger variations between this year and last year at the weekly level, by month end, rent payments in 2020 have trailed 2019 by 2.2 percentage points. Between 2020 and 2019, we see similar trends in the magnitude of payments in each week of the month; from first week to month end in 2019, payments increased on average 15.1 percentage points, while 2020 saw slightly higher at 16 percentage point increase. This implies that this level of payments after the first week is common and not a pandemic related trend.

Exhibit 5: Weekly Rent Payment Trends 2019 to 2020



Sources: NMHC and Freddie Mac

Additional Payment Information across Demographics, Geography and Property Types

RealPage reports some further cuts of the data at the property level and geography. In September[4], they found that Class C properties had the lowest payment rate at 87.3%. Class A and B came in higher at 93.1% and 93.9%, respectively, in August. New Orleans was the worst performing market in September, at 87.9%, followed by Las Vegas, Seattle, New York City and Los Angeles. The top performing markets were Providence, Virginia Beach, Salt Lake City and Tampa, where payments were 97.4% or greater.

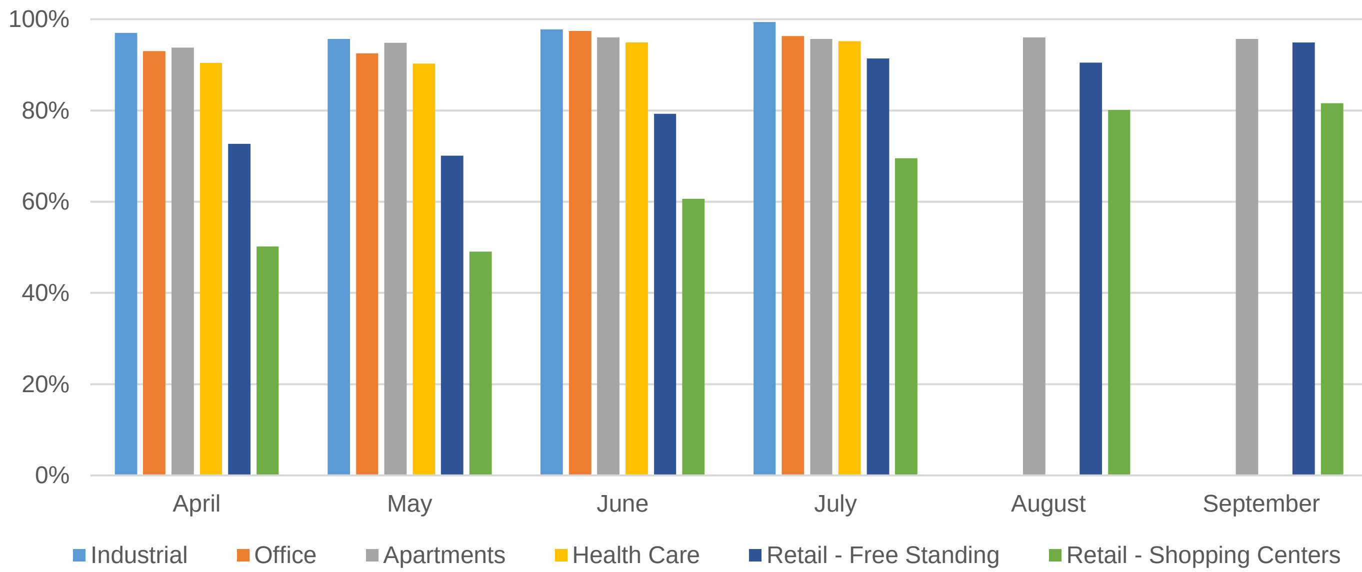
The Household Pulse Survey provides a more detailed look across different characteristics, including the payment rate by household income. Roughly 78% of lower income tenants (those who make less than $25,000) paid rent for September[5] compared with the overall 82% payment rate regardless of income. As household income grows, unsurprisingly, the percentage of those who made last month's payment also grows; 94% of households making at least $200,000 made last month's payment.

NAREIT provides a deeper look across payment performance among other commercial real estate types. Exhibit 6 shows how apartment collections have fared compared with industrial, office, health care and retail. Apartment

[4] Data is from September 1-27, 2020.
[5] Week 14 survey from September 2-14, 2020.

payment collections are one of the strongest, behind industrial, and on par with office. Meanwhile, retail has been struggling with the lowest payment rate, especially among shopping centers, but has seen strong improvement in June through September.

Exhibit 6: Share of Typical Rent Received Across Commercial Real Estate Types



Sources: NAREIT and Freddie Mac. Data in August and September was unavailable for Industrial, Office and Health Care due to rent collections in those industries stabilizing at high levels and NAREIT no longer reporting on those industries.

While we discuss four surveys in our analysis, there are many other surveys worth noting, including Avail, LeaseLock and Mortgage Bankers Association (MBA). These surveys, among others, can provide other insights into the market given their survey methodologies and sample sizes. Avail provides property management and other services to non-institutional owners of rental housing. The majority of their survey respondents own two-four unit rental properties. In general, rent payments reported by Avail are at lower levels compared with the institutional, larger unit count properties. They have also reported a drop in collections from 85.4% to 83.0% for 2019 to 2020, respectively. They found from their surveys that both renters and landlords are dipping into savings to cover their expenses right now.

LeaseLock, which reports payment rates as of the first day of the month, is a lease insurance provider that partners with property management companies. The renters covered by the LeaseLock surveys do not pay security deposits but pay a fee to LeaseLock to provide insurance on claims that would normally be taken out of the renter deposit paid upfront. From April to September, they show 20% to 27% of renters paid rent on the first day of the month. However, this is above their January to March average of 17% payment rate.

The MBA's Research Institute for Housing America (RIHA) performed a study of the same 8,000 households (2,042 of which were renters) every two weeks in the second quarter. This provides a longitudinal study, compared with a cross-sectional study such as the Pulse Survey and Apartment List, of the same households before and through the outbreak of the pandemic. On average, 11% of renters reported missed payments over the quarter. Their findings were similar with NHMC regarding the timing of payments increasing over the month and found that over the quarter around 15% of renters worked with their landlord to reduce or delay payments.

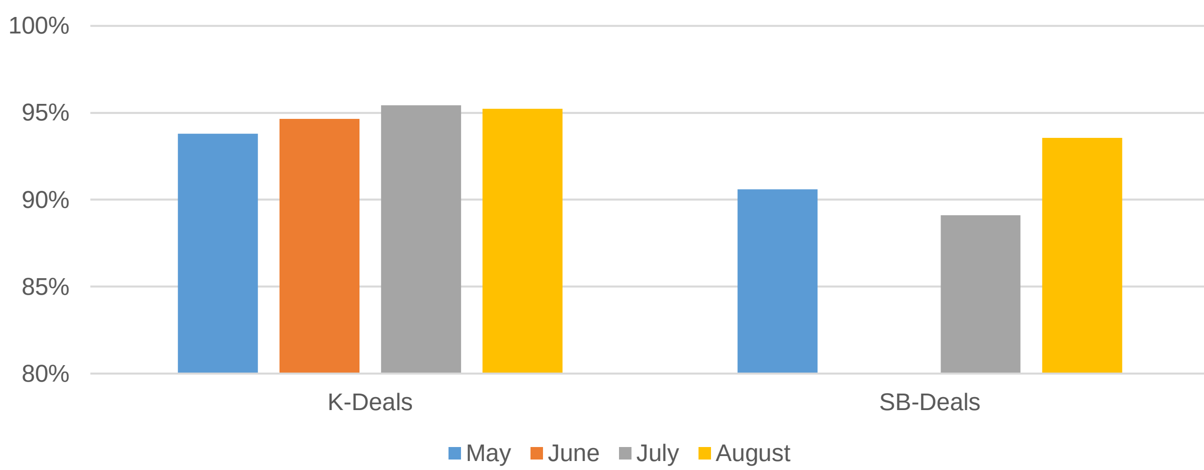
What can Freddie Mac add to the analysis?

We track our own business activity and continuously explore how we can provide transparency regarding market conditions to the broader market. While our data represents a subset of the multifamily market, it does provide some insight to segments that may be underrepresented in the other surveys, such as small balance loans (SBLs).

Our analysis tracks the percentage of units that did not pay rent among our K-Deal® and SB-Deal® transactions that have closed beginning in May. This type of reporting is available as loans are underwritten, funded and then securitized – but not continuously through the life of the loan. We track loans based on final pre-securitization due diligence dates, which are generally between the 15th of the current month and the 15th of the following month.[6] The current reporting response rate ranges for K-Deals® from 46% in May to 76% in August, averaging 60% over the four months; this represents nearly 100 loans in May and July and up to 300-400 loans in June and August. However, the SB-Deal population is much smaller due to the lower number of SB-Deals® done each month. The SB-Deal analysis excludes the month of June, which only had three observations which is too small of a sample size to gain reliable insights from. This analysis began in response to the pandemic and does not allow for a comparison to pre-COVID-19 times, but it provides us with insight among the different property types and the breakout of rent payments.

Among the K-Deal population, we found on average 5.2% of units did not make any rent payment. This implies that, on average, 94.8% of units paid full or partial rent. This ranges from 93.8% in May to 95.4% in July, seen in Exhibit 7. Meanwhile SB-Deal loans were slightly lower, averaging 91.7% from May to August, excluding the month of June due to the small sample size. While these results for the K-Deal transactions slightly trail the NHMC results, it makes sense they trend very closely given the population of loans in our K-Deals would typically fall into the category of those captured in NHMC's data. K-Deal rent collections increased May to July but were relatively flat in August. While the population of loans for SB-Deal rent collection is much smaller, there was a slight decline in July from May but with stronger performance in August.

Exhibit 7: Rent Payment Rate for K-Deals and SB-Deals Settled April through August



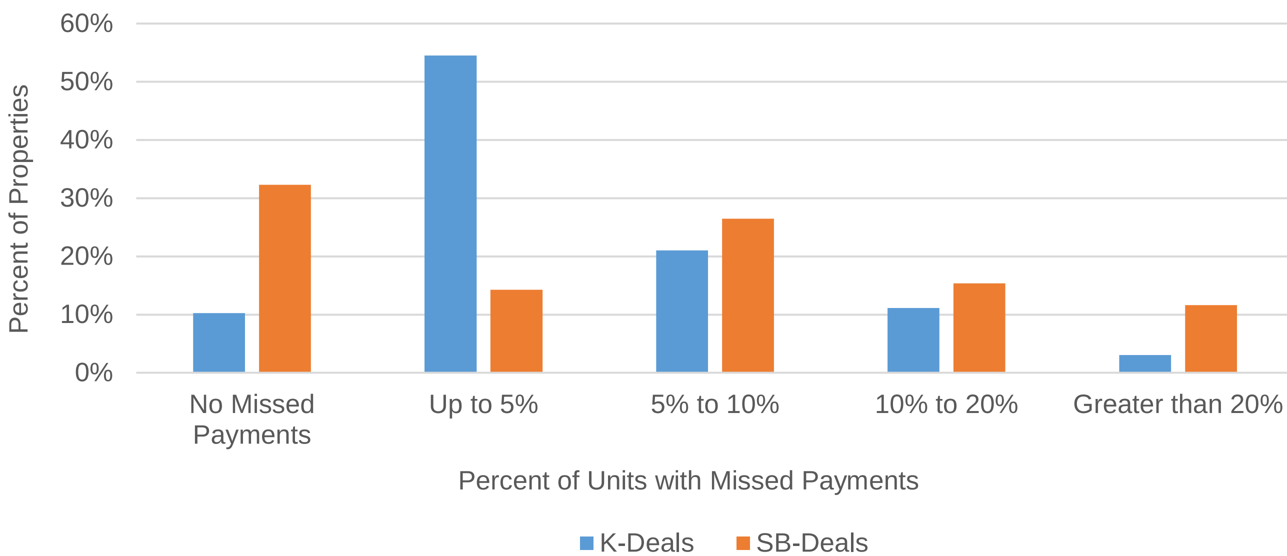
Source: Freddie Mac

While the overall payment rate was relatively high, we take a closer look at how those payment rates are distributed, which shows what percentage of loans saw relatively few missed payments compared with those that saw a more sizeable portion of missed payments. Exhibit 8 shows, by deal type from May to August, the percent of loans by missed payment rates. Only 10% of properties in K-Deals reported no missed payments while 54.5% of properties reported up to 5% of units made no payments. As the percent of missed payments at the property increases, the percentage of properties reporting those levels decreases; only 3.1% of properties reported missed payments at 20% and greater.

[6] June updates were received between June 15th and July 15th for loans nearing settlement in that time frame.

Meanwhile, the SB-Deal distribution is more spread out across the percent levels. Around 32% of properties in SB-Deals reported no missed payments, but 11.6% of properties reported at least 20% of units saw no payment. This difference between K- and SB-Deals is partially due to the sample size, with fewer SBLs per month than K-Deals, but also due to the overall smaller number of units in SBLs it may not be possible to fall within some of these payment rate ranges. If one unit in a 10-unit property is unable to pay rent, that would represent a 10% non-payment rate for that property. Whereas the properties in K-Deals typically have more units and would need a sizeable portion of units not paying to reach a 10% non-payment rate. Across K- and SB-Deals, there was a higher concentration of loans in the New York City area that reported 20% or more of units did not pay rent.

Exhibit 8: Percent of K-Deals and SB-Deals Properties by Missed Payment Rate



Source: Freddie Mac

Overall trends are similar in our recent K-Deal loans as those reported for the broader market by the NMHC, though collection rates are slightly lower around 94% compared with NMHC's rent payment rate of 95%-96%. Our analysis can be expanded over time as we obtain more data points to include other characteristics across both K- and SB-Deals, such as geography, property type or occupancy rate at the property. Despite the limited sample size, this analysis provides another piece to the puzzle in understanding how the pandemic has impacted rent collections.

What is the bottom line?

Overall, even in market conditions where many households are stressed, renters are prioritizing and finding a way to make rent payments. They have been supported by unemployment insurance, stimulus and enhanced unemployment benefits from the CARES Act, but many have likely dipped into savings as well. With the expiration of the enhanced unemployment benefits at the end of July, and without a permanent replacement, we anticipate we will see more headlines trying to capture how rental collections have been impacted. Understanding how these surveys are measured and what they are telling us provides the market with better insight into how the rental market is coping during these unprecedented times.

As we continue to track the market, we see value in continuing to watch all the sources available to us, while keeping in mind what each of them represents. The NMHC and their contributors have by far the largest compilation of data, most frequently updated, and it reflects actual payments instead of relying on survey respondents or questionnaires with ambiguous questions. As we look to other sources, we carefully consider what is captured and see what we can learn from each.