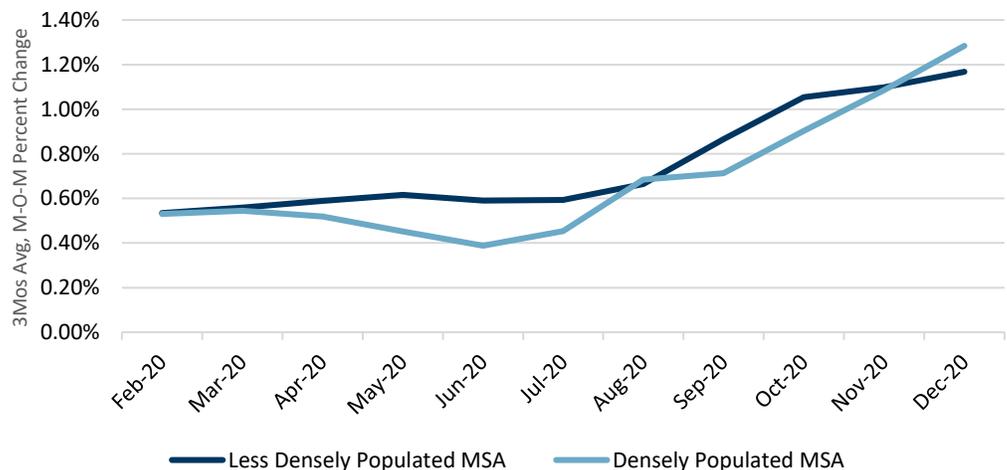


## Pandemic Impact on Residential Real Estate

*The pandemic has caused changes in many aspects of our lives. One change getting a fair amount of media attention is people “fleeing” from urban centers to locations with more space. It is logical that the fears associated with a communicable disease would shift housing preferences to less densely populated areas. We examined current data to determine if we are witnessing “the death of the American city.” Data from multiple sources suggest that there has been a shift or acceleration in previous trends but the response has been more muted in the aggregate than might be expected.*

While inventories of homes gives a good indication of supply, ultimately combining that with pricing data will give us an indication of demand. We took Zillow data and grouped major metro areas by those that are more densely populated and compared them to metro areas that are less densely populated. Home prices in less dense cities initially outpaced gains of urban homes on a rolling 3-month basis, but by the end of the year the trend had reversed. It is important to note that homes in both sets of data in aggregate were positive through all of 2020.

**Exhibit 1:** According to Zillow data, home prices in more dense metropolitan statistical areas (MSAs) recovered relative to those in less dense MSAs by the end of the year



Source: Zillow, Opus Investment Management

Another popular measure of home price performance is the Case-Shiller Seasonally Adjusted Home Price Index. Although viewed as a lagging indicator due to the reporting delay, it is a useful measurement of existing trends within select locations. During the initial months following the widespread outbreak of COVID-19, the only cities to experience price declines for consecutive months were New York City and San Francisco.

Through the beginning of 2020, price gains were muted for many of the most popular cities in the country. Looking at price trends across a handful of large cities, there was a sharp rebound in most locations by July despite the muted performance during the Spring. Although New York City and San Francisco garnered a fair amount of media attention for adverse trends early in the pandemic, less dense cities like Los Angeles have proven to be sellers' markets with prices increasing throughout most of 2020.

New York City was an early pandemic hot-spot and being the largest city in the U.S., one would expect a correspondingly larger impact from COVID-19 than what was seen at the national level during the first half of 2020. During the initial months of the pandemic, RentHop.com, a listing site for renters with apartments to sublet, indicated that New York City sublets were up significantly from April to May 2020 and continued to trend higher, pressuring rental prices. Douglas Elliman is a large real estate broker in the New York City area. Based on their data, rental prices remain

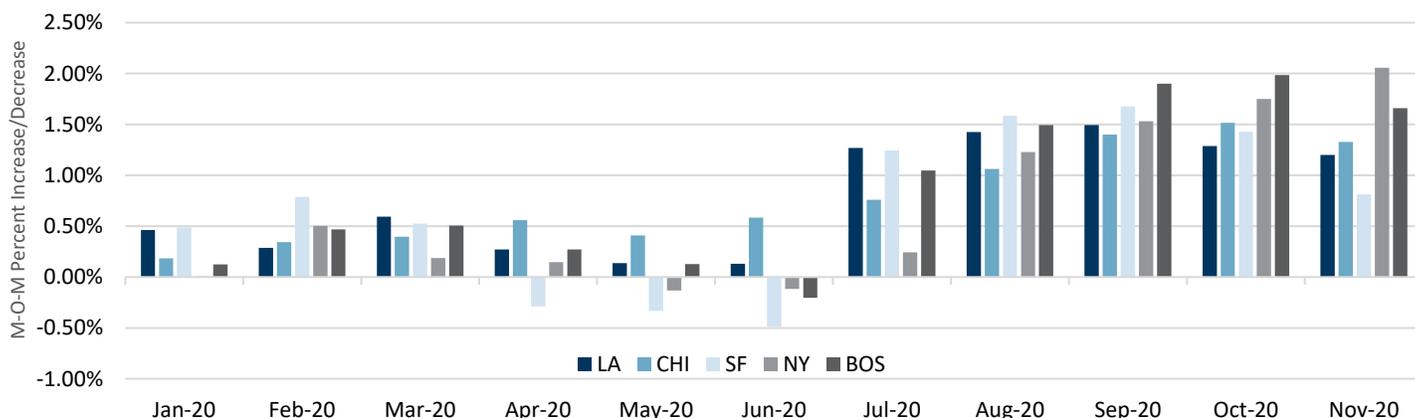
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under pressure while sales are showing more resilience. At year end, median rental prices remained down 14.4% in Manhattan and 9.7% in Brooklyn; however, the number of new leases being signed in both boroughs had returned to pre-pandemic levels, which may suggest that the market could be finding a clearing level. On the sales front, the median sales price in Brooklyn in 4Q20 was actually up 9.4% YoY to an all time high. According to Douglas Elliman, the number of sales in Brooklyn were also up YoY. However, in Manhattan sales prices were already off their highest levels heading into the pandemic. The fourth quarter did see an increase in the median sales price of 5.1% YoY but the number of sales remained down YoY and the price per square foot was down modestly. There are also positive trends that newly signed contracts for many types of residences in Manhattan are back to pre-pandemic levels exiting 2020 and that the number of new listings have declined greatly, again suggesting the possibility that the market may be finding a clearing level.

*Many new suburban renters have indicated that this year's work-from-home shift has removed a longstanding barrier to living in more suburban locations that typically had long commute times into the city. COVID-19 is likely to have lasting impacts across many facets of our lives. It seems certain that very large, dense, and expensive cities are likely to sustain a more significant impact than their smaller or less dense counterparts. However, we also believe that these same cities are not just attractive to talent, but also offer amenities and benefits that people will continue to desire to have within proximity, including easy access to restaurants, culture, and entertainment. The data suggests that, notwithstanding the potential of a shift in trends, the death of the American city is not imminent.*

**Exhibit 2:** Only New York City and San Francisco experienced consecutive months of price declines, but have rebounded similar to other metropolitan areas...



Source: Case-Shiller Seasonally Adjusted Home Prices, Opus Investment Management

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