

Rent Survey | July 2016

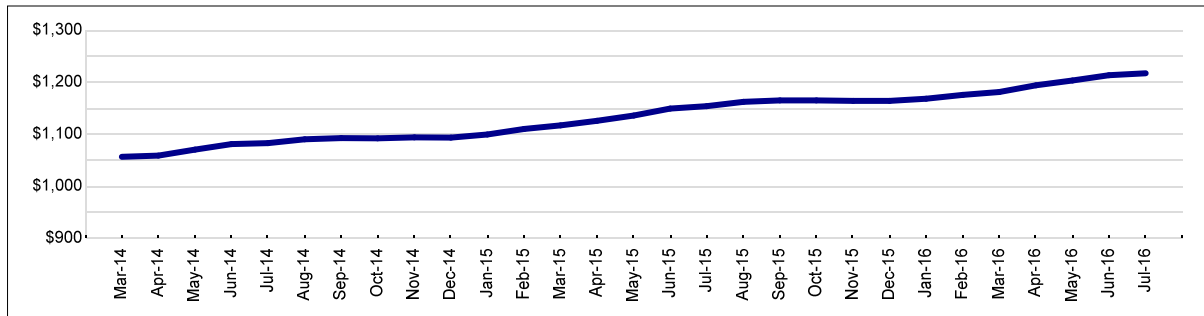
Multifamily Rent Growth Slows Slightly Amid Supply Boom

U.S. apartment rents remained strong in July, amid signs that the recent run of robust growth is beginning to decelerate. Average U.S. rents increased by \$4 in July, to another monthly record of \$1,217, according to Yardi Matrix's monthly survey of 121 markets. On a year-over-year basis, rents were up 5.5%, down 10 basis points from June, 60 basis points from April and 120 basis points from the recent peak last October.

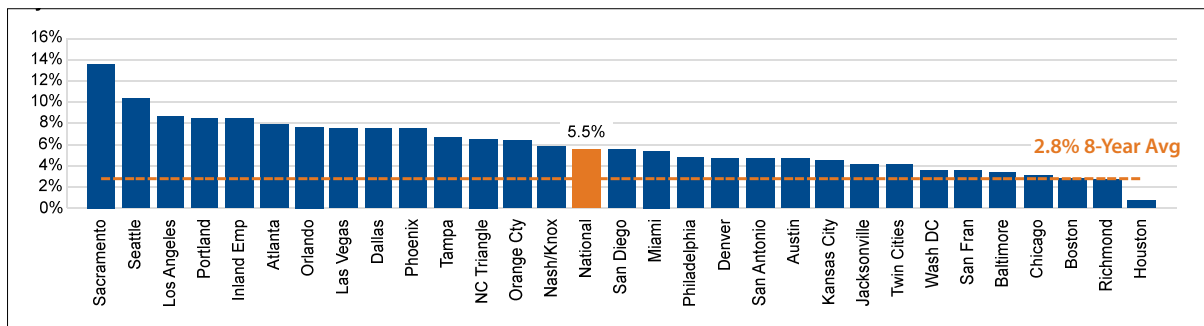
July's numbers show that the big picture about the multifamily market continues to be positive. Rent growth of 5.5% is a very solid foundation, and the vast majority of metros across the country are seeing healthy rent growth by historical standards. Although it is beginning to weaken in a handful of metros, demand remains strong nationally, driven by consistent job growth, rising household formations and the ongoing dip in homeownership. As a result, occupancy rates of stabilized properties stand at 96.0% overall and remain virtually unchanged in recent months despite the uptick of supply in many metros.

That said, there are a number of signs that gains will moderate going forward. One is seasonal: In recent years, rent increases slowed significantly in the second half of the year. Rents are up 4.6% year-to-date, already topping most full-year expectations, so the same pattern seems likely again in 2016. Fundamentally, some metros are feeling the impact of new supply and/or are bumping up against the limits of affordability. We expect more than 300,000 new units to be delivered in 2016, the most of any year during the current cycle. Meanwhile, deliveries are tilted toward the high end of the multifamily universe, which is having the biggest impact in the more expensive metros. In particular, rent growth has slowed in technology- and energy-led metros San Francisco, Denver, Austin and Houston due to some combination of the above factors.

National Average Rents



Year-Over-Year Rent Growth—All Asset Classes

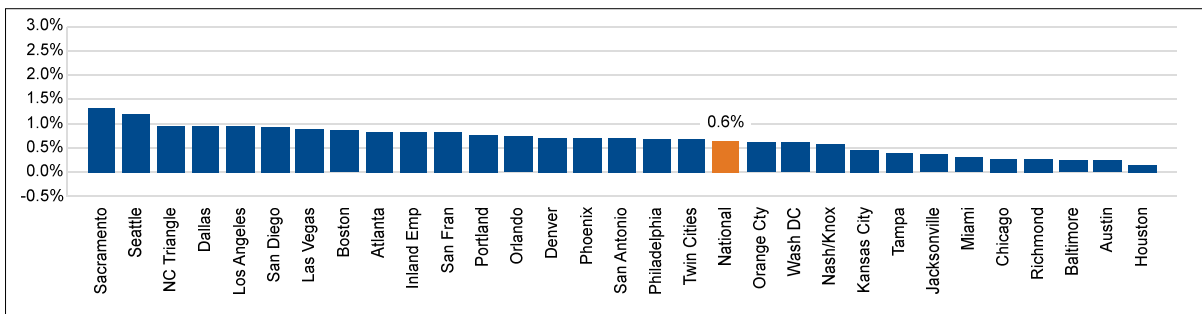


National averages include 119 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

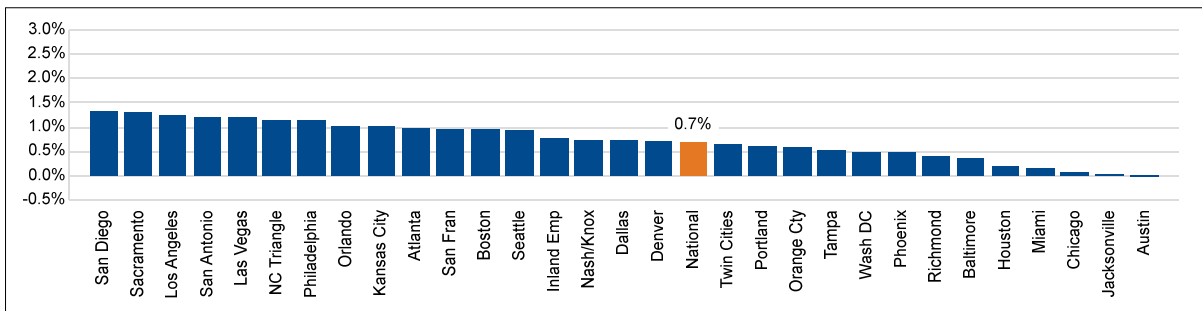
## Trailing 3 Months: Slow Deceleration in July

- Nationally, U.S. multifamily rents rose 0.6% on a trailing three-month (T-3) basis in July, down 30 basis points from the prior month. The high-end Lifestyle segment led gains with 0.7% growth on a T-3 basis, while rents for working-class Renter-by-Necessity assets were up 0.6%. The T-3 survey captures short-term shifts in rents. While these movements may not be indicative of sustainable trends, they do suggest markets accelerating or decelerating in the near term.
- Sacramento, which is the top metro for year-over-year rent growth at 13.5%, led on a T-3 basis at 1.3%. The California capital city benefits from its weak supply pipeline (just a 0.4% increase in stock in the last 12 months, by far the lowest among major metros), while demand is growing as people flee from its expensive Bay Area peer markets.
- Sacramento's growth is similar for both Lifestyle (1.3%) and RBN (1.4%), but most metros are less consistent. In some metros—including Philadelphia, the NC Triangle, Orlando, Las Vegas and Atlanta—Lifestyle is outperforming significantly. In general, this is due to some combination of job growth being in higher-paying segments and relative affordability (Lifestyle rents are within reach of most tenants). In others—including Seattle, Dallas, Phoenix, Austin and Jacksonville—RBN is outperforming. In these metros, demand is concentrated in working-class units and/or the market might be feeling the effect of too much high-end development.

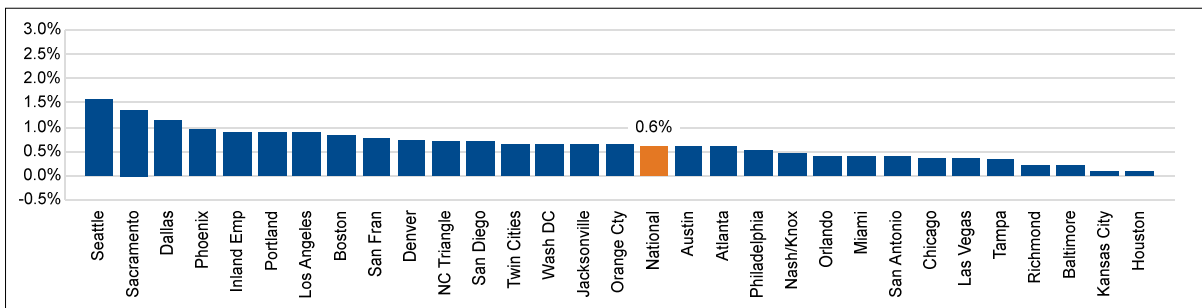
### Trailing 3 Months Sequential—All Asset Classes



### Trailing 3 Months Sequential—Lifestyle Asset Class



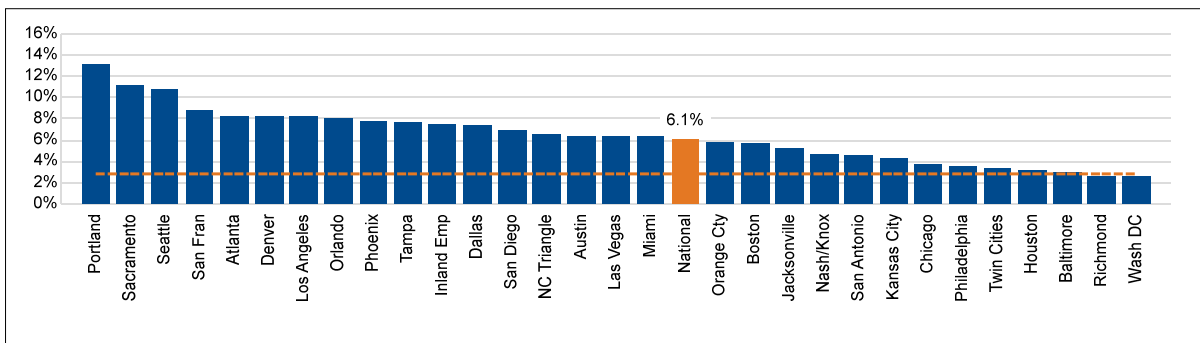
### Trailing 3 Months Sequential—Renter-by-Necessity Asset Class



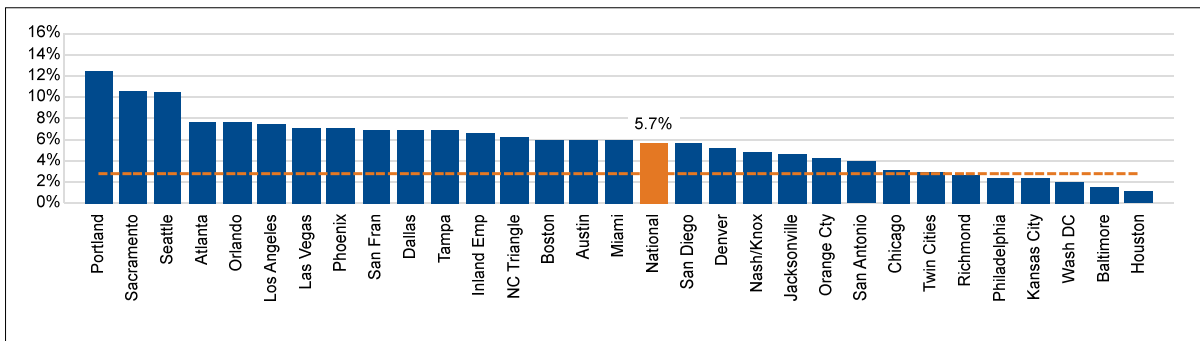
## Trailing 12 Months: Lifestyle Gains Show Supply/Demand Imbalance

- Rents grew 6.1% in June on a trailing 12-month (T-12) basis, which represents the change in the average rent during the preceding one-year period. The results were down 10 basis points from June. Gains were led by Portland (13.2%), Sacramento (11.2%) and Seattle (10.7%).
- The T-12 survey shows a clear bifurcation in growth by asset quality. Growth was 70 basis points higher for RBN properties (6.4%) than for Lifestyle properties (5.7%). Some metros in which this was most pronounced include Denver (10.9% RBN, 5.3% Lifestyle), San Francisco (9.7% RBN, 7.0% Lifestyle), San Diego (7.7% RBN, 5.7% Lifestyle), Orange County (6.3% RBN, 4.3% Lifestyle) and Houston (5.3% RBN, 1.2% Lifestyle). These metros show signs of an imbalance between supply and demand—with supply concentrated in luxury units while significant demand for more affordable units goes unmet.

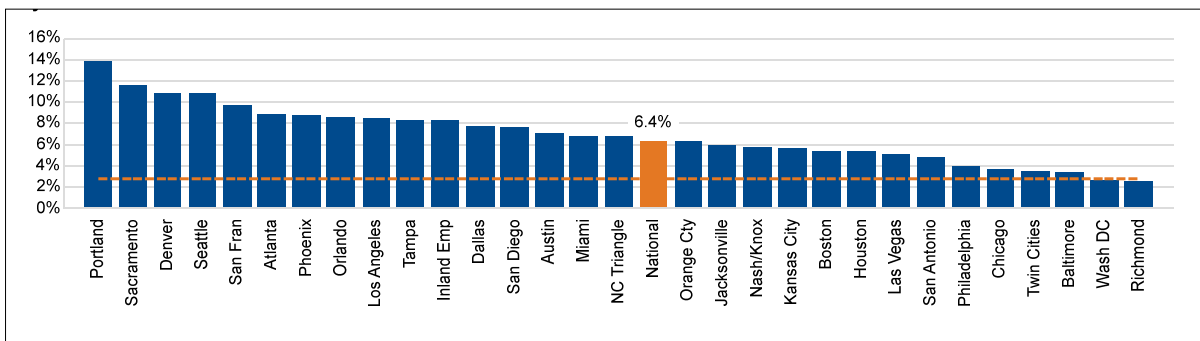
Trailing 12 Months Year-Over-Year—All Asset Classes



Trailing 12 Months Year-Over-Year—Lifestyle Asset Class



Trailing 12 Months Year-Over-Year—Renter-by-Necessity Asset Class



## Employment, Supply and Occupancy Trends and Forecast Rent Growth

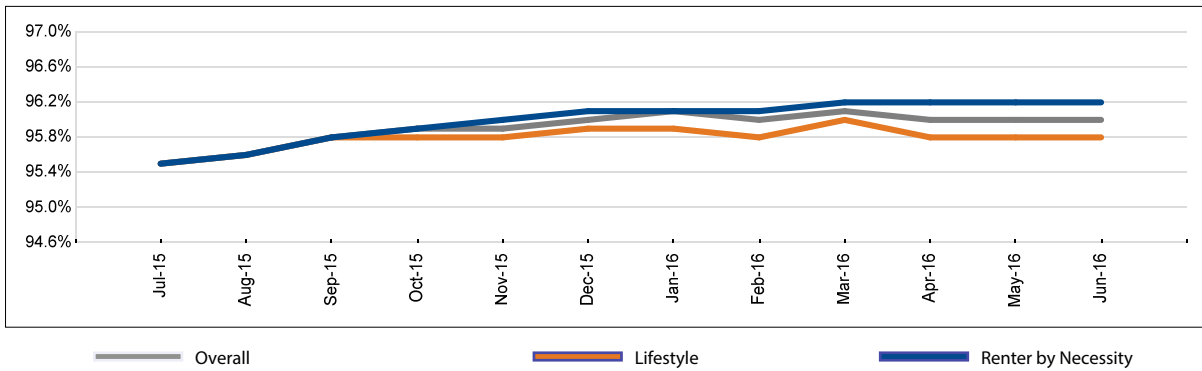
- Changes in rent growth tend to be gradual, so the relative position of the metros usually doesn't move much on a monthly basis. But this month, it is surprising to see that rents have grown slightly more in Washington, D.C. (3.6%) over the last 12 months than in San Francisco (3.55%). Although Washington is enjoying a good run for a mature Northeastern market (D.C.'s livability has shot up in recent years, as it continues to enjoy the fruit of its role as the political center of the country), the change of most note is the cooling off of San Francisco, which has seen explosive rent growth in recent years.
- After seeing double-digit growth for most of the last two years, rents in San Francisco were due to slow down. The average rent of more than \$2,400 per month is twice the national average, and that's a lot to pay, even for skilled technology workers with no cars. And San Francisco isn't alone. Rent gains have slowed significantly in Denver, Houston and Austin. Rents in Denver have increased 4.7% year-over-year after being in the 8 to 10% range for most of the last two years. Demand is still strong in Denver, but supply is growing even faster. Austin is up 4.6% year-over-year, but on a T-3 basis is 0.3% overall and -0.1% for Lifestyle, as construction of high-end units outstrips demand. At 0.7% year-over-year, Houston lags our Top 30 metros in rent growth, 200 basis points behind the 29th place metro (Richmond). The question for Houston is whether it has bottomed. With more than 20,000 units expected to be delivered in 2016 and energy prices still low, we expect rent growth in Houston to stay flat for at least the rest of the year.

Market	Forecast Rent Growth (YE 2016)	Y-o-Y Job Growth (6-mo. moving avg.) as of May 2016	Completions as a % of Total Stock as of July 2016	Occupancy Rates as of May 2016	Occupancy Rates as of June 2016
San Francisco	10.5%	3.5%	1.9%	96.6%	96.5%
Sacramento	8.8%	2.5%	0.4%	97.3%	97.3%
Portland	8.8%	3.1%	3.7%	96.4%	96.4%
Dallas	7.3%	3.7%	2.3%	96.2%	96.2%
Seattle	7.2%	3.2%	4.4%	96.4%	96.3%
Los Angeles	7.1%	2.4%	0.9%	97.1%	97.1%
Inland Empire	6.8%	3.3%	1.2%	97.0%	97.0%
Atlanta	6.4%	3.0%	2.1%	95.2%	95.2%
Orlando	6.3%	4.0%	3.5%	96.2%	96.2%
Denver	6.3%	2.7%	4.2%	95.8%	95.8%
Austin	5.8%	4.3%	4.4%	95.0%	95.0%
Miami	5.6%	2.6%	2.4%	96.0%	96.0%
Tampa	5.5%	3.4%	1.9%	95.8%	95.8%
San Diego	5.5%	2.7%	1.8%	97.3%	97.2%
Phoenix	5.4%	3.4%	2.7%	95.9%	95.9%
Orange County	4.5%	3.0%	1.8%	97.2%	97.2%
Las Vegas	4.2%	2.4%	1.8%	95.3%	95.2%
Nash/Knox	4.2%	3.2%	3.6%	96.7%	96.7%
Jacksonville	4.0%	3.7%	1.8%	95.4%	95.5%
Houston	3.4%	0.4%	2.4%	94.6%	94.5%
San Antonio	3.3%	2.7%	4.1%	94.8%	94.8%
Kansas City	3.1%	1.4%	2.4%	95.8%	95.8%
Boston	3.0%	1.5%	2.2%	96.8%	96.8%
NC Triangle	2.0%	2.7%	3.6%	96.0%	96.0%
Chicago	2.0%	1.5%	1.4%	96.3%	96.3%
Twin Cities	1.5%	1.6%	2.1%	97.1%	97.1%
Richmond	1.4%	2.4%	1.2%	95.9%	95.9%
Philadelphia	1.3%	2.1%	1.6%	96.3%	96.4%
Washington DC	1.2%	2.3%	2.9%	96.4%	96.4%
Baltimore	1.0%	1.8%	1.6%	96.2%	96.2%

## Occupancy and Asset Classes

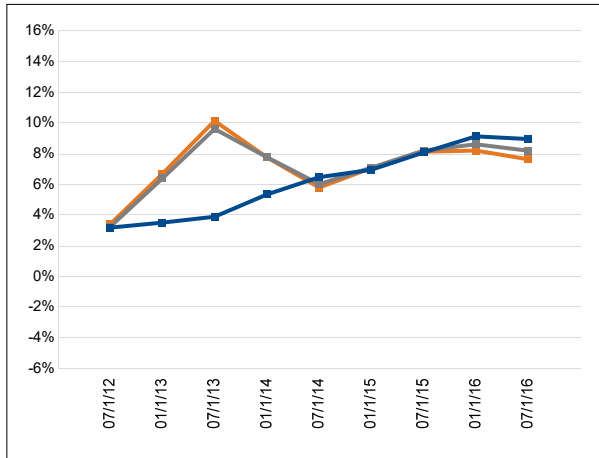
- The U.S. multifamily occupancy rate for stabilized assets, currently 96.0%, remains extremely consistent. Stabilized RBN properties (96.1%) have outperformed Lifestyle assets (95.9%) since September 2015. However, both categories are near historical highs and have dropped only about 10 basis points in recent months, despite the growing amount of new supply nationally.

**Occupancy—All Asset Classes by Month**

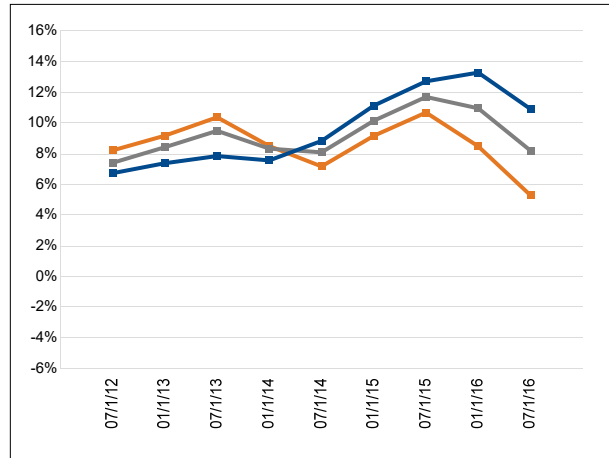


# Market Rent Growth by Asset Class

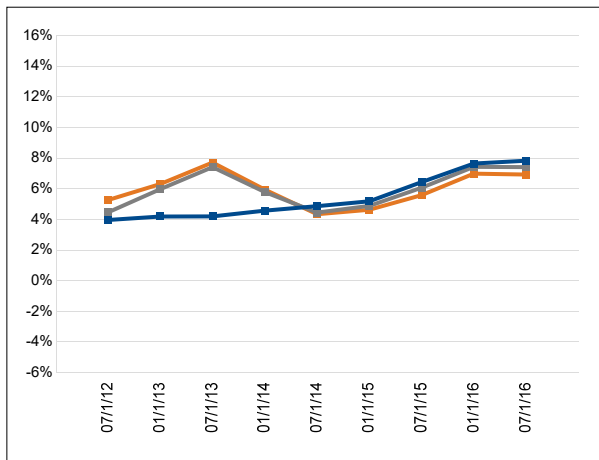
Atlanta



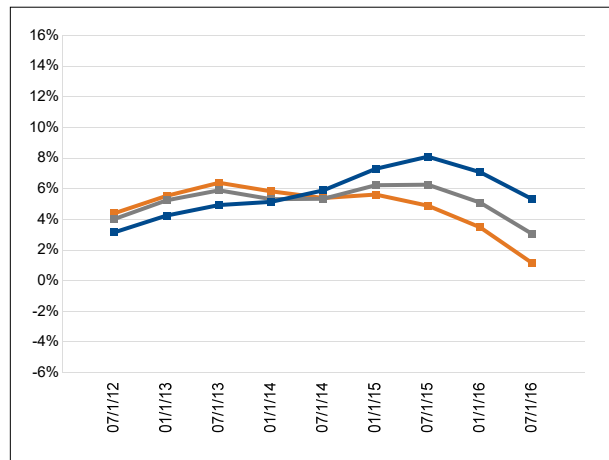
Denver



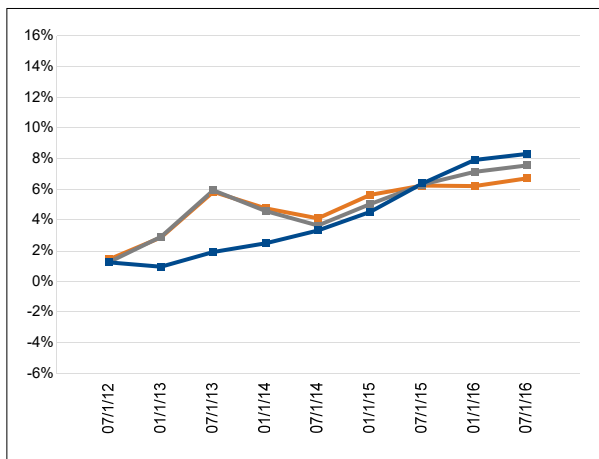
Dallas



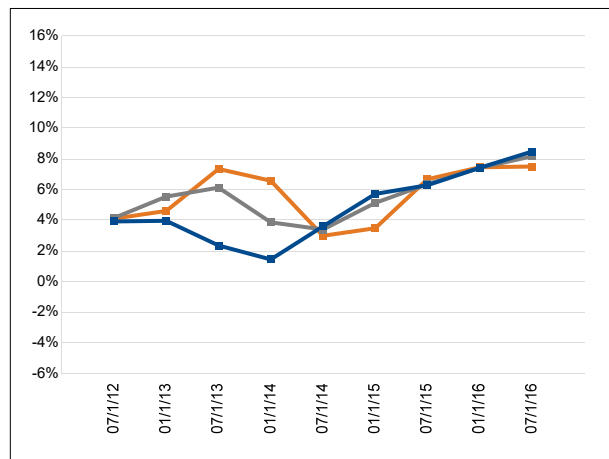
Houston



Inland Empire

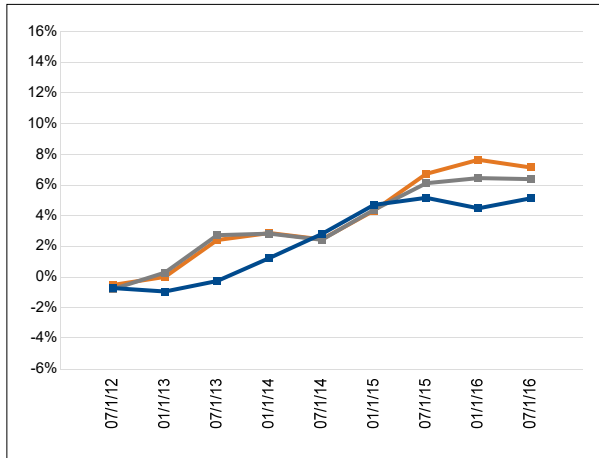


Los Angeles

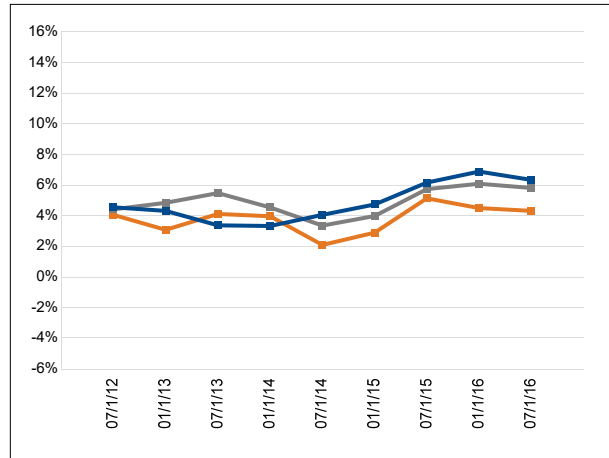


Trailing 12 Months Overall      Trailing 12 Months Lifestyle      Trailing 12 Months Renter by Necessity

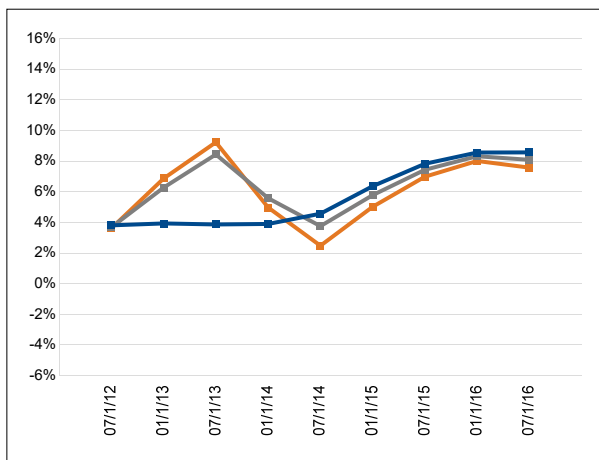
### Las Vegas



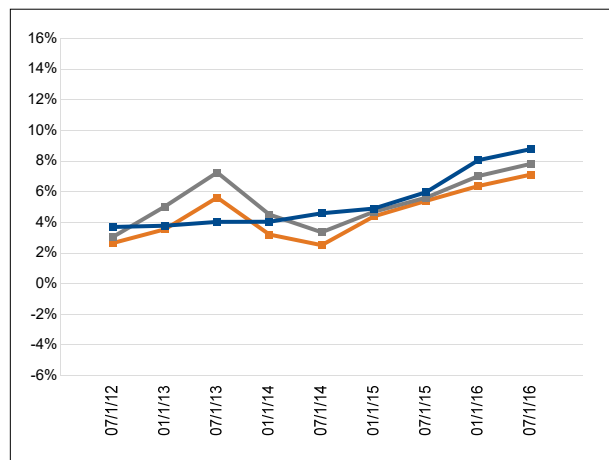
### Orange County



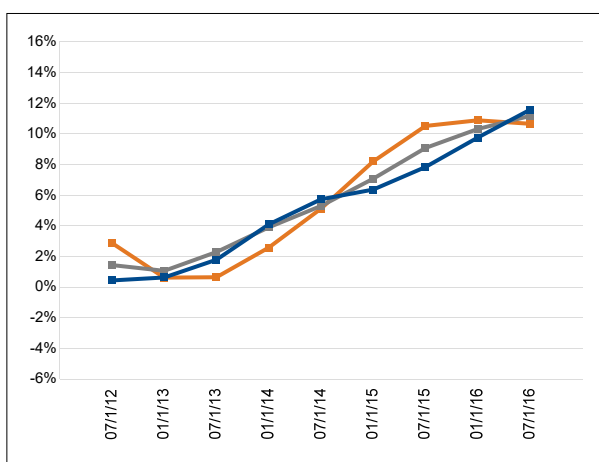
### Orlando



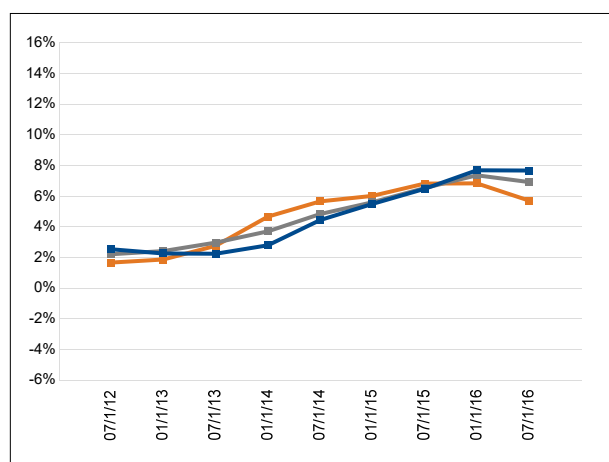
### Phoenix



### Sacramento

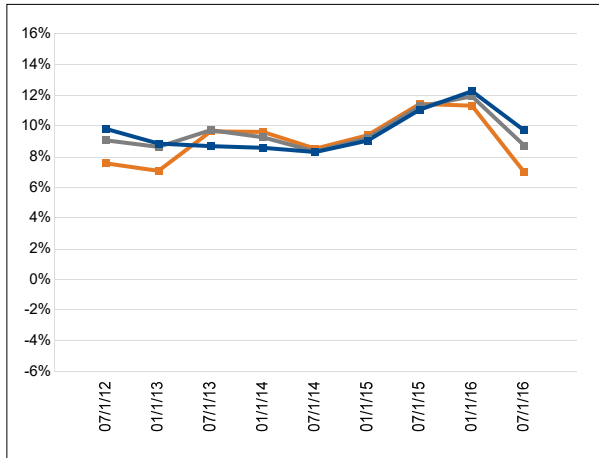


### San Diego

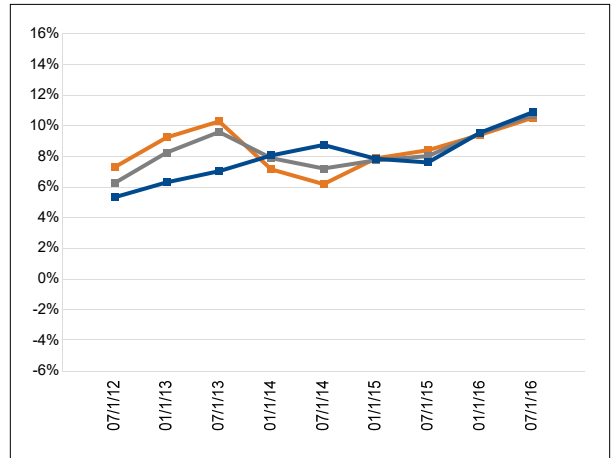


— Trailing 12 Months Overall    
 — Trailing 12 Months Lifestyle    
 — Trailing 12 Months Renter by Necessity

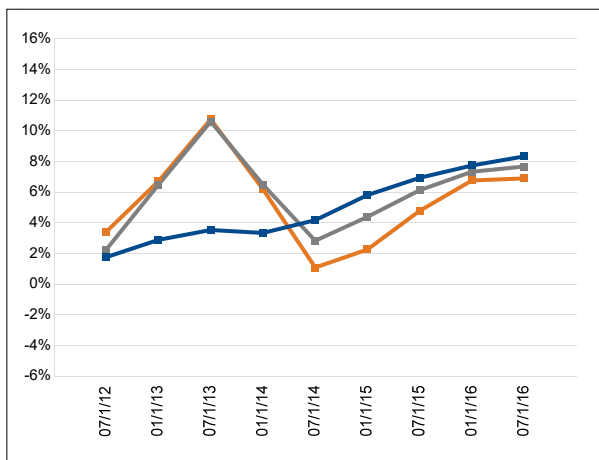
### San Francisco



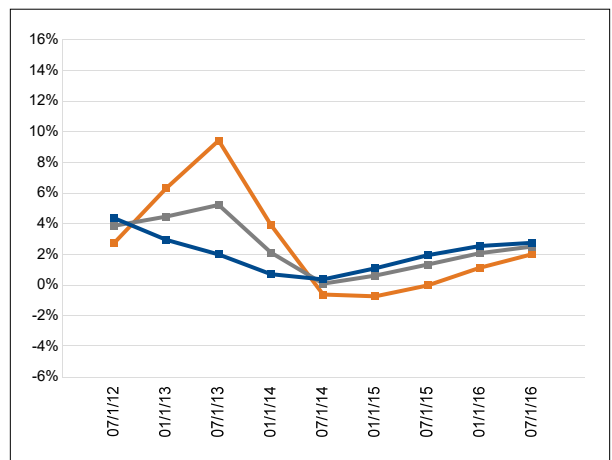
### Seattle



### Tampa



### Washington, D.C.



Trailing 12 Months Overall
  Trailing 12 Months Lifestyle
  Trailing 12 Months Renter by Necessity



## Appendix: Year-over-Year Rent Growth for Non-Reported Markets

Market	July 2016		
	Overall	Lifestyle	Renter by Necessity
Tacoma	13.7%	15.7%	11.9%
Reno	12.1%	15.2%	10.5%
Colorado Springs	11.1%	12.5%	10.4%
San Fernando	7.3%	3.4%	8.9%
Central Valley	7.3%	5.8%	7.6%
SW Florida Coast	6.7%	4.6%	8.6%
Tucson	4.8%	7.1%	4.2%
Triad	4.3%	4.3%	4.4%
Northern New Jersey	4.2%	3.2%	4.9%
St Louis	4.1%	3.6%	4.2%
Louisville	3.8%	2.2%	3.9%
Indianapolis	3.7%	3.0%	3.8%
Long Island	3.6%	4.7%	3.4%
Bridgeport - New Haven	2.3%	0.3%	3.5%
Central East Texas	2.1%	1.8%	2.1%
Albuquerque	2.1%	2.3%	1.9%
El Paso	0.6%	2.8%	-0.3%

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## Definitions

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter by Necessity households** span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income (“gray collar”) households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property’s ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvement Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property’s status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

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